



LEVY & WEITZ

THIRD

EDITION

Retailing Management

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University of Miami

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University of Florida



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Services Marketing

To my wife, Marcia, and my daughter, Eva
Michael Levy

To my wife, Shirley
Barton Weitz

ABOUT THE AUTHORS

Michael Levy, Ph.D.
University of Miami

Michael Levy received his Ph.D. from The Ohio State University. He taught at Southern Methodist University before joining the faculty as Professor and Chair of the Marketing Department at the University of Miami. He has taught retailing management for 19 years.

Professor Levy has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management that has been published in over 30 articles in leading marketing and logistics journals including the *Journal of Retailing*, *Journal of Marketing*, and *Journal of Marketing Research*. He currently serves on the editorial review board of *Journal of Retailing*, *Journal of the Academy of Marketing Science*, *International Journal of Logistics Management*, and *International Journal of Logistics and Materials Management*.

Professor Levy has worked in retailing and related disciplines throughout his professional life. Prior to his academic career, he worked for several retailers and a housewares distributor in Colorado. He has performed research projects with many retailers, including Andersen Consulting, Burdines Department Stores, Mervyn's, Neiman Marcus, and Zale Corporation.

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Barton A. Weitz received an undergraduate degree in electrical engineering from MIT and an MBA and Ph.D. in business administration from Stanford University. He has been a member of the faculty at the UCLA Graduate School of Business and the Wharton School at the University of Pennsylvania. He is presently the JCPenney Eminent Scholar Chair in Retail Management in the College of Business Administration at the University of Florida and Chair of the Marketing Department.

Professor Weitz is the Executive Director of the Center for Retailing Education and Research at the University of Florida. The activities of the center are supported by contributions by 20 national and regional retailers, including JCPenney, Sears, Burdines, Wal-Mart, Home Depot, Richs, Office Depot, Bealls, and Electronic Boutique. Each year the center places over 150 undergraduates in paid summer internships with retail firms and funds research on retailing issues and problems.

Professor Weitz has won awards for teaching excellence and has made numerous presentations to industry and academic groups. He has published over 40 articles in leading academic journals on salesperson effectiveness, sales force and human resource management, and channel relationships and is on the editorial review boards of the *Journal of Retailing*, *Journal of Marketing*, *Journal of Interactive Marketing*, *International Journal of Research in Marketing*, and *Journal of Marketing Research*. He is a former editor of the *Journal of Marketing Research* and is presently co-editor of *Marketing Letters*.

Professor Weitz is a member of the Board of Directors of the National Retail Federation, the National Retail Institute, and the American Marketing Association. He is a former board member of the Direct Selling Association and Direct Selling Educational Foundation and a former academic trustee of the Marketing Science Institute.

RETAILING, ONE OF THE LARGEST SECTORS in the global economy, is going through a period of dramatic change. Innovative retail entrepreneurs are using new technologies and changing customer needs to build the next generation of industry giants. Traditional retailers are adapting or going out of business. Our objective in writing this textbook is to capture this excitement and challenge in the retail industry as we inform students about the state-of-the-art management practices of these important institutions in our society.

NEW FEATURES IN THE THIRD EDITION

In preparing this third edition, we have made the following changes to reflect the evolving nature of retailing:

- **Emergence of electronic retailing**—While electronic retail sales are relatively small today, this new format's potential is dramatic. Every major retailer has a home page on the Internet, many of which sell merchandise and services. Entrepreneurs like Amazon.com, a bookstore, take advantage of the opportunities offered by electronic retailing to tailor information to the specific needs of individual customers. The third edition of this book addresses these new formats as follows:
 - Chapter 3, a new chapter on nonstore retailing, focuses on the present and potential impact of this retailing format.
 - Examples involving electronic retailers are used to illustrate the concept in other chapters.
 - Internet sites with information about retailing are spread throughout this edition.
- **Utilization of information and communication technology**—Retailing has become a high-tech business. Data collected for each transaction is used to automatically place orders with vendors and trigger warehouse deliveries. An alphabet soup of retail systems—POS, ECR, EDI, QR—to exploit these data are now commonplace in the industry. POS data are used by retailers to develop frequent-shopper promotion programs targeted at specific customers. Several new features in this new edition that address this industry trend are:
 - Strategic and implementation issues involving information, communication, and distribution systems appear in Chapters 6 and 11.
 - The widely used Arthur® by Comshare Retail merchandise planning system is used to illustrate the merchandise planning process. A version of the system is included with this book on a computer disk. Also included with the book on disk are tutorials and interactive computer exercises.
 - Use of customer information to target promotions and the development of frequent shopper programs are discussed in Chapter 16.

- **Globalization of retailing**—Retailing is rapidly becoming a global industry. Wal-Mart has stores in China; Ahold, a Dutch retailer, owns major supermarket chains on the U.S. East Coast; and McDonald's operates in over 60 countries. To emphasize the international aspects of retailing, the third edition includes:
 - Global sourcing of merchandise (Chapter 14).
 - Consumer behavior (Chapter 5), employee management (Chapter 17), and customer service (Chapter 19) in international markets.
- **Growth of services retailing**—Services retailing is becoming increasingly important in our economy. The treatment of services retailing is expanded as follows:
 - Review similarities and differences between merchandise and services retailing (Chapter 2).
 - Greater use of service retail examples through the text ranging from new concepts like America On-Line and Starbucks to more traditional service retailers like Marriott, Domino's, and Disneyland.
 - Boxed inserts on special issues for service retailers in selected chapters.
- **Entrepreneurship**—While the activities of large retail corporations dominate the business press, retailing continues to provide opportunities for people to start their own businesses. To support this entrepreneurial spirit, this edition includes:
 - More discussion of how small retailers compete effectively against the giants by focusing their efforts and developing effective retail mixes for their businesses.
 - More illustrations of successful retail entrepreneurs operating both store-based and nonstore businesses.
- **Reader-friendly textbook**—In the third edition, we have continued to interest and involve students in the material by making the textbook a "good read" via:
 - More interesting facts about retailing, called "Refacts," in the margin of each chapter. Did you know that a Montgomery Ward buyer created Rudolph the Red-Nosed Reindeer as a Christmas promotion in 1939?
 - Greater use of vignettes, called "Retailing Views," in each chapter to relate concepts to activities and decisions made by retailers. These vignettes involve both small start-ups and major retailers like Sears, Wal-Mart, JCPenney, and Home Depot that interview students on campus for management training positions.
 - Student computer disks with both interactive tutorials and exercises to help students learn experientially.

BASIC PHILOSOPHY

The third edition of *Retailing Management* maintains the basic philosophy of the previous two editions. We continue to focus on the key issues facing the retail industry as the new millennium approaches.

Preparing for the New Millennium

Strategic Perspective

To be successful in a highly competitive, rapidly changing environment, retailers must develop a strategic approach. The entire textbook is organized around a model of strategic decision making outlined in Exhibit 1–5 in Chapter 1. Each section and

chapter is related back to this overarching strategic framework. In addition, the second section of the book focuses exclusively on critical strategic decisions such as selecting target markets, developing a sustainable competitive advantage, and building an organizational structure and information and distribution systems to support the strategic direction.

Financial Analysis The business side of retailing is becoming increasingly important. The financial problems experienced by some of the largest retail firms like Kmart and Macy's highlight the need for a thorough understanding of the financial implications of retail decisions. Financial analysis is emphasized in selected chapters such as Chapter 7 on the overall strategy of the firm and Chapter 13 on retail buying systems. Financial issues are also raised in the sections on negotiating leases, bargaining with suppliers, pricing merchandise, developing a communications budget, and compensating salespeople.

Store Management Traditionally, retailers have exalted the merchant prince—the buyer who knew what the hot trends were going to be. This text, by devoting an entire section to store management, reflects the changes that have occurred over the past 10 years—the shift in emphasis from merchandise management to store management. Retailers now recognize that a key source of competitive advantage is providing high-quality customer service in an attractive environment. Due to this shift toward store management, most students embarking on retail careers go into store management rather than merchandise buying.

Balanced Approach The third edition offers a balanced approach for teaching an introductory retailing course by including descriptive, how-to, and conceptual information in a highly readable format.

Descriptive Information Students can learn about the vocabulary and practice of retailing from the descriptive information throughout the text. Examples of some of this material are:

- Management decisions made by retailers (Chapter 1).
- Types of store-based and nonstore retailers (Chapters 2 and 3).
- Changing demographics and values of retail customers (Chapter 4).
- Retail locations (Chapter 8).
- Organization structure of typical retailers (Chapter 10).
- Flow of information and merchandise (Chapter 11).
- Branding strategies (Chapter 14).
- Store layout options and merchandise display equipment (Chapter 18).
- Career opportunities (Appendix A).

How-to Information *Retailing Management* goes beyond this descriptive information to illustrate how and why retailers, large and small, make decisions. Step-by-step procedures with examples are provided for making the following decisions:

- Comparison shopping (Appendix A to Chapter 2).
- Scanning the environment and developing a retail strategy (Chapter 6).
- Analyzing the financial implications of retail strategy (Chapter 7).
- Evaluating location decisions (Chapter 9).
- Developing a merchandise assortment and budget plan (Chapters 12 and 13).

- Negotiating with vendors (Chapters 14).
- Pricing merchandise (Chapter 15).
- Recruiting, selecting, training, evaluating, and compensating sales associates (Chapter 17).
- Selling a customer (Chapter 20).
- Starting a retail business (Appendixes B and C).

Conceptual Information *Retailing Management* also includes conceptual information that enables students to understand why decisions are made as outlined in the text. As Mark Twain said, “There is nothing as practical as a good theory.” Students need to know these basic concepts so they can make effective decisions in new situations. Examples of this conceptual information in the third edition are:

- Retail evolution theories (Appendix B to Chapter 2).
- Customers’ decision-making process (Chapter 5).
- The strategic profit model (Chapter 7).
- Price theory and marginal analysis (Chapters 15 and 16).
- The Gaps model for service quality management (Chapter 19).

Supplemental Material To improve the student learning experience, the third edition includes new cases and videos illustrating state-of-the-art retail practices, a computer exercise package for students, and a comprehensive instructor’s manual with additional cases and teaching suggestions.

Cases The text includes new cases, including “Sears Rebounds from the Brink of Bankruptcy,” “Michaels Decreases Its Merchandise Assortment,” “The Home Shopping Network: Dealing with a Sales Slowdown,” “Bloomingdale’s: Customer Service Reaches Abroad,” “Virtual Vineyards: Wine On-Line,” “Levi Stores: Mass Customization of Jeans,” “Marriott’s Success Comes from Its Human Resources,” “Delta Airlines Finds Customer Service at a High Price,” “The Gap Opens Old Navy,” “NikeTown,” and “Nieman Marcus’s Preferred Customer Program.”

Videos The video package includes, “Sears’ Transformation,” “Electronic Article Surveillance at Walgreens,” “The Rainforest Cafe,” “Holiday Inn Customer Service,” “Steinmart, Upscale Off-Price Retailer,” “Burdines’ Implementing the Florida Store Concept,” “Direct Selling in a Global Economy,” and the “JCPenney Catalog Design and Fulfillment System.”

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