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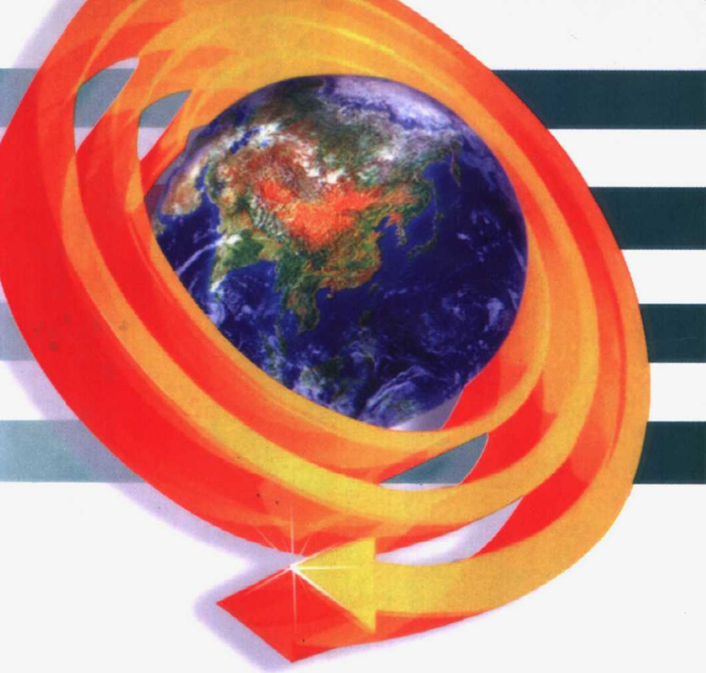

零售学 英文版

大卫·E.贝尔、沃尔特·J.萨蒙

正版

哈佛商学院案例教程

Introduction to Retailing

David E.Bell,Walter J.Salmon

东北财经大学出版社

正版哈佛商学院案例教程·英文版

零　售　学

Introduction to Retailing
Text and Cases

大卫·E. 贝尔
沃尔特·J. 萨蒙　合著

David E[redacted]l
Walter[redacted]Salmo[redacted]

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出版者的话

当今的世界是一个变革的世界，政治体制在变革，经济结构在变革，管理方式在变革，思想观念在变革……从东方到西方，从中国到世界，一切无不处在变革之中。毫不例外，管理教育也正面临着一场深刻的变革。在以MBA（Master of Business Administration，通常译为“工商管理硕士”）教育为主干的应用型管理教育大行其道的同时，一种以经典案例为主要素材、强调培养实务操作能力、反对一味灌输抽象理论的所谓“案例教学法”（Cases Methods）逐渐取代了传统的管理教学模式，并以惊人的速度风靡全球。

作为世界MBA教育发祥地的美国哈佛大学工商管理研究生院（Graduate School of Business Administration，Harvard University，通常简称Harvard Business School，即“哈佛商学院”），同时也是管理专业案例教学的首创者和积极倡导者。哈佛商学院经过近一个世纪的发展，已经无可争辩地登上了全世界MBA教育的制高点，哈佛商学院MBA已经成为全球企业管理界一块光芒四射的“金字招牌”。个中原因除了素来坚持严格的学员遴选制度之外，主要应归功于独具一格的案例教学方法。

毋庸讳言，我国的管理教育尚处于“初级阶段”，亟待借鉴发达国家的成功经验，包括先进的教学方法、权威的教学素材和科学的教学体系。为此，我们通过多方努力，终于开通了一条通过合法途径引进哈佛商学院案例教程的渠道，并及时推出了首批十余种图书。按照预定计划，我们将在今后两到三年内，陆续推出哈佛商学院MBA其他主干课程案例教程的英文（影印）版和相应的中译版，以满足国内管理教育尤其是MBA、经理培训项目(ETP）师生和其他有关人士的迫切需要，为推动我国管理教育改革和向国际接轨的步伐贡献一份绵薄之力。

对于本套系列教材在选题策划、翻译、编辑、出版以及发行工作中存在的缺点和不足，恳请广大读者不吝指正，我们在此先致谢忱！

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1998年3月

PREFACE

The primary purpose of this book is to help attract and develop the human capital which retailers and related entities such as suppliers, landlords and bankers require to innovate and effectively operate distribution systems in free enterprise economies. To accomplish this goal, this book includes cases and readings. The readings provide supplementary knowledge and concepts to help resolve the challenges set forth in the cases.

The cases, which are the backbone of this publication, identify and provide information about critical and contemporary issues confronting retailers. How, for example, should a highly regarded operator of shopping centers, in view of major changes in shopping behavior, reposition two major regional malls to sustain and preferably improve their consumer appeal and profitability. Our intention is that discussion and analyses of these cases in conjunction with the supplementary materials will provoke interest in the field of retailing.

To provide readers with an overview of retailing, most of the industry's major sectors are described in one or more of the cases included in this book. Thus some of the cases focus on the problems of some of industry's newer participants such as power retailers and electronic/mail-order retailers, while others are concerned with more traditional branches of the industry such as discount and traditional department stores, as well as supermarkets. For a more comprehensive set of cases, refer to our companion volume, *Strategic Retail Management.* Although the nature of retailing issues, like the problems faced by most businesses, makes it difficult to write real and dynamic cases concerned only with one business function, the cases and other materials are grouped to provide an overview of the management dilemmas facing the industry.

The issues set forth in this book should be of interest to able students of consumer marketing and distribution at various stages of their education. MBA students and executives at middle and upper management levels, however, usually benefit most from studying and discussing the intellectual challenges embedded in the cases.

In preparing for case discussions, students should review the study questions (provided by the instructor), and initially read the entire case quickly. Then they should endeavor, from a detailed and thoughtful review of the relevant information in the case, to prepare responses to the study questions. If time allows, class preparation should also include identification of important issues not necessarily addressed in the study questions and an overall plan of action to implement the suggested responses to the case issues.

To help guide the discussions of the cases, there is available, from the publisher, an associated instructor's manual. This manual includes suggested study questions, lines of reasoning that respond to these study questions, analysis, and teaching strategies.

CONTENTS

POSITIONING

The positioning of a retail store is the totality of its offering to the public. Consumers vary in what they seek from a store, but the factors most people consider include product assortment, price, convenience, and service. Depending, in part, on the products that they offer, different stores will place different emphasis on these factors. Customers, too, will vary in the importance they attach to these factors, not only as a matter of personal taste but also as a function of their circumstances (in a hurry, for example) or because of the buying purpose (buying a scarf for oneself or as a gift). It is important that a store clearly communicate what a customer can expect from it, and that it deliver that offering in a consistent manner over time. This offering is its *positioning* with respect to its competition.

Inevitably no retailer can be all things to all people. Convenience stores, such as 7-Eleven, offer superior location but at the expense of a modest assortment and high prices. A category killer, such as Toys R Us, offers comprehensive assortment at good prices but, for the most part, with less than exceptional service. A warehouse club, such as Price Club, offers significantly reduced prices, forsaking virtually all else. Finally a boutique (a high-end specialty store) offers exceptional service, upscale ambience, but with modest assortment and high prices.

Consistency is important. A customer may travel several miles confident in the knowledge that a store will have exactly what he or she seeks. If it does not, then that trip was wasted and that person will be reluctant to make that trip again. Moreover the clientele that a store attracts likes the particular positioning that the store provides. The marketplace is voting with its feet. If the positioning of the store changes over time, either deliberately or accidentally, existing customers may be turned off. Of course, retailers must adapt to the realities of their competition and to the changing tastes or demographics of people in the trade area; but changes in positioning should be the result of a deliberate decision rather than as the unintentional result of a lack of consistency.

THE RETAILING MIX

The retailing mix of a store is the set of choices that reflect how a store chooses to implement its positioning.

Assortment

Choosing an assortment to carry requires decisions about major categories, about which brands, about which styles, and in what price range. The selection should be driven by an appreciation of customer requirements, competitor assortments, the willingness of suppliers to sell to you, customer expectations, the relation between your expertise and the customers' in the ability to select appropriate merchandise, and the availability of space, fixtures, and equipment. Last but

This note was prepared by Professor David E. Bell as the basis for class discussion.

Harvard Business School case 593-105.

not least, your assortment will be influenced by your ability to make a profit. Major influences on profitability include not only the markup of the product above cost but also the speed with which the product is sold.

It is natural to think about an assortment as a hierarchy. Any given assortment may be represented by a variety of equivalent hierarchies but a very obvious one reflects the physical layout of goods in a store. There are some initial large groupings (possibly corresponding to departments in the store), sub-categories within those larger groupings, and so on. The last-but-one level of this hierarchy would be individual SKUs. The final level would represent the individual items carried in inventory for that SKU. As a result of this pictorial representation, it is common to talk of the breadth and depth of an assortment.

The *breadth* of an assortment usually refers to the range of goods carried in terms of categories, features, price levels, and so on. Breadth is important for customers who are not sure of exactly what they want. The *depth* of an assortment usually refers to the number of SKUs (colors, sizes) carried for a particular item. The terms vary in meaning by context and by the person using them. They reflect the speaker's personal mental classification of the goods. Depth is important for customers who come to your store knowing that you carry a particular item, expecting you to have, in stock, exactly the color, size, and brand that they seek.

Consider the shoe business. A shoe store may offer leather shoes, athletic shoes, boots, slippers, men's, women's, children's shoes, and so forth. A family shoe store such as Thom McAn carries all of these categories and so has great breadth. There are a very few large shoe stores, such as Bannister's, which operate in factory outlet malls. Otherwise, specialty shoe stores are mostly small (less than 5,000 square foot) with a modest range of SKUs. Traditional boutique-style shoe stores carry a narrow assortment but emphasize what breadth they have by displaying one shoe per style. A customer selects a style and then reveals his or her shoe size and, perhaps, color preference. A store with depth is more likely to carry the size and color and to be in stock. Note that if the normal range of adult shoe sizes is 4 to 12 (proceeding by half sizes) with 3 or 4 width fittings, then a boutique must carry an inventory of at least $20 \times 3 = 60$ sizes for each style in order to have satisfactory depth. Given the space limitations, it is no wonder that the breadth is necessarily narrow. A small shoe store must cut back on inventory somewhere, either in depth (by not stocking the half sizes, or the very large or very small sizes, or by carrying only one pair in each size) or in breadth (by concentrating on men, women, or children or on formal, casual, or athletic.)

Larger, lower-end shoe stores are now displaying all of their inventory and by size rather than by style. This display emphasizes depth (by exhibiting the whole inventory), eases the process of self-service, and reduces disappointment for people whose sizes are not available (since they are likely to look at the selection carried in their own size first). Organizing the layout of the store is driven in part by retailer logistics, in part for ambience, but also to mirror the "hierarchy of needs" of the customer. Is a customer helped by organizing merchandise by brand, by function, by price, by size, or by some other criterion? This question is part of the larger issue of customer convenience.

Convenience

One may think of the total cost of a product to the customer as consisting of the manufacturer's price plus the retailer's markup plus the customer's cost of acquisition. Although many people regard some aspects of shopping to be enjoyable, for others it can be a time-consuming chore. The customer may wish to fulfill a shopping need within a minimum time and with the least frustration. The store can help by communicating clearly what may be obtained in a store (positioning plus depth), and by minimizing the travel time associated with a visit (clear directions to the store, a convenient location, ample parking). It also requires that the store be open at convenient times and that the in-store transaction time be low. We may summarize the time spent by a customer on a shopping trip as follows:

Shopping time = Planning time +
Travel time +
Parking time +
Search time in store +
Checkout time.

Added to this are the costs due to inconvenient opening hours, out-of-stock positions, or faulty merchandise requiring returns. The travel time will be reduced if more than one store is located at a given destination and search time will drop as the customer becomes familiar with the layout. Complaints from customers are the norm when a supermarket is remodeled. A chain will often ensure that the layouts of its stores are identical, thus simplifying the lives of both staff and customers.

Service

Customers vary in their knowledge of the products offered, in the cost of their time, and in their psychological need for attention. A customer who says "I'm just looking" may feel more knowledgeable than the sales help, may be gathering data before imposing on a salesperson, or may simply wish to avoid the rigors of a sales interaction. Some service personnel seem to be trained only to extol the features of a product rather than to try to match the products available to a customer's needs. Automated bank tellers work because most people know enough about routine banking that they do not need personal attention. Indeed, given the often inadequate responsiveness of bank clerks, many people would rather line up outside for a machine than inside for a human being. Service in a store might include valet parking, adequate information about product location, features and price, fast checkout, easy credit, carryout service, and delivery. As with all aspects of the retailing mix, the absolute level of service is important, but also important is the consistency with which it is delivered. Average checkout time might be 3 minutes, but can it be 10 minutes in busy periods? What are the credit arrangements if the credit card verification lines are down? What will the store do for a customer who wants a product that is out of stock, or a color that is never carried, or an item that a customer might reasonably expect that the store would carry but which it doesn't?

Product Reassurance

"Caveat Emptor," "No returns," "All sales final" all give the same message—make sure you want it before you buy it! Such a position may be a sensible part of a retailing mix for special cases such as software, custom-made products, or clearance sales. But usually a customer will be wary of accepting all of the responsibility for satisfaction. Many products are warranted against defects by the manufacturer, and the retailer may accept the role of a go-between in ensuring satisfaction or may leave the search for satisfaction entirely up to the customer/vendor dialogue. Many retailers, such as Nordstrom's, will give their own guarantee. Often that is superior to the manufacturer's either because of more generous terms, greater surety of enforcement, or simply because it is more convenient to invoke. A customer may shop at a store not only because of the retailer's selection of goods but because of its role as guarantor of performance. Many stores will also allow customers to return a product for any reason at all, figuring that the value of such an offer in terms of increased goodwill exceeds the considerable cost of handling and markdowns associated with such returns. Such offers are often daring; one manufacturer offers installation of aluminum siding on this basis, an offer which comes close to an unconditional guarantee of satisfaction.

Ambience and Entertainment

If shopping is a chore, there are things that can be done to alleviate the discomfort. Ann Taylor now provides sofas for friends of customers. Play areas for children are provided at Circuit City stores. Nordstrom's has a piano player, Jordan's Furniture has its Mom ride. Supermarket music may not be to everyone's taste, but the attempt is always to provide low-cost touches that make the store a more inviting environment. Cable TV is promised for supermarket checkout lines; it is to be hoped that customers will still select the shorter lines.

Price

The general price levels charged by a store will inevitably reflect its cost of doing business. A store that tries to capture an excessive profit margin will open itself up to competition. But there is more than one way to secure a given return. Each product could be given a constant markup or, better still, a constant direct product profit (DPP). Or some products could serve as loss leaders. Or prices could vary by time of day—possible if items are barcoded, not individually price marked, and if electronic shelf price markers are used. Fashion products could be discounted heavily as the season progresses, or be placed on sale at frequent intervals. Service could be free, or charged for at or below cost, or regarded as a profit center. Off-the-rack men's suits invariably require some individual tailoring; the first two forms are common, the last, sometimes an aspiration.

Even the labeling of price can be an element of the mix. At Boston's fabled downtown Filene's Basement store you know not only what the price of an item is now, but what it has been and, if it is not sold, what it will be next time you shop. In supermarkets, unit pricing is now common, and at Fretter's competitors' prices are posted (on some items). Many stores give "lowest price" guarantees. So long as you bring proof that an item you bought is readily available at a competitor, the store may be willing to refund you the difference, sometimes with a bonus: "plus 10%." Of course few customers may take the time to take advantage of such a guarantee, and where the savings may be significant, for example with new cars, extracting a competitor quote without purchase may be an improbable event. Another form of price guarantee promises a refund to the customer if an item is reduced in price by the store (or perhaps even by a competitor) within a certain time interval, say a month. This guarantee may reduce the practice of some salespeople who encourage customers to "come back next week when it's on sale."

Selecting the Retailing Mix

The positioning of a store represents an artful connection between the shopping needs of a segment of society and the financial realities of the marketplace. A successful retailing store must present a superior offer on some dimension of the mix—price, assortment, convenience, service—while achieving at least minimally acceptable standards on the other factors.

Case

HILLS DEPARTMENT STORES, INC.

As he reviewed 1988's performance, Steve Goldberger, president of Hills Department Stores, Inc., debated whether to alter Hills' unusual, enduring, and successful strategy. This strategy, which had helped make Hills a consistently profitable $1.7 billion powerhouse in the discount department store industry, stressed outstanding assortments of first quality (no seconds) soft goods, everyday low prices (EDLP), and a variety of techniques to convince customers that Hills offered consistently superior value. These techniques included clean, neat, but spartan store interiors; the refusal to accept credit cards; advertising, and in-store signing which informed customers that they were the beneficiaries of Hills' frugality. Supporting this marketing strategy was an operating philosophy that shunned ownership or operation of warehouses. Centralized responsibilities for execution of the merchandising plan and strict control of expenses were additional features of Hills' operations.

A number of factors had caused Mr. Goldberger to reappraise Hills' strategy. Sales growth of stores open more than a year had declined to 2.9% in 1988 compared to 3.8% in 1987. Operating Profit had declined from $103.5 to $97.7 million, the first such decline in Hills' history. Moreover, soft goods sales, in which Hills had always excelled, were flat while hard goods sales were up 5%. Goldberger acknowledged that there was no further room to expand soft goods assortments since selections may already have become too extensive. Finally, there was the intensification of competition among discount department stores in general and the prospect of increased competition with Wal-Mart in particular. Wal-Mart was commonly regarded as the most effective and aggressive competitor in the discount department store industry. Goldberger wondered what departures, if any, from Hills' historically successful strategy and the culture which reinforced it were desirable to sustain Hills' successful track record?

HISTORY AND PROFILE

The discount store format had been first introduced into the American scene in the mid-1950s. This then revolutionary concept, particularly in soft goods, offered merchandise which was directly competitive with the lower end of the department store range. The format grew rapidly in the '60s and '70s, surpassing traditional department stores as largest form of general merchandise retailing in United States.

Hills was founded in 1957 by Stephen Goldberger's father, Herbert, based on a strategy of everyday low pricing, outstanding assortments of soft goods, and a full assortment of most other merchandise categories typically carried in discount department stores. The first store was opened in Youngstown, Ohio, and from there Hills expanded to include stores in smaller cities and towns in eastern Ohio, western Pennsylvania and northern West Virginia. In 1964 Hills was acquired by Shoe Corporation of America, Inc. (SCOA). Under the

Professor Walter J. Salmon and Research Associate David Wylie prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Harvard Business School case 589-099.

leadership of Herbert Goldberger, who remained as president, Hills grew by 1981 to a chain of 93 stores in metropolitan areas as well as small towns in New York, Pennsylvania, Ohio, Virginia, West Virginia, Kentucky, Tennessee, and Indiana. Sales reached $747 million with operating income of $51 million. For a summary of sales and other operating results data, see **Exhibit 1**.

Stephen Goldberger took over the presidency from his father in 1981. Under his aegis the chain grew to 167 stores with sales of $1,670 million and operating profits of $97 million for the fiscal year ending January 28, 1989. By then Hills' territory included fourteen contiguous states and extended as far south as Alabama and Georgia and as far north as Michigan. Stores remained clustered in or near metropolitan areas and in small towns. By early 1989, 50% of all Hills stores were within major metropolitan areas, and 75% were covered by the TV signals emanating from these areas.

Although it had grown enormously in size and geographic coverage since 1957, Hills' target market had remained unchanged. Eighty percent of its customers were still female primarily from lower- to middle-income working class families.

Apart from the continuation of growth, two other rather recent events were of particular importance in the history of Hills. In 1985, a leveraged buyout resulted in the separation of Hills from the rest of SCOA. In 1987, Hills became a highly leveraged corporation with its own listing on the New York Stock Exchange. Then in the fall of 1988, Hills leased 33 former Gold Circle stores situated in Ohio and New York, which had been part of the discount store operations of Federated Department Stores. These stores were modified in layout and ambiance (all carpeting was removed) to conform to the Hills' mold, and reopened in early 1989. Together with eight new stores and one replacement which Hills also planned to open in 1989, this acquisition would raise the store count to 208.

THE STORES

In keeping with Hills' centralized operating philosophy, its stores had a standardized size, layout, decor and assortment of merchandise. The 82,000 square foot prototype was often an anchor tenant in a strip shopping center. The store facade was rather plain, adorned only by a large sign, lit at night, saying "Hills." Access to the store was through two center doors into a lobby that included a recessed small lunch counter featuring hot dogs, popcorn and similar menu items. Although there were no chairs, a small stand-up counter was available.

As customers entered the 66,000 square foot store selling area from the lobby (see **Exhibit 2**, Store Planogram), they were welcomed by a "greeter" who also responded to any questions. They also found themselves in a clean, neat, utilitarian environment.

Gondolas and long, straight apparel racks designed to carry a maximum amount of merchandise and situated on a tile rather than carpeted floor emphasized the wide assortment and no frills merchandising policy. Signage in primary colors was adequate but not overwhelming, allowing categories of merchandise to be easily found, and reinforcing such themes as EDLP, "Made in the U.S.A.", or seasonal promotions. An occasional sign explained the savings accruing to customers from such Hills' policies as no credit cards and low-level lighting. In point of fact the stores seemed adequately lit. The attention to detail stressed by Hills' executives was reflected in the well stocked condition of the racks and gondolas and the immaculateness of the stores.

For the price range in which Hills competed, there was both breadth and depth of family-oriented merchandise. In women's hosiery alone, for instance, there were more than 1,100 stock-keeping units (SKUs). The merchandise was quality name brand goods; there were no seconds or irregulars. In more basic merchandise categories such as underwear and health and beauty aids, Hills also offered lower priced private label products comparable in quality to name brand products. Hills' executives believed that use of private labels reinforced its image as a "provider of value" to its customers.

Excluding jewelry, 47% of the merchandise sold at Hills was still soft goods, which was substantially higher than at most other competing discount chains. This percentage, however, had been gradually declining from a high of about 60%. The increasing levels of hard goods were primarily in toys, health and beauty aids, housewares and home furnishings, electronics, greeting cards, and seasonal categories such as "trim a tree", garden, patio and grill and "back to school".

Hills' executives were inclined to reinforce this trend by shifting the merchandising emphasis to more hard goods particularly since they thought they had exhausted opportunities to add profitability to the soft goods assortments. This predilection, however, had sparked some internal controversy among Hills' executives. Soft goods both at Hills and in the discount department store industry in general had traditionally yielded better gross margins and faster inventory turnover than hard goods. Hard goods, on the other hand, had generated more sales per square foot (see **Exhibit 3**). Resolution of this controversy was one of the issues on Goldberger's agenda.

To offset its refusal to accept credit cards Hills had strongly promoted its layaway plan, which was an option for a person who could or would not pay cash for an item when originally purchasing it. To use this program a customer would take an item (or have it taken if it were too large, such as a patio set or grill) to a layaway counter at the rear of the store. There, they would register their name and payment schedule, pay a one dollar layaway fee and their first installment, and leave the item(s) until it was paid for in full during subsequent visits. There were four layaway registers, staffed according to demand so that there was never too long a wait. An employee would take the layaway item, place it into a special box, label it with the customer's name and then carry it into a secure and dedicated storage area. On average this area occupied 2,500 square feet of double decked first floor space or 5,000 square feet in total. This area could grow to up to 9,000 square feet (or 4,500 square feet of ground space) at the peak of the layaway season. Approximately 13% to 14% of Hills' sales were consummated on layaway at an average amount of $75 per transaction or five times the average cash sale (primarily in single items for hard goods and multiple items for soft goods). The maximum layaway period allowed was ninety days but the average was in the vicinity of 45 to 60 days.

There were obvious labor and space costs associated with the layaway program. Occupancy costs per store, which included rent, utilities, insurance, etc. for the average of 2,500 square feet of double decked ground space amounted to $11,000 annually. Labor costs per store including fringe benefits for operating the layaway department were estimated at $75,000 annually for the equivalent of five full-time employees.

Operation of the layaway plan also entailed determining what to do if a customer discontinued a layaway plan. Approximately 16% of the customers failed to complete their layaway plans in 1988. Ordinarily, the company kept the one dollar layaway charge, added to it a four dollar cancellation fee, and returned the balance of a customer's funds. Sometimes, however, the four dollar fee was waived if the customer had a valid reason for terminating the layaway or if the customer's goodwill was in jeopardy. Merchandise from terminated layaway plans was returned to inventory. Because Hills' executives did not allow layaway plans for seasonal merchandise to extend too far into the season, they believed that the markdown exposure emanating from terminated layaway plans was minimal.

Executives believed that the benefits of the layaway program to customers made it worthwhile, particularly in view of Hills' refusal to accept credit cards. It enabled Hills to avoid credit card expense, which, for bank credit, was about 1½% to 1¾% of credit transactions. Typically in discount department stores credit card transactions were two times an ordinary cash sale and amounted to 16% of total sales. This percentage had been on the rise in recent years.

A side benefit of the layaway program was that it boosted early sales of seasonal merchandise. Consequently, the Hills' central merchandising organization was able to obtain early feedback on merchandising trends and to make adjustments in purchases where possible to reflect more accurately customer demand.

While strongly committed to the layaway plan, Hills' executives did wonder whether they should continue their no credit card policy. In the spring of 1989, they had explored this issue in focus groups conducted in three cities. One was a major metropolitan area in which Hills had for a number of years been the leading discounter. The second market was a metropolitan area that Hills had only recently entered. The third city in which they had done research was described as a smaller mature market. Results did not vary by market and were inconclusive. When pressed, 52 of the 86 people included in the focus groups asserted that Hills should not accept credit cards. "Hills is guilt-free shopping" said a customer in a major metropolitan area. Furthermore, the study confirmed that for the large majority of people, credit is not a critical factor in the decision to shop at a particular store. Pricing and selection continued to be the most important factors.

On the other hand, the study found that credit was a factor for those who already shopped in Hills stores. Most current customers admitted that if Hills did take credit cards, they would probably buy more. It appeared that some business was being lost, particularly at Christmas time. Summaries of focus group comments and of two customer surveys are reproduced as **Exhibits 4** and **5**.

Hills endeavored to communicate its unique characteristics to consumers through advertising that focused on the institutional messages of assortment, quality and EDLP rather than on the special sale pricing message embraced by many of Hills' competitors. Hills' strategy revolved around seasonal saturation of market areas with company produced television spots highlighting different features of the Hills' offering, stressing the family orientation and ending with "Hills! . . . Check us out!" The television campaign was coupled with a series of eleven circulars. By comparison, Hills' most important competitors, Wal-Mart and Kmart, distributed about 12 and more than 52 circulars respectively. Of Hills' eleven circulars, three were considered to be of major (Christmas, Back to School and Mother's Day), five of medium, and three of minor importance.

Hills allocated 50% of its advertising dollars to television, 35% to circulars, and the balance to newspaper, radio, and in-store signing. Advertising expense, after deducting cooperative advertising funds received from manufacturers, amounted to 1.9% of sales. A comparable figure for the typical discount department store was over 3%.

Hills' circulars articulated a seasonal theme while promoting appropriate products priced at EDLP. In addition Hills included in its circulars special purchases of merchandise which could be offered at especially attractive prices as long as quantities lasted, and limited time duration discounts, called "instant rebates," arising from passing through to customers manufacturers' promotional allowances. Hills' ads sometimes included price comparisons with competitors, but never the "regularly/now" comparisons so popular in discount department store advertising.

Hills distributed most of its circulars as freestanding inserts in Sunday newspapers, or, where newspaper coverage was inadequate, by direct mail. The increasing concentration of stores in and around metropolitan areas in recent years had helped Hills contain its advertising expense.

STORE OPERATIONS

To help its stores execute the company strategy, Hills had a rather conventional three tier store operations pyramid. At the close of fiscal 1988 (January 31, 1989), Hills' 167 stores were supervised by 23 district managers who reported to 5 regional managers who in turn were supervised by Ray Brinkman, the Senior V.P. of Store Operations. Brinkman was a veteran Hills' employee, having headed store operations since 1966. Also reporting to Brinkman were a vice president of loss prevention, a vice president of operations administration, and a vice president of field merchandising with a staff of soft and hard lines personnel. Their task was, in conjunction with the headquarters merchandising organization, to formulate planograms which showed where and how merchandise was to be displayed in the stores.

Hills' store managers were primarily responsible for achieving the sales budget, providing friendly and good customer service, making sure the stores were well stocked, neat and clean, and controlling shrinkage and store expense, particularly payroll. To achieve these goals, however, they had to engage in additional activities. For example, store managers were responsible for taking the third and subsequent markdowns to liquidate inventory on merchandise that had failed to sell even after the second markdown. Relative to store managers in such chains as Kmart and Wal-Mart, however, Hills' store managers were less involved in sales and merchandising and more focused on operating matters such as store conditions and expense control.

Another important responsibility was supervision of the receiving and marking room. Because Hills operated without warehouses, store receiving and marking rooms were where shipments from vendors were checked against orders to make sure that receipts corresponded with what had been ordered in style and quantity. Also, except for vendor pre-ticketed items, stores were responsible for affixing price tags or labels to the merchandise. Effective receiving and marking operations were vital for the control of shrinkage, the accuracy of inventory reports, and the maintenance of merchandise quality standards. Stores were encouraged, with head office authorization, to return to vendors any merchandise which did not meet quality standards. Speed as well as accuracy was also important in receiving and marking operations. Merchandise which was received but unprocessed was unavailable for sale and could hamper the receipt of other merchandise. Normally, Hills' stores processed vendor shipments within three days, but a backlog of up to seven days was common in peak periods.

The receiving and marking area occupied approximately 9,000 square feet of space in the typical Hills store. Payroll, including fringe benefits, for receiving and marking averaged about $100,000 to $125,000 per store.

Apart from the space for the receiving and marking area, the back room of a typical Hills store included 3,500 square feet of double decked ground space for storage of staple hard line items such as paper goods. The need for most of this space was the result of having vendors drop-ship numerous hard line items. Larger quantities were required to make drop-shipments economical and often there was inadequate space on the selling floor to accommodate an entire shipment.

Back-room space in the typical Hills store was in particularly short supply just prior to publication of one of the three major circulars and at the beginning of the Christmas selling season. Therefore Hills rented and parked in the rear of its stores up to twenty 8' by 40' trailers to accommodate the overflow. Trailer rental expense for the chain averaged \$300,000 annually. Storing extra inventory in trailers, furthermore, caused labor expense to rise and occasionally made it difficult to locate backup inventory.

Because Hills' store managers were perceived primarily as operations rather than profit center managers, their monthly performance report concentrated on the items for which they were primarily responsible (see **Exhibit 6** for a description of the main reports which store managers received monthly). In addition, their supervisors often discussed the implications of unsold merchandise with them even though they were not responsible for inventory turnover and gross margin. Furthermore, as part of their annual review, district managers usually showed the store manager a more complete profit and loss statement for his or her store.

Hills' store managers were paid at about the mid-point for their peers in discount department stores. Their pay was composed of two elements. Eighty to ninety percent was salary. The balance was bonus, which was based on both corporate profits and an assessment of how well they did in achieving their objectives. These objectives emphasized such matters as payroll control and shrinkage.

Although not exceptionally remunerated, Hills' store managers and, for that matter, most employees exhibited uncommon loyalty relative to their counterparts in other discount department stores. Senior management averaged over fifteen years with Hills. At store level, there was an average of 40 five-year veterans in each store open for five or more years. Consistency and simplicity in strategy, a commitment to organization building, promotional opportunities, the treatment of employees with compassion and dignity, award dinners each year hosted by top management for employees with five or more years of employment (7,000 attended in 1988) and 70% full-time hourly employees at store level all contributed to the human resources environment at Hills.

MERCHANDISING

The merchandise managers and buyers for most departments were headquartered at the main office in Canton, Massachusetts. The women's apparel lines divisional vice president, merchandise managers, and buyers were in New York City.

Hills' merchandising organization was headed by Eugene O'Donnell, Senior Vice President and General Merchandise Manager. O'Donnell had occupied that position since 1985 and previously was Vice President for Hard Goods. Reporting to O'Donnell were two vice presidents for soft lines and two vice presidents for hard lines. Under each of the merchandise vice presidents were 3 to 4 divisional merchandise managers. Several Hills' buyers and a merchandise controller reported to each of the divisional merchandise managers.

Each Hills' buyer was responsible for preparing and executing a seasonal merchandise plan for his or her department. The buyer worked closely with a planner, who set up a seasonal distribution plan on a store by store basis. This plan specified sales by store by week, inventories, receipts, and anticipated markdowns by store by month. The planners then monitored actual performance and adjusted replenishment shipments accordingly. The planners reported to a merchandise controller who, in turn, reported to a divisional merchandise manager.

The merchandising department bought all merchandise, set retail prices, arranged for delivery to individual stores, and determined the magnitude and timing of the first and second markdowns to be taken on particular items. The merchandising department also helped plan prototype product displays, planograms, standard and seasonal layouts and display guidelines. In this activity, they worked with the two directors for field merchandising and their staffs who reported to the vice president for field merchandising. The field merchandise managers then worked with the district managers to adapt the merchandise presentations to the needs of individual districts and stores. The field merchandise managers had the final say on displays.

Different categories of merchandise were bought and distributed in various ways. Soft goods were purchased directly from manufacturers by central buyers at offices in Canton and in New York City. Fashion sensitive merchandise was often drop-shipped to individual stores by United Parcel Service. The balance was distributed through consolidators. Consolidators never took title to the goods. They received shipments from each of the manufacturers in packets designated for individual stores, sometimes held them until the merchandise was needed for sales, and then combined them for delivery to the individual stores.

In contrast with soft goods, the purchasing arrangements for hard goods were somewhat more diverse. About 80% of hard goods were purchased direct from vendors and again, either drop shipped or routed through consolidators to individual stores. On hard goods also, the consolidators often performed a storage function, particularly for such seasonal merchandise as toys and Christmas trees and trimmings. The balance of the hard goods, particularly smaller items such as stationery, hardware and automotive, and some health and beauty aids (HBA) and candy, was replenished from wholesalers or jobbers as they were sometimes called. These organizations visited individual stores as frequently as weekly, ascertained the quantities needed for replenishment based on deducting stock on the shelves from "stock up to" targets established in Canton by headquarters merchants, and then shipped the merchandise to the individual stores. The use of wholesalers eliminated the need for backroom stocks in stores on merchandise which jobbers re-supplied.

Rapid and accurate communications between headquarters and stores was an essential element of Hills' merchandising and logistical arrangements. One facet of Hills' communication system was four or five headquarters connected CRTs, or terminals, located in the receiving and marking room, manager's office, and other locations in each store. This system enabled headquarters to keep each store abreast of what was on order for them and to communicate information to the stores on merchandise in transit. It also provided stores with initial retail price and markdown instructions. Headquarters personnel could electronically generate a receiving document in each store for impending receipts which included instructions for printing price labels or tags.

Store personnel used the same system to communicate to headquarters information on actual receipts. These data were essential for maintaining accurate information on the central computer for merchandise on order and on hand by stock-keeping unit (SKU) and by store. Such data also enabled Hills to pay its bills on a timely basis and earn the customary discounts for prompt payment. In addition to these merchandising purposes, this same communications system was used for two-way communication of a wide range of operating information and for electronic mail.

The other facet of the Hills' headquarters/store merchandise information and communication system was the point of sale (POS) terminals in the checkout lanes in each store. Since the price tags or labels for all merchandise included identification numbers, checkers recorded these codes for each item sold or returned, or entered a generic code when an item code was missing, illegible or unacceptable to the POS terminal. Every night the day's transaction data were automatically transmitted through a modem to the home office computer. This information provided the basis for weekly records of unit sales by SKU by store. By combining beginning inventories for the previous week with data on receipts from vendors and sales, the computer also generated inventory on hand by store by SKU.

Accurate store sales and inventory data were critical to Hills' centralized merchandising system. Executives were quick to admit, however, that the quality of that data could be improved with scanning systems which would, in addition to a number of other important advantages, vastly reduce failure or inaccuracy in entering SKU data. Hills was planning to introduce scanning systems experimentally in a few stores in 1989 and convert to scanning in all stores by 1991. Commenting on the usefulness of the POS system, Steve Goldberger said: "we rely primarily for sales and inventory information on our POS system although we also receive a continuous flow of information, corrections, and suggestions from store managers."

THE CHANGING BUSINESS ENVIRONMENT

The business environment in which Hills operated was undergoing a transformation as demographic, technological, and competitive changes converged to force Hills' management to consider changing the way in which they did business.

Demographically two issues confronted Hills. As marketers they were confronted with a decline in the number of teenagers. This decline was alleged to be an important factor in the industrywide decrease in junior sportswear sales beginning in the fall of 1987. The falloff in teenagers, however, had even more profound implications for Hills' store operations. Increasingly there was a shortage of entry level young people willing to work as full or part timers in stores.

Concurrent with these demographic changes was the technological revolution in information and communication systems which was changing the way retailers did