

BUSINESS

for the

21st

Century

SKINNER
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for the

BUSINESSES

Century

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About the Cover

The whole is greater than the sum of its parts. On the cover of this book, various individual images are combined to form a new picture. Similarly, the study of business is an overview of a number of individual functions, such as marketing and management, which work together to form an integrated system.

The types of businesses in this system (e.g., small, corporate, service, and manufacturing) vary as much as the shapes and colors in the picture on the cover. In the small, inset photos, a satellite view of the earth displays the new, global frontier of business. A green, organic border brackets the picture, signifying the fragile yet crucial connection between business and the environment. The combination of the organic border and the metallic shapes of the interior illustrates the range of business functions, from agriculture to industrial operations. Modern structural details point skyward, showing the path of business and technology into the future.

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To **M**oira, Aaron, and **C**arrie Skinner

To my immediate family—Dan, Jill, Dana, Paul, and Pegi— and to all the people who are now experiencing free enterprise since the Iron Curtain and Berlin Wall have been torn down



Steven J. Skinner

Steven J. Skinner is the Rosenthal Professor in the College of Business and Economics at the University of Kentucky where he has taught Marketing and Management courses for nine years. He received a D.B.A. from the University of Kentucky. He was formerly a research administrator for State Farm Insurance. Dr. Skinner is the author of *Marketing*, a college textbook, and coauthor of *The New Banker*, a business trade book. He has published numerous refereed articles in the major journals in his field.

In addition to his academic pursuits, Dr. Skinner has consulted for several Fortune 500 companies as well as small businesses.

John M. Ivancevich

John M. Ivancevich has spent 17 years at the University of Houston teaching, conducting research, participating in professional associations, and consulting with many different enterprises in and outside the United States. In his academic career, which includes time spent earning a B.S. degree at Purdue University and master's and doctorate degrees at the University of Maryland, he has taught Introduction to Business, Human Resource Management, Management, and Organizational Behavior courses. He has written, coauthored, or coedited over 45 books and published over 130 refereed papers.

During his academic career, Dr. Ivancevich has consulted with over 100 firms on such topics as reward system implementation, performance appraisal plans, goal-setting programs, merging divergent organizational cultures, new business start-ups, team building, and leadership training. He is currently involved in a project of presenting free enterprise techniques, knowledge, and tools to Eastern European management trainees.

Our major goal in writing *Business for the 21st Century* has been to develop a text that blends basic business concepts with current business practice in a way that students and instructors will find interesting, exciting, and relevant. To prepare students for the challenges and opportunities that lie ahead, an instructor needs a book that takes a positive yet candid approach toward business, illustrating that business is *not* down and out in America. On the contrary, now is an exciting and challenging time to be entering the business world, whether in a small business or in a large corporation. Competitive conditions, work force changes, social trends, and technological advances mean that rewarding business careers await those individuals who are knowledgeable, skilled, and motivated. To motivate, excite, and educate students, a text should cover the basic concepts of business within the context of our changing world. This is that text.

As we move toward the 21st century, the business world is changing dramatically. Competition is becoming increasingly global. New markets are opening in Europe, Germany, and the Soviet Union. The American economy is leaning more toward services, and *quality* is the initiative of many firms. Social responsibility is becoming a major concern for business. Demographic and lifestyle shifts are changing the way we shop, where we work, and how we live. The changes taking place today are forming the business world of the future. Students who understand these changes will be more likely to succeed than those who do not. This is the business book that integrates these and many other current developments to prepare students for the 21st century.

INTRODUCING OUR TEXTBOOK

To accomplish the goals set forth above, we have organized *Business for the 21st Century* into seven parts that provide students with an integrated and practical approach to understanding current business practices. Every chapter fits logically into this integrated approach. No chapters are "left over" or "tacked on." Part One provides an overview of the core of business, the business enterprise, discussing the foundations of business, forms of business ownership, and small business, entrepreneurship, and franchising. Part Two presents the business environment that surrounds the core, including the social, legal, and international environment. The remaining parts form the outer circle, consisting of the various aspects of operating the business enterprise. Part Three focuses on managing and organizing the business, and on the management of production and operations. Part Four examines the management of human resources, as well as human relations and labor relations. Part Five covers marketing strategy, including product, price, distribution, and promotion decisions. Part Six explores the financial management of business firms. Part Seven is devoted to accounting and information systems.

FEATURES OF THE TEXTBOOK

Our textbook has several features that make it enjoyable to read and enjoyable to teach. Students can use the following learning tools to help them understand and retain the material in the text.

- *Learning objectives.* Each chapter begins with several clear, attainable learning objectives; questions in the test bank are keyed to these objectives.
- *Illustrations.* Numerous charts, graphs, diagrams, and photos reinforce and explain concepts in the text.
- *Margin notes.* Definitions of key terms are placed in the margins next to where the terms are introduced to facilitate learning.
- *Summary of learning objectives.* The chapter summary is concise yet complete. Each item in the summary is tied to the corresponding chapter opening learning objective to provide a cohesive, integrated chapter review.
- *Key terms.* A list of key terms at chapter end helps students identify and review important concepts.
- *Questions for discussion and review.* Students can use these questions to evaluate their understanding of the chapter.
- *Glossary.* Key terms and their definition may be quickly located in the comprehensive end-of-book glossary.
- *Name, subject, and company indexes.* Topics in the book can be easily located with the help of name, subject, and company indexes.

This textbook also offers several application features that will help students to relate the text material to their own experiences and to apply the concepts in the text to the real world of business.

- *Opening vignette.* The text of each chapter begins with a current news story that introduces students to the chapter's topics.
- *Business Action.* Each chapter features two additional news stories that focus on recognizable firms and contemporary topics, extending the concepts discussed in the text.
- *Connections.* Each chapter features a short self-assessment quiz that helps students evaluate their attitudes, orientations, and values, as they pertain to business.
- *You'll Know It's the 21st Century When.* . . . Each chapter concludes with a short feature presenting some interesting trend that will influence business activities in the 21st century.
- *Did You Know?* In each chapter, an interesting business-related sidebar appears next to one of the illustrations.
- *Real world examples.* Current examples of familiar organizations and business issues are used throughout each chapter to relate the text to the real world.

- **Cases.** Two current, realistic cases at the end of each chapter help students put business concepts into practice.
- **Career appendixes.** Each of the seven parts ends with a comprehensive and informative section on business careers.

SUPPORT FOR INSTRUCTORS AND STUDENTS

An integrated support system for both instructors and students accompanies *Business for the 21st Century*.

Integrated Teaching System

The integrator The Integrator places all of the appropriate instructional materials for each chapter at the instructor's fingertips. The system consists of a sturdy file box containing a folder for each chapter. Each chapter folder holds appropriate instructor's manual pages, instructional strategies and activities pages, color acetates, and transparency masters. A three-ring binder is also provided for carrying the appropriate material to class.

Instructor's manual The instructor's manual provides a master plan for implementing the various instructional tools provided with this textbook. Each chapter of the instructor's manual includes: (1) chapter overview, (2) list of resources, (3) learning objectives, (4) lecture outline, (5) Business Action notes, (6) answers to questions for discussion and review, (7) list of key terms with definitions, (8) case notes, (9) transparency master and color acetate notes, and (10) a list of recommended readings.

Computerized instructor's manual The contents of the instructor's manual are also available on disk so that the instructor can customize his or her lesson plans.

Instructional strategies and activities This handbook provides a variety of materials for expanding lectures and engaging students in classroom activities. Each chapter includes: (1) two current lecture supplements focusing on key concepts from the text; (2) two student activities, such as individual or small group classroom activities, individual homework, group projects, guest speakers, interviews, and class discussion tactics; and (3) one supplemental case, based on a student-oriented situation.

Test bank The test bank includes more than 2,800 true-false, multiple-choice, and essay questions. Each question is categorized by level of learning and reflects one of the learning objectives.

Computerized Testing Software The most recent version of Irwin's test-generation software, this program includes advanced features such as allowing the instructor to add and edit questions on-line, save and reload tests, create up to 99 versions of each test, attach graphics to questions, import and export

ASCII files, and select questions based on type, level of difficulty, or key word. The program allows password protection of saved tests and question databases, and is networkable.

Teletest Those instructors without access to a microcomputer, or those who prefer not to use one to create tests, can use Irwin's Teletest service. The service provides a toll-free number for instructors to call in a test request. Tests and answer keys are printed on a laser printer according to the specifications provided. Requests are completed the same day they are called in and are shipped by first class mail. Please allow five business days for delivery.

Color acetates These 150 full-color transparency acetates will help the instructor reinforce and extend the concepts presented in the text in classroom presentations. The acetates consist mainly of original materials, along with some of the key tables and figures from the text. Notes for using the acetates are provided in the instructor's manual.

Transparency masters In addition to the acetates, all of the tables and figures from the text are reproduced as transparency masters.

Business videos Eight hours of videos featuring timely business topics from a variety of organizations bring business concepts to life. To facilitate classroom use, videos are 10 to 15 minutes in length, and some videos are tied directly to cases and applications in the text. A guide to using the videos is also provided.

Business forms In the search for a job, and on the job, students will encounter a multitude of forms. This packet of sample forms will help familiarize students with these vital tools of business.

Career implementation model This supplement offers a series of lessons and activities designed to walk students through the process of deciding on a career and applying for and starting a new job. The lessons are linked to the career appendixes in the text.

Support for Students

Study guide The study guide provides a variety of learning tools including a chapter overview; learning objectives; matching, true/false, and multiple-choice questions, and minicases. Students who use the study guide will be well prepared for class discussions and exams.

Tutorial software With this interactive software, students can use their business knowledge and skills to manage their own firm. The questions in the tutorial are based on the concepts in the text and posed within the context of a realistic company. Answering these questions will help students to review the concepts from the text and to understand how they apply to managing an actual business.

Global trade game This user-friendly computerized simulation/game reinforces many fundamental concepts from the text. Students start with a given amount of money and soybeans and make decisions to buy or sell soybeans. In making these decisions, students must take into consideration variables such as the forces affecting supply and demand, forms of transportation, methods of insurance, political and environmental conditions, and so forth.

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Steven J. Skinner
John M. Ivancevich

The special features in *Business for the 21st Century* are designed to help you succeed in your study of business—and beyond. As you read each chapter, use the following tools to help you focus on, understand, and retain the terms and concepts in the text.

CHAPTER FIFTEEN

DISTRIBUTION

LEARNING OBJECTIVES

1. To define the term marketing channel and identify the two major types of marketing intermediaries.
2. To explain how marketing channels are integrated vertically.
3. To define wholesaling and describe the functions wholesalers perform.
4. To define retailing and outline the activities retailers perform.
5. To discuss the major considerations in retail pricing.
6. To explain the role of physical distribution and identify its components.

Chapter Opening Photo

"Every picture tells a story." Each chapter begins with a unique photo consisting of objects that represent the topic of the chapter.

Learning Objectives

Accompanying the opening photo, a list of objectives identifies the major concepts and skills you will learn. Chapter summaries and test items are keyed to this list of learning objectives.

Technology is changing fast today. In our demographics, markets are becoming global. Businesspeople may not realize that the ways goods and services get to consumers are changing just as fast.



© Jonathan Berg 1989

In the United States, retail funds that used to be sold only through brokerage houses now are sold also through regional banks, insurance agencies, and professional associations. In Japan most urban mom-and-pop shops have been converted to outlets of huge chains, such as 7-Eleven or Minami Donut. In Britain the bulk of consumer electronics products are now sold by four national chains carrying private brands.

Many U.S. department stores, especially those centered in urban downtown areas, are so insolvent as workers and customers move increasingly to the suburbs. As consumers shop for the best price, big

discount stores have flourished, category discounters that focus on one exhaustive line of goods are booming. Some manufacturers of clothing, luggage, and diverse other goods have opened outlets to

sell directly to consumers. Consumers are shopping stores also: together and using catalogs, television shopping networks, and buying clubs. This still competition, combined with poor customer service over the years and an aging and poorer population less inclined to shop, may send many retail stores and regional malls into decline.

Newspapers customers do not always themselves buy the products they use. Hospitals often contract with independent firms for maintenance, billing, patient feeding, physical therapy, the pharmacy, or X-ray. Many firms rely on computer management firms that design, buy, install, and run information systems for clients.

U.S. and foreign competition is

squeezing profits and reducing the number of distributors. The cost of holding inventory has doubled since the 1960s; the cost of labor has jumped, and the labor pool has shrunk. Manufacturing customers are demanding more service, especially as they adopt the just-in-time inventory approach in their operations (see Chapter Nine).

Large industrial producers are selling direct to customers. Foreign firms, competing on performance and price, are trying to gain a piece of the U.S. market through small distributing firms and catalog companies. Warehouse clubs selling office furniture and other merchandise are luring small-business and manufacturing customers from traditional industrial distributors.

Lines blur between manufacturers and distributors as firms merge, grow, and diversify. Kmart Inc., a maker of carbide cutting tools, bought a leading general-line firm and a national mail-order catalog distributor with four warehouses, and now distributes a broad range of industrial products nationally. New super distributorships, such as Sun Distributors of Philadelphia, carry many and varied product lines. Cooperatives such as ED ONE, a group of 30 large independent distributors, buy and promote together to compete with superdistributors and national chains.

As management expert Peter Drucker says, "Changes in distribution channels . . . should be a major concern of every business and every industry."

After organizations devise marketing strategies, and produce products and service them, they must get the products to the marketplace. The distribution function is important to society because it enables goods and services to reach consumers. It is vital to firms' success. As the examples in the chapter opener show, firms use many different avenues to get products to consumers in a timely and efficient manner.

In this chapter, we examine the various activities involved in distributing goods and services. First we explain the concept of a marketing channel of distribution and describe the types of channels. Next we explore two major distribution activities: wholesaling and retailing. Finally we discuss the physical movement of products from producers to consumers.

MARKETING CHANNELS

A **marketing channel** (channel of distribution) is a group of interrelated organizations that directs the flow of products from producers to ultimate customers.¹ The channel organizations that provide the link between the producer and the consumer are called **marketing intermediaries**. *Comp-U-Card* is an example of a marketing intermediary.

The two major categories of marketing intermediaries are wholesalers and retailers. Wholesalers are individuals and organizations that sell primarily to other sellers or industrial users. Wholesale transactions generally involve large quantities of goods. Retailers specialize in selling products to consumers. They generally resell products that they obtain from wholesalers. We will discuss wholesalers and retailers later in the chapter.

Functions of Marketing Intermediaries

Consumers often wonder whether products would cost less if one or more marketing intermediaries could be eliminated from the distribution system. Would cars be less expensive if consumers could simply buy them straight from the manufacturer? Perhaps, but think about the practical aspects involved. How many consumers would be willing or able to go to Detroit to buy a car? Or maybe Japan? If manufacturers offered cars for sale by mail order, how many consumers would buy one without seeing and test-driving it? Carmakers selling vehicles directly to buyers from around the United States or around the world would be impossible.

Marketing intermediaries are vital in creating place, time, and possession utilities. They ensure that products are available on a timely basis where they are needed. Eliminating intermediaries does not eliminate the need for their services, such as storage, record-keeping, delivery, and providing a product assortment. Either the manufacturer, the consumer, or some other organization has to perform these essential services. Without intermediaries, most consumer purchases would be much less efficient. Products probably would cost more, not less.

Marketing Channel
A group of interrelated organizations that directs the flow of products from producers to ultimate consumers; also called *channel of distribution*.

Marketing Intermediary
An individual or organization in a marketing channel that provides a link between producers, other channel members, and final consumers.

Opening Vignette

The text of each chapter begins with a current news story that introduces you to the topic of the chapter.

Margin Notes

For convenient reference, the terms and definitions in the margin mark the location of key terms within the text.

Chapter Map

Following the opening vignette, a verbal "map" indicates the main points that will be covered in the chapter.

BUSINESS ACTION

Wal-Mart Charges into the 1990s

Wal-Mart Stores, Inc. was a well-kept secret for years. Except for stories about the wealth of founder Sam Walton, Wal-Mart received little attention. This all changed in 1980, when Wal-Mart was named in *Fortune* magazine's survey as the sixth most admired corporation in America. It jumped to fourth place in 1981 and first place among retailers. Now the third-largest and fastest-growing retailer in the world—only Kmart and Sears are larger—in getting some attention.

Walton opened his first Wal-Mart in tiny Rogers, Arkansas, in 1962. His strategy was to focus on small towns. Conventional wisdom was that a discount store couldn't make it in a town smaller than 50,000. But Walton believed national discounters were ignoring small towns, and he found that small towns were an excellent niche. By offering good prices, a local discount store could keep people shopping at home instead of traveling several hours to a larger city. Roughly 90 percent of Wal-Mart's 1,300 stores are located in towns of 15,000 or less. The stores sell nearly \$20 billion worth of merchandise annually, including clothing, small appliances, cosmetics, and more than 100,000 other items.

Walton's location strategy was to build 30 or 40 stores within 100 miles of a distribution center. After the stores were opened in rural towns, Wal-Mart would expand to nearby metropolitan areas, such as Dallas, Kansas City, and St. Louis. Where one geographic area reached its saturation point, Wal-Mart would expand into a new area. Wal-Mart currently has 14 distribution centers serving stores in 25 states, mostly in the Southwest, Midwest, and Southeast.

Wal-Mart orders directly from manufacturers and uses its own trucks for delivery. By using its own distribution system and through quantity discounts, Wal-Mart realizes a tremendous cost savings, which it passes along to customers.

Wal-Mart Stores' image and atmosphere are consistent with its pledge to customer satisfaction. The physical facilities are plain, resembling a large warehouse. But the customer is number one. A sign reading "Satisfaction Guaranteed" hangs over the entrance to every store. Customers are often welcomed by an employee, called a "people greeter," eager to lend a helping hand. This customer orientation allows Wal-Mart to rely more on its reputation and less on advertising. Whereas Sears spends nearly \$900 million each year for advertising and Kmart over \$600 million, Wal-Mart spends only about \$80 million.

Although the 1980s was not a prosperous decade for most retailers, Wal-Mart grew there by about 30 percent a year. On the average, 150 new stores are opened each year, and this trend is expected to continue. Experts predict that Wal-Mart will surpass Kmart as the number two retailer in the early 1990s, and that eventually it will surpass Sears and become number one.

Not everything has gone perfectly for Sam Walton. Wal-Mart's experiment with Hypermarkets (U.S.A., 200,000-plus-square-foot stores selling everything from fresh vegetables to appliances, has been somewhat of a failure. Four hypermarkets have been opened, and Walton has no plans for future hypermarkets. Although Hypermarkets U.S.A. is the only hypermarket chain making a profit, the stores are too expensive to operate. Instead, Walton intends to push ahead with "Super Centers," combinations of Wal-Mart discount stores and grocery stores in one 150,000-square-foot store.¹⁷

Business Action

Two current news stories in each chapter show the principles of business in action. These stories focus on recognizable firms and contemporary topics, extending the concepts discussed in the text.

Chapter 15 Distribution

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A commission merchant receives goods from local sellers, establishes prices, and negotiates sales. For instance, in the agricultural industry, a commission merchant may take possession of a truckload of fertilizer and transport it to a central market for sale. A manufacturer's agent represents one or more manufacturers on a commission basis and offers noncompeting lines of products to customers. The relationship between the agent and the manufacturer is formalized by a written agreement. A selling agent is an independent wholesaler who sells a manufacturer's product for a commission, or fee. Manufacturers rely on selling agents to distribute canned foods, clothing, and furniture.

A broker is a wholesaler who brings together buyers and sellers on a temporary basis. Brokers are similar to agents, but they concentrate on specific commodities, such as insurance or real estate. A food broker, for example, markets food items to grocery chains, food processors, or other wholesalers. Brokers are paid a commission by the party that engages their services, such as a food manufacturer.

Broker
An intermediary who brings together buyers and sellers on a temporary basis.

RETAILING

The sale of distribution most familiar to consumers is retailing; most of us come in contact with retail stores almost daily. The marketing activity of retailing focuses on the sale of goods and services to the ultimate consumer for personal or household use. Retailers, an essential link in the marketing channel, are often the only intermediary who deal directly with consumers. Retailers also are customers themselves, since they buy from producers and wholesalers.

Retailing is a significant part of the U.S. economy. Approximately 22 million people work in the retailing sector.¹⁸ Nearly 2 million retail outlets are open for business in the United States. Who are America's largest retail companies? Table 15.1 lists the largest U.S. retailers according to sales, which amount to

Retailing
The marketing activities involved in selling products to final consumers for personal or household use.

TABLE 15.1

Top Largest Retailers in the United States

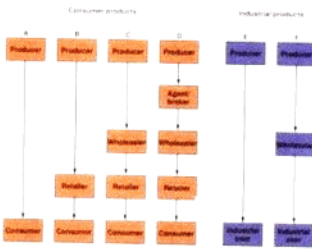
Rank	Name	Sales (\$ in billions)
1	Sears Roebuck	856,872
2	Walmart Stores	30,802
3	Kmart	32,080
4	American Stores	22,146
5	Kroger	20,281
6	J.C. Penney	17,412
7	Safeway Stores	14,874
8	Dayton Hudson	14,158
9	Great Atlantic & Pacific Tea (A&P)	11,164
10	Macy Department Stores	11,087

Source: "The 50 Largest Retailing Companies," *FORBES*, June 5, 1991, p. 274. © The Time Magazine Company. All rights reserved.

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FIGURE 15.1

Typical Marketing Channels



Types of Marketing Channels

Depending on the needs of the target market, firms utilize many different types of marketing channels to distribute products. Generally, channels for consumer products are different than channels for industrial products.

Consumer products. The four most commonly used channels for consumer products are shown in Figure 15.1. Channel A, the direct channel, shows the movement of products from producer to consumer. This channel is not typical for most consumer goods, although some products—often are distributed this way, such as plants and flowers at nurseries, produce at farmers' markets, and toys and crafts stores at fairs. Most services are distributed directly from service users and crafts stores at fairs. Most services are distributed directly from service users and crafts stores at fairs.

Channel B reflects the movement of products from producer to retailer to consumer. This channel is commonly used for large, bulky products (furniture, toys, and so on) and is also used for many services (restaurants, hotels, and so on). Channel C is a well-known channel for many consumer products (clothing, shoes, and so on). It is also used for many services (restaurants, hotels, and so on). Channel D is a well-known channel for many consumer products (clothing, shoes, and so on). It is also used for many services (restaurants, hotels, and so on).

Channel E, producer to wholesaler to retailer to consumer, is the traditional marketing channel. A wide range of products, including appliances, toys, groceries, and most consumer goods, is distributed through this channel. The final channel (F) for consumer products is producer to agent/broker to wholesaler to retailer to consumer, or word to distribute small, inexpensive products purchased frequently. Several wholesalers are involved in the distribution of these products.

Did You Know?

Each chapter contains an interesting business-related sidebar to add to your store of knowledge about business.

Illustrations

Charts, graphs, diagrams, and photos reinforce and explain key concepts from the text.

Connections

Retail Aptitude

Directions: The statements below reflect characteristics you would need to succeed in your own retail business. Circle the number that shows your level of agreement with each statement.

	Strongly Disagree					Strongly Agree
1. I am a self-starter who doesn't need a lot of guidance in getting the job done.	1	2	3	4	5	6
2. I couldn't mind working long hours, even weekends, as long as I'm working for myself.	1	2	3	4	5	6
3. I like making my own decisions.	1	2	3	4	5	6
4. I would be willing to take a risk for the right opportunity.	1	2	3	4	5	6
5. I like to set my own schedule on a job—to be my own boss.	1	2	3	4	5	6
6. I like to perform a variety of tasks, the small stuff as well as the most visible duties.	1	2	3	4	5	6

	Strongly Disagree					Strongly Agree
7. I would enjoy being a leader and managing other people.	1	2	3	4	5	6
8. The potential for a high salary is important to me.	1	2	3	4	5	6
9. I like working with the public.	1	2	3	4	5	6
10. I am willing to stick with a job for several years if that's what it takes to succeed.	1	2	3	4	5	6

Feedback: Your answers should give you some feel for your potential as a retail store owner and operator. If you circled 1 or 2 for most items, you probably have little interest in opening a retail business. If you circled 5 or 6 for most statements, you just may possess many of the characteristics and skills needed to be a successful retailer. Retailing is a demanding field with no guarantees. The hours are long, the responsibilities great, and problems with employees or customers inevitable. But owning your own retail store also can be rewarding, both personally and financially.

cable hook-up.¹⁴ In some instances, television shopping services employ as many as 400 to 500 operators in a room taking orders around the clock from a loyal following.

Direct marketing. Many firms promote products directly to buyers through a variety of techniques referred to as **direct marketing**. This type of nonstore retailing includes catalog sales, direct mail, telephone soliciting, and television or radio ads that include telephone numbers and instructions for ordering the items offered.

Direct marketing is one of the fastest-growing forms of retailing, with yearly sales in excess of \$175 billion. The two major forms of direct marketing are telephone retailing and mail order retailing. National companies such as American Express (credit cards), Time-Life (books), Merrill Lynch (investments), and Allstate (insurance) rely heavily on telephone retailing. Many firms generate telephone orders for their products by advertising them on cable television and including toll-free numbers. Thousands of firms use catalogs to sell a huge variety of items, clothing, books, records, household items, even specialty foods. Sears, I. L. Bean, and Spiegel exemplify firms that operate large mail-order businesses throughout the United States. Lands' End, a mail-order clothing company based in Wisconsin, has distinguished itself by providing services that range from helping callers determine sizes to an unconditional guarantee that customers can return any purchases.¹⁵

Vending machines. Candy, gum, snacks, soft drinks, coffee, newspapers, and other convenience goods are familiar items available in the self-service dispensers known as vending machines. In Japan even items like french fries and shrimp are sold in vending machines.¹⁶ Firms place vending machines in high-traffic areas of office and classroom buildings, service stations, and shopping malls. Vending machines offer the advantages of 24-hour-a-day operation with no sales staff. Their main drawbacks include the costs of frequent servicing and needed repairs, as well as the threat of vandalism. Vending machines account for less than 2 percent of all retail sales.

Retail Planning

Owners, both individuals and large firms, must consider several factors when developing plans for a retail store. Major considerations include store location, atmosphere, scrambled merchandising, the wheel of retailing, and new technology.

Store location. Deciding where to locate the store is critical in retailing. Retailers usually prefer a location with a high level of pedestrian traffic or easy access from main thoroughfares. Owners must evaluate the cost to buy or rent space, the availability of parking spaces, and the nature and image of the area surrounding the store site.

Real World Examples

Current examples of familiar organizations and business issues appear throughout the text to relate the text to the real world.

Connections

Are you ready to run your own business? Do you have what it takes for sales? Explore your attitudes, opinions, and values as they pertain to these and other business issues by completing the self-assessment quiz in each chapter.

You'll Know It's the 21st Century When. . .

This feature concludes each chapter and gives you an idea of what business will face in the 21st century.

Summary of Learning Objectives

The summary of learning objectives allows you to review the main points covered in the chapter.



Learning with vending machines can be done in many places in business.

cars, insurance companies sell policies through vending machines at airports, entertainment firms sell tickets to concerts through computers in stores, and banks allow customers to have paychecks deposited directly into accounts and to pay bills by automatic withdrawal.

You'll Know It's the 21st Century When. . .

Hypermarkets Market Convenience

In the 21st century, today's supermarkets will look like the room-in-pop stores of days gone by. Hypermarkets covering nearly 200,000 square feet will stock groceries, discount clothes, appliances, and housewares, plus videos, campout meals, and other convenience services for hunched people on the run. At the same time, small, quick-stop specialty stores and boutiques will flourish, while the

loads, selecting transportation modes, designing and operating warehouse facilities, processing orders, handling products, and managing inventory.

KEY TERMS

Marketing Channel (Channel of Distribution) p. 523
Marketing Intermediary p. 523
Vertical Integration p. 526
Vertical Marketing System (VMS) p. 526
Corporate VMS p. 526
Administrative VMS p. 526
Contractual VMS p. 526
Market Coverage p. 526
Intensive Distribution p. 526
Selective Distribution p. 527
Exclusive Distribution p. 527
Wholesaling p. 527
Merchant Wholesaler p. 528
Sales Branch p. 530
Sales Office p. 530
Agent p. 530
Broker p. 531
Retailing p. 531
Department Store p. 532
Discount Store p. 532

Specialty Store p. 532
Supermarket p. 533
Superstore p. 533
Convenience Store p. 533
Warehouse Showroom p. 533
Catalog Showroom p. 533
Warehouse Club p. 533
Nonstore Retailing p. 535
In-Home Selling p. 535
Direct Marketing p. 536
Atmosphere p. 536
Scrambled Merchandising p. 536
Wheel of Retailing p. 536
Physical Distribution p. 540
Service Standard p. 541
Transportation p. 541
Warehousing p. 543
Order Processing p. 543
Materials Handling p. 544
Inventory Management p. 544

QUESTIONS FOR DISCUSSION AND REVIEW

1. What is a marketing channel?
2. Is it possible—or desirable—to eliminate the intermediary in the distribution of goods to consumers? Explain your answer.
3. What types of marketing channels are used to distribute consumer products? To distribute industrial products?
4. Have you ever purchased a product directly from a producer (channel A)? Name some products that manufacturers or producers sell directly to consumers.
5. Distinguish between intensive, selective, and exclusive distribution. Give examples of products distributed by each.
6. Wholesalers perform a variety of services on product distribution. What are these services? Whom do they benefit?

Part Two: Marketing

omnipresent mail declines as more women join the labor force and the number of young people decline. Some forecasters also predict that more and more convenience-minded consumers will shop by mail order, catalog, computer, and even TV—especially if prices include delivery.¹⁹

SUMMARY OF LEARNING OBJECTIVES

1. To define the term marketing channel and identify the two major types of marketing intermediaries.
A marketing channel is a group of interrelated organizations that directs the flow of goods from producer to consumer. Marketing intermediaries, organizations that provide the link between producers and consumers, are vital because they create place, time, and possession utility. The major types of intermediaries are wholesalers and retailers.
2. To explain how marketing channels are integrated vertically.
Vertical integration occurs when one organization takes control of another member of the marketing channel, often by purchasing it. Distribution efficiency may be improved with a vertical marketing system (VMS), a planned marketing channel in which one channel member manages all intermediaries. The three types of vertical marketing systems are corporate, administered, and contractual.
3. To define wholesaling and describe the functions wholesalers perform.
Wholesaling consists of the activities of marketing intermediaries who sell to retailers, other wholesalers, or industrial users. Wholesalers provide several services, including ownership, financing, risk assumption, promotional assistance, information, product assortment, and transportation. The major types of wholesalers are merchant wholesalers, manufacturer-owned wholesalers, and agents and brokers.
4. To define retailing and outline the activities retailers perform.
Retailing activities consist of the sale of goods and services to consumers for personal or household use. Retailing can take place in stores or through the numerous retailing methods of at-home selling, direct marketing, and vending machines.
5. To discuss the major considerations in retail planning.
Retail planning, critical to success in the retail sector, involves several important considerations. Store location is a critical decision since a business's shopper traffic. The atmosphere, or design of the store's physical space, must be appealing to the target market. Retailers also must decide whether or not to use *scrambled merchandising*, which means adding unrelated products to a store's existing mix. Another consideration is the wheel of retailing, which suggests that new stores constantly emerge to replace established stores. Recent advancements in technology also have an impact on retail planning.
6. To explain the role of physical distribution and identify its components.
Physical distribution activities accomplish the physical movement of products through marketing channels from manufacturer to customer. Physical distribution activities include establishing customer service stan-

Key Terms List

A list of key terms, including page references, helps you identify and review important concepts.

Questions for Discussion and Review

These questions challenge you to recall and analyze what you learned in the chapter.