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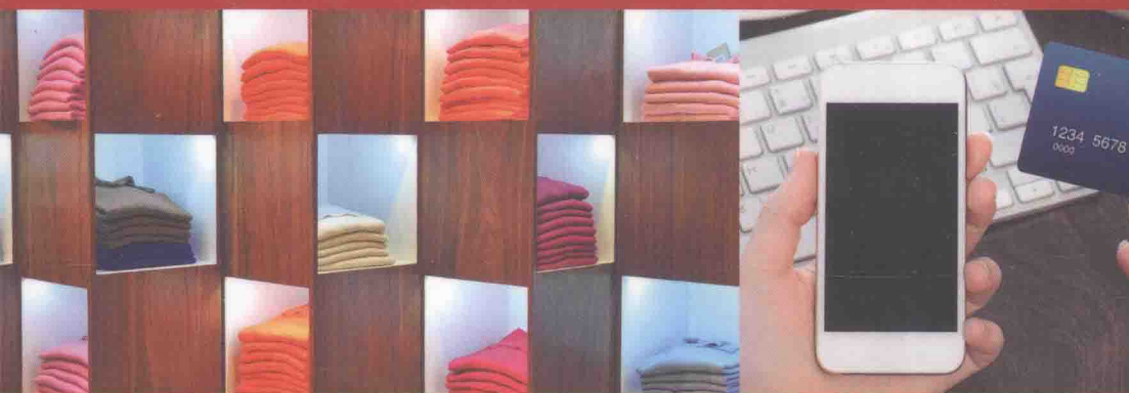


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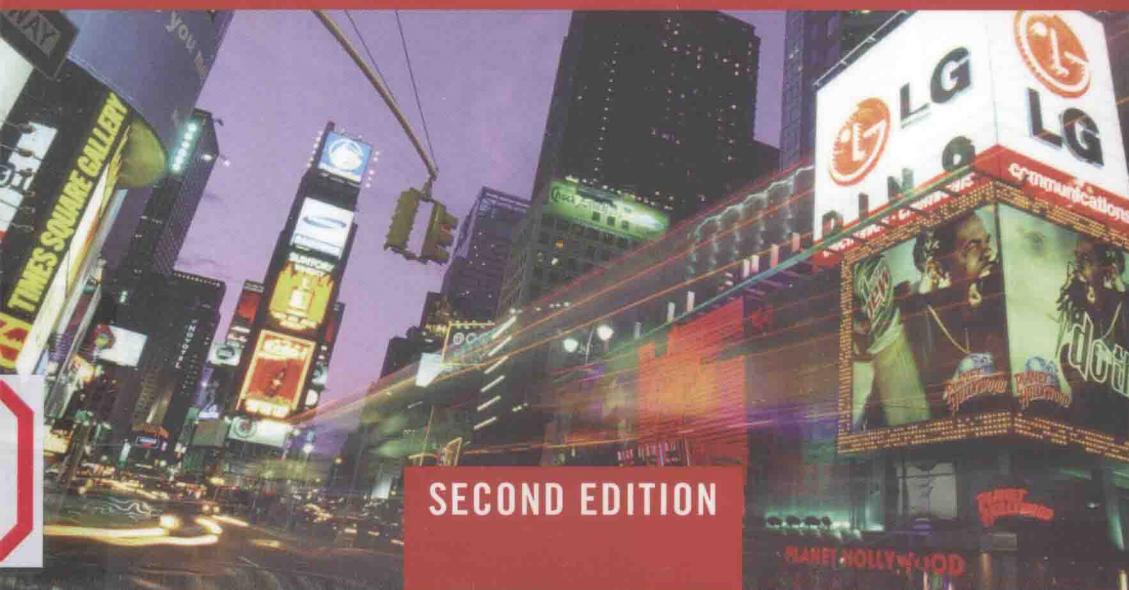
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# PRINCIPLES OF RETAILING



JOHN FERNIE, SUZANNE FERNIE AND CHRISTOPHER M. MOORE

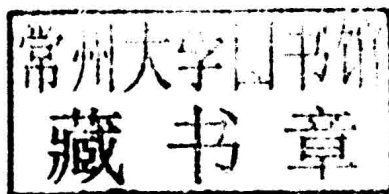


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# Principles of Retailing

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John Fernie, Suzanne Fernie and  
Christopher M. Moore



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‘The new edition of *Principles of Retailing* is written in an accessible style and provides broad coverage of retail management and retail marketing. It promises to become a key text for introducing retailing to management and marketing students alike.’

Professor Steve Wood, *University of Surrey, UK*

**In memory of our parents, Jim, Sophia, Averil, John and Teresa  
who passed away since the first edition of the book was  
published**

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# Preface

When the first edition of *Principles of Retailing* was written at the turn of the millennium, the retail environment was very different from that of 2014. The economy was buoyant with low inflation, strong economic growth and low unemployment. These healthy economic indicators resulted in a boom for consumer goods, and retailers enjoyed a period of rapid growth that would take many of them from small family-owned companies to large public global corporations. By the end of the decade, however, the market environment had changed. The collapse of the sub-prime mortgage market in the USA precipitated the financial crisis of 2007/08 and plunged global markets into a recession from which they are only now beginning to show signs of recovery. Ironically, much of customer expenditure and retail growth were fuelled by debt and access to available credit predicated on continuing economic growth. With low or no growth, high unemployment, inflation well above wage rises and banks cautious in their lending, consumer confidence waned with a change in spending patterns. Price/value for money became the focus of consumer attention, although it should be noted that the boom in luxury goods consumption continued unabated after a minor dip in 2008/09. The rich apparently continue to spend while others review their spending habits.

Retailers faced severe challenges in this new market environment and the period 2007–June 2014 saw 308 UK companies enter administration (Centre for Retail Research, 2014). High-profile cases included Woolworths, Comet, HMV, Allied Carpets, JJB Sports and Focus DIY. In the USA, the filing for bankruptcy of well-known retailers such as Circuit City, A&P, Borders and Mervyns also highlighted problems facing many traditional retailers which had already been facing competition initially from ‘big box’ formats, but now also from online players, most notably Amazon. It is interesting to note that Amazon only reported its first annual net profit in 2003, when this book was first published. This was the beginning of online stability after the dot.com boom-and-bust period of the late 1990s and early 2000s, when online sales did not reach 1 per cent even in receptive markets such as the UK.

So at the time of the first edition of *Principles of Retailing*, most retailers’ strategies were firmly focused on growth through the building of more stores, internationalizing formats and establishing an online presence. The world’s two largest retailers, Walmart and Tesco, only began their major international expansion in the 1990s, with Tesco laying the basic foundations for its dominance in the online market in the UK and abroad in 1996. In the UK the ‘race for space’ was a feature of the major grocers’ locational strategy as the best

sites for large-scale formats were becoming scarce. With the changing market environment, however, this strategy was flawed. The idea of 'big box' formats was to exploit the better margins of a non-food offer but consumers increasingly began to shop online for such goods. The beleaguered CEO of Tesco, Philip Clarke, prior to his removal in July 2014, had commented that the company was the most competitive in online and convenience store retailing but was hampered by its legacy of Tesco extra hypermarkets.

The post-financial crisis era has led retailers to review their strategies and reappraise their capital investment plans. Most attention has centred upon the restructuring of their organizations to accommodate omni-channel retail so that customers can shop anytime, anywhere, receive deliveries and return goods to reception areas of their choice. The speed of change has been dramatic, with most markets achieving double-digit growth figures in terms of online sales and the UK share of sales rising from under 1 per cent to around 13 per cent since the first edition of this book was published. As sales migrated online, traditional store networks were scaled down to achieve a balanced portfolio of shopping options. This has led to major problems for traditional shopping malls and high streets, where vacancy rates have reached record levels.

Overseas markets were the engine for growth for the larger retailers in the 1990s/early 2000s, with the big four – Walmart, Carrefour, Tesco and Ahold – reshaping the global market. No sooner was the book published, than Ahold was involved in an accounting scandal in the USA which ultimately led to a withdrawal from most of its overseas markets apart from the USA and Europe. The other three companies have refocused their attention on markets that offer best rates of return, especially as shareholders have been concerned about their relatively poor performance in their home markets.

It is clear from this brief précis that much has changed over the last decade. However, our ideals remain the same as before, in that 'The challenge was to produce a book which was readable to a wide audience, students and practitioners alike, but to have academic authority based on the teaching and research experience of the authors' (Preface to the first edition). We have tried to keep as much of the underlying framework of the previous edition as possible, but instead of having four main sections, we have streamlined this into two parts: one on strategic direction, the first six chapters, followed by a further six chapters on the supporting functions to implement strategies. The main change is the reallocation of chapters on internationalization and e-commerce from the end of the previous edition under a section on 'Managing the future', to earlier in the new edition (Chapters 5 and 6). The future is here and, as outlined above, internationalization and online initiatives have been at the forefront of many retailers' strategies.

The early chapters are similar to the previous edition. 'The retail environment' has the same structure but has been extensively updated to incorporate how the new economic environment has impacted upon consumer attitudes, retailer responses and government initiatives with regard to competition and land-use policies. Despite these changes, the 'Theories of retail change' chapter has had fewer amendments than most chapters, primarily because cyclical, environmental and conflict theories remain the same; only the examples need revision.

In the first edition we had a chapter on 'Retail strategy' followed in a different section by 'The development of retail marketing'; these two chapters have been incorporated into two new chapters: 'Strategic retail marketing 1: the strategic planning process', and 'Strategic

retail marketing 2: market segmentation and the service marketing mix'. In the first edition there was a degree of overlap in content with regard to the strategy process. Now Chapter 3 discusses corporate strategies, objectives and mission statements prior to evaluating tools for determining a retailer's strategic capability – environmental, competitive and resource audit analyses in order to evaluate the choice of strategic options available, from, for example, new product development to international expansion. Chapter 4 looks more specifically at how markets are segmented, the positioning within markets, retail branding and the implementation of the marketing mix. The content from the earlier 'Development of retail marketing' chapter has been extensively revised, with case study examples of Tesco's Clubcard and customer profiling, Aldi's marketing communications strategy in the UK, and the segmentation of luxury fashion brands. Also the 'location strategy' section, originally in the 'Retail strategy' chapter of the first edition, is now incorporated and updated as part of the marketing mix section of this new chapter.

As highlighted above, Chapters 5 and 6 are the repositioned 'Internationalization of retailing' and 'Electronic commerce and retailing' chapters. The internationalization chapter retains the same structure as before, drawing upon conceptual models developed for the retailing sector in the late 1990s and early 2000s. Considerable updating of content was required, however, in view of the restructuring of global operations of the main players as they have divested from some markets to focus upon countries offering the best investment potential. The e-commerce chapter has been extensively updated to reflect upon the rapid pace of change over the last decade. Much of this has been driven by Web 2.0 developments which have allowed greater consumer–retailer interaction and therefore the ability of retailers to exploit the 'long tail' through social media and viral marketing. To be successful in an e- and m-commerce environment, retailers have to embrace similar attributes to those of store choice – convenience, product range, customer service and price – and therefore build brand loyalty in a multi-channel environment. Despite such changes, similar challenges are faced by retailers in delivering to the customer, with solutions to the 'last mile' problem now focusing more on 'click and collect' to complement traditional delivery slots.

The second half of the book is a revision of the previous edition's sections on 'Managing the retail supply chain' and 'Managing retail operations'. Considerable restructuring of material has occurred in addition to the inclusion of a new chapter on 'Offshore sourcing and corporate social responsibility (CSR)'. The first chapter of this section brings together elements of the buying and merchandising chapters of the previous edition into a new chapter entitled 'Product management'. The conceptual framework is similar to before, but the digital revolution has meant that buying cycles are more frequent and commitment to buy is deferred as late as possible. The new chapter on offshore sourcing follows as Chapter 8. Most non-food products are sourced offshore primarily because of low labour costs. However, the complexity of global networks has led to significant challenges for retailers as they balance issues of cost, lead times, flexibility and ethical standards. The fashion sector is the focus of much of the chapter to highlight the conceptual models used to explain sourcing strategies and how retailers try to implement CSR initiatives. Sri Lanka is used as a case study to illustrate good management practice through the government's 'Garments without Guilt' programme.

Chapter 9, 'Retail logistics', covers the final chapter on the retail supply chain. The structure of the chapter remains the same but the content required considerable revision in the wake of changes in the fashion market discussed in the earlier chapters and the online revolution. There is added material on the fashion supply chain, supply chain models, the implementation of efficient consumer response (ECR) initiatives and an update on e-fulfilment and the 'last mile problem', building on the discussion in Chapter 6.

The final three chapters focus upon retail operations. 'Adding value through customer service' retains the same structure as the previous edition but has been substantially revised to update existing (Nordstrom) and new (Apple) case material. The content also reflects the use of digital technology to enhance the customer service experience. Chapter 11 has been restructured to incorporate 'visual merchandise' from the 'Merchandising in retailing' chapter of the earlier edition, into a new chapter on 'Visual merchandising and retail selling'. There is a strong relationship between customer service, retail selling and customer satisfaction. The early part of the chapter deals with the 'silent salesperson', namely the use of visual merchandising techniques to stimulate sales in-store prior to focusing upon the role of selling in relation to the merchandise on offer and the customer segment that is targeted. The final chapter, 'Retail security', links strongly to the previous two chapters in that the layout of merchandise can minimize theft, as indeed can staff loyalty and good customer service. This chapter has been substantially revised as research into shrinkage has become a more international phenomenon with the advent of the European, then latterly the Global, Theft Barometer. With these surveys, however, problems of definition and difficulties in comparing data sets have arisen. Furthermore, the advent of online buying has led to migration of retail crime from store to e-crime, and problems of some stolen goods appearing on online auction sites. The recession also led to high unemployment levels and increased crime levels at a time when retailers were under pressure to reduce levels of staff that can be used as a key preventative measure to combat crime.

## Reference

Centre for Retail Research (2014) *Who's Gone Bust in Retailing 2010–14?* Newark, NJ: Centre for Retail Research.

# Abbreviations

ABC	activity-based costing
AIDA(S)	awareness, interest, desire, action, (satisfaction)
B2B	business-to-business
B2C	business-to-consumer
B2G	business-to-government
C2C	consumer-to-consumer
CAD	computer-aided design
CAM	computer-aided manufacturing
CCTV	closed-circuit television
CDP	collection and delivery point
CEO	chief executive officer
CMT	cut, make and trim
CNP	card not present
CPFR	collaborative planning, forecasting and replenishment
CRM	customer relationship management
CSR	corporate social responsibility
CTN	confectionery, tobacco and newsagents
DC	distribution centre
DCPN	Development Control Policy Note
DIY	do-it-yourself
DPP	direct product profitability
DSD	direct store delivery
EAS	electronic article surveillance
ECR	efficient consumer response
EDI	electronic data interchange
EDLP	everyday low pricing
EPOS	electronic point of sale
ETI	Ethical Trading Initiative
FGP	factory gate pricing
FMCG	fast-moving consumer goods
FOC	factory outlet centre
FDI	foreign direct investment
ft	feet

G2B	government-to-business
GDP	gross domestic product
GIS	geographical information system
GNP	gross national product
ICT	information and communications technology
ISP	Internet service provider
IT	information technology
JIT	just in time
LBO	leveraged buy-out
LSP	logistics service provider
PAT	Policy Action Team
PEST	political, economic, social, legal factors
PESTLE	political, economic, social, technological, legal, environmental factors
POSCCTV	point-of-sale closed-circuit television
PPC	pay per click
PPGs	Planning Policy Guidelines
PPS	Planning Policy Statement
QR	quick response
RBT	resource-based theory
RDC	regional distribution centre
RFID	radio-frequency identification
RI	retail internationalization
RPM	resale price maintenance
SBU	strategic business unit
SCM	supply chain management
SEO	search engine optimization
SIRE	strategic international retail expansion
SKU	stock-keeping unit
SME	small and medium-sized enterprise
SPELT	social, political, economic, legal, technological factors
sq.	square
STEP	social, technological, economic, political factors
SWOT	strengths, weaknesses, opportunities, threats
USP	unique selling proposition
WMC	warehouse membership club

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# 1 The retail environment

## Learning objectives

After studying this chapter, you should be able to:

- Identify major demographic, socio-economic and lifestyle trends, and discuss their influence on consumption of retail goods and services.
- Evaluate how retailers have responded to the changing consumer in terms of:
  - retail innovation;
  - concentration of retail ownership; and
  - locational shift.
- Comment upon the waves of retail decentralization.
- Understand how government influence can shape retail development through:
  - legislation;
  - competition policy; and
  - planning policy.

## 1.1 Introduction

In essence, retail change has been driven in the past by the interaction of consumer, retailer and government: in the 1990s and 2000s the role of technology became increasingly important as an agent of change.

(after Fernie, 1997, p.384)

To understand the retail environment it is important to understand the interrelationships between the factors illustrated in Figure 1.1. In this chapter, we shall consider how changes in the consumer environment – demographic, socio-economic and lifestyle trends – have impacted upon retail change. At the same time, government has been a major agent of change. Retailers are regulated by an array of laws and ordinances which impinge on their operations. This can be on licences to operate, which goods to sell, hours of operation,



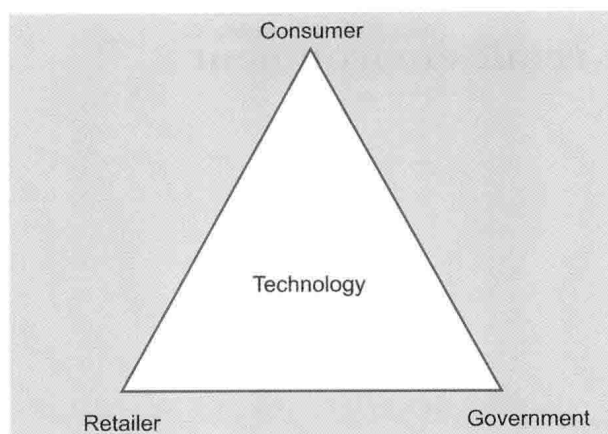


Figure 1.1 Factors influencing change

health and safety matters through to planning ordinances on where to locate the business. The types of merchandise on sale and the formats developed are a response to such interactions. However, retailers do influence consumers and government on product choice and format development. For example, the UK slowdown of the introduction of genetically modified foods was driven by retailers' refusal to stock these products. Also high-profile retail entrepreneurs (Archie Norman for Asda, Lord Sainsbury for Sainsbury's, Philip Green for Arcadia) have lobbied and advised successive UK governments. Political decisions such as refusal to join the European Monetary System and introduction of the minimum wage have had economic repercussions that influence retailers. UK tax credits have supported low-paid retail workers; government funding supports staff training in the skills academies of high-profile retailers.

The role of technology is not discussed at length here as it embraces most chapters of the book, especially those on logistics, marketing and online retailing. It should be acknowledged here, however, that technology should be seen in its widest sense. For the consumer, technology has freed up time as capital goods replace labour in the home. Communications in both a physical and information sense have given access to wider geographical markets. Retailers rapidly embraced the IT revolution through sharing data with their suppliers and communicating with their customers, especially those with loyalty card schemes. New technologies have been applied throughout the supply chain to ensure that products can be designed/tested, manufactured and distributed quicker and at a lower cost than ever before. Markets and companies have grown due to the links between innovation and technology. The example of the evolution of chilled foods in the UK was used in the previous edition of this book. In response to the demand for ready meals, two businesses, Northern Foods and BOC Transhield, grew to supply Marks & Spencer and other supermarket chains with these product lines.

The most significant change over the last decade, however, has been the growth of online technology. In the early 2000s online sales were barely 1 per cent of overall retail sales in the UK; a decade later this had risen to 10 per cent, with prospects of strong growth for the foreseeable future. The UK is a market leader in online uptake by consumers but it