

4.13: Predicting a Retail Strategy Mix

Learning Objectives

- Predict a retail strategy mix based on the characteristics, needs, and attitudes of their customers

Marketing strategy involves not just stating an objective, but also includes identifying the method for achieving it. For instance, grow sales by 12% by introducing a new line or improve customer satisfaction to 65% by increasing “on-time/ in-full” order fulfillment for high velocity items or increase net profit by 1.0 points by revising promotional activity on tier-3 customers. The statements don’t describe every activity or tactic implicit with the strategy, but they do reveal the objective and the area of focus. As you saw in the previous section, a firm’s strategic decisions have profound influences on the marketing mix, as these are the tools marketers use to deliver against their objectives. These elements are interdependent, meaning decisions in one area influence and affect opportunities in the others. Their understanding and application are fundamental to marketing. It’s worth noting, however, that retail strategy considers two additional P’s—people and presence. But, before we discuss people and presence, let’s review the 4P’s—product, place, price and promotion.

Product refers to the good or service itself. And, while this may seem relatively straightforward, think about the many ways products can be adjusted to fit or create a unique market opportunity. As you’ve already seen, firms with a differentiation or niche strategy dedicate resources to support product innovation through research & development, while other firms with a low cost strategy engineer their products to remove unnecessary features to eliminate costs. But, there are other, more subtle ways that products can be manipulated. Consider items in a traditional grocery store like granola bars. Even within a single brand like Nature Valley® Granola Bars, there are multiple types (Crunchy, Chewy, Sweet & Salty). These products were once innovations to extend the product line and attract new users. Similarly, variety packs are product changes. Think about the basic selling configuration—likely, they’re sold in 6- or 12-count cartons. Yet, these same items are in much larger pack sizes in warehouse clubs, where counts reach several dozen bars. This change in product configuration is done to meet a unique market opportunity—and alternative channel.

This brings us to considerations of place, which can refer to channels of distribution or outlets or even positioning on the shelf. Place has a profound impact on marketing activities. There’s the above example where a product’s package sizes change across channel, but we might also think about how the channel or outlet affects promotional activity. For example, weekly specials are commonplace in traditional grocery formats, but supercenters generally go to market with “everyday low prices” or promote through longer-term price reductions or “rollbacks.” But, channel can also have significant influence on pricing decisions.

Disagree? Would you ever be willing to pay more for an item if you know its established price? No? What about a Coke™? You’ll pay ~\$3.99 for a 6-pack of 12oz cans at a supermarket. That’s \$.665/ can or \$.055/ oz. Yet, at a vending machine, you might pay \$1.50 or \$2.00 for a 20oz bottle. That’s \$.075 to \$.100/ oz.

Given the difference in value, why would you ever buy a Coke™ out of a vending machine, knowing it costs more than what you’d pay at a grocery store? What about a Coke™ at a movie theatre, concert or sporting event? Certainly, those prices are even higher than the grocery store and vending machine. But, the place changes the value equation. Consumers are willing to pay a premium for access or convenience.

Price and pricing decisions are important marketing tools. Price a product or service too high and there might be a corresponding drop-off in volume. Price it too low and there’s unrealized profits. You’ve just read how decisions on pricing can be influenced by place. But, they can also influence consumer perceptions around product, particularly around quality and value. This is true for luxury items, but can also be in effect in a supermarket. For instance, if a steak has a very low price, are you more inclined to think of it as a “deal” or that it might be lower quality or past its freshness date? Further, base prices influence consumer perceptions of value, when the items are ultimately promoted or discounted. In other words, is the discount meaningful relative to the usual list price of the item?

Promotion is the final “P” in the classic understanding of the marketing mix. Promotional activity can be leveraged to generate trial, reactivate lapsed users, shift share from competitive items, reward loyal buyers, clear remnant inventory, and a number of other objectives. But, promotion should not only imply discounting, like “Save x%” or “Now only \$x.xx.” Promotions can include special packs, bundling (“2 for \$x.xx” or “Buy 3, Get 2,”), sweepstakes, contests, and other inducements. Promotions are important volume-enhancing activities, but marketers should be cautious because over-promotion can negatively impact consumer

perceptions of the brand or product. Further, consumers may come to believe that the promoted price better reflects the true value of the product or service, choosing not to purchase the items at full retail price.

Though cliché, people are the face of an organization. And, in customer-centric businesses like retailing, a firm's staff is an important part of the marketing mix. Think about your experiences in high-service environments and how they differ from low-service environments. Yet, some retailers intentionally reduce staffing, despite the negative trade-off in customer experience. Low-cost formats like Dollar General does this. But, the trade-off in reduced staff and labor costs is that they're better able to offer lower prices. Conversely, retailers like Trader Joe's keep staffing levels high, believing that their people help maintain and enjoyable shopping environment.

Previously, presence referred to the accessibility and visibility of brick & mortar stores—where were the stores physically located, was there signage, etc. While that still matters, presence has evolved to include the retailer's decisions about participation across multiple channels. As we discussed in previous chapters, the customer journey for many shoppers passes through and between multiple marketing channels, putting them in contrast and conflict with one another. Retailers certainly understand this and the necessity to be present in multiple channels to ensure that they can provide value and satisfy customer needs, despite the risk of channel conflict. Presence is therefore part of the retail strategy mix as retailers consider how to manage multi and omni-channel challenges to meet consumer expectations around accessibility, consistency and service.

The 6P's of the retail strategy mix (product, place, price, promotion, people and presence) reflect the broad action areas where strategic decision are made. They are interdependent, where decisions in one area influence and affect opportunities in the others. But, they are fundamental tools for executing a retail strategy and delivering customer value.

? Practice Questions

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