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FOURTH EDITION

Retailing Management

MICHAEL LEVY, PH.D.

Babson College

BARTON A. WEITZ, PH.D.

University of Florida



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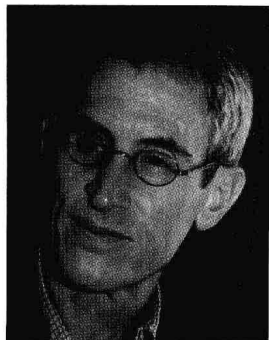
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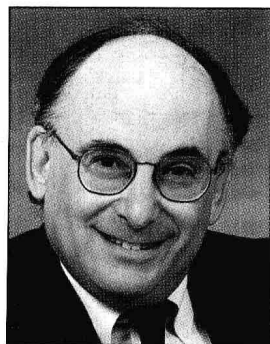
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Professor Levy has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management that has been published in over 30 articles in leading marketing and logistics journals including 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, PH.D. 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.

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 from 20 national and regional retailers, including JCPenney, Sears, Burdines, Wal-Mart, Home Depot, Rich's, 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 electronic retailing, salesperson effectiveness, sales force and human resource management, and channel relationships. He 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 Foundation, and the American Marketing Association.

IN THIS FOURTH EDITION OF *RETAILING MANAGEMENT*, we have focused on describing and examining the implications of the evolution of retailing into a global, high technology industry. Technological developments have affected the way consumers buy products and services and the way retailers run their businesses. A growing number of consumers now shop the world through the Internet. Sophisticated information systems turn purchase transactions into orders and eventual store deliveries ensuring the right products are in the right place at the right time. Retailers use decision support systems to develop merchandise assortments, evaluate retail sites, schedule sales associates, and target promotions to customers.

The competitive landscape of the retail industry is going through a period of dramatic change. Electronic retailers with stock market capitalization greater than most store-based retail chains have emerged to satisfy the needs of these cybershoppers. Store-based retailers are expanding beyond their local markets to become global businesses. Innovative retail entrepreneurs are taking advantage of these new opportunities to build the next generation of industry giants. Traditional retailers must adapt or go out of business.

Our objective in preparing this fourth edition 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 FOURTH EDITION

In preparing the fourth edition, we have made a number of changes to reflect the evolving nature of retailing.

Electronic Retailing The growth of electronic retailing in the United States is dramatic. In response to the emergence of electronic retail entrepreneurs like Amazon.com, most major traditional store-based retailers have launched electronic retail offerings, shifting from “bricks-and-mortar” to “clicks-and-mortar” retailers.

The fourth edition addresses the emergence of this new retail format in two ways. First, we have devoted most of Chapter 3 to providing an overview of electronic retailing. In this chapter, we review the factors affecting the growth of electronic retailing and the impact of this format on traditional store-based retailers. The chapter addresses issues such as

- Will shoppers abandon the mall to surf the Net?
- Will consumers buy products with important “touch-and-feel” attributes (e.g., apparel) over the Internet?
- Which retailers will be winners and which will be losers?
- Will manufacturers sell directly to consumers, thus bypassing retailers?
- Will electronic shopping increase price competition and reduce retail profits?

In addition to the overview chapter, we examine issues related to electronic retailing throughout the textbook—for example,

- The relative advantages of shopping on the Internet and in stores (Chapter 5).
- The financial implications of electronic retailers compared to store-base retailing (Chapter 7).
- The prospects for virtual malls (Chapter 8).
- Systems for dealing with the high returns experienced by electronic retailers (Chapter 11).
- Assortment decisions in a virtual world (Chapter 14).
- Pricing merchandise using electronic auctions (Chapter 15).
- Attracting customers to electronic retail websites using affiliate programs (Chapter 16).
- Designing retail websites (Chapter 18).

Amazon.com, eBay, Bluefly.com, Garden.com, and other electronic retailers are used throughout the text to illustrate retailing concepts and how they apply or do not apply to electronic retailers.

Retailing and the Internet In addition to selling merchandise and services over the Internet, retailers are using the Internet to run their businesses more effectively. Internet applications we review in the fourth edition include

- Communicating with employees to implement human resource management policies (Chapter 10).
- Managing the supply chain (Chapter 11).
- Communicating with vendors (Chapter 14).
- Targeting promotions and managing frequent shopper programs (Chapter 16).
- Providing customer service (Chapter 19).

The Internet is also an important source of information about retailing and retailers. In each chapter of the text, we have included Internet exercises indicating useful Internet sites and issues that can be addressed with information in these sites. Some examples of these exercises are

- The new NAICS system for classifying retailers (Chapter 2).
- Comparison of shopping bots (Chapter 3).
- Information on the latest fashion trends (Chapter 5).
- SAP and Oracle websites describing information systems they offer for retailers (Chapter 11).
- Websites for retail trade publications and news (Chapter 1).
- Information on comparison of assortments offered by electronic retailers (Chapter 12).
- Illustrations of delivering coupons over the Internet (Chapter 16).
- Descriptions of affiliate programs available to electronic retailers (Chapter 16).
- Evaluations of electronic retail shopping experiences and customer service (Chapter 19).

Profile of Retail Managers To illustrate the challenges and opportunities in retailing, each chapter in the fourth edition begins with a brief profile of a manager or industry expert whose job or expertise is related to the material in the chapter.

These profiles range from Cole Peterson, senior vice president of Wal-Mart, to Ron Stoy, the owner and founder of a two-store chain in Tampa, Florida, selling used music CDs. They include people who have extensive experience in a specific aspect of retailing like Jeff Baird (vice-president of distribution for Electronic Boutique, a clicks-and-mortar retailer with 500 mall-based specialty stores) and Juli Johnson (who is managing a Walgreens store in Houston, Texas, several years after graduating from college).

These profiles illustrate both how senior executives view the industry and the career opportunities for college students. They provide students with first-hand information about what people in retailing do and what are their rewards and challenges. For example, Chris Manning (a buyer at Rich's, an Atlanta-based department store chain) equates his job to surfing.

Utilization of Information, Communications, and Decision Support Systems Information, communications, and decision support systems are playing an increasing role in the management of retail businesses. Thus we have expanded the discussion of these systems in the fourth edition. For example,

- Strategic and implementation issues involving information, communication, and distribution systems appear in Chapters 6 and 11.
- The use of geographic information systems for evaluating store locations is discussed in Chapter 9.
- The use of customer information to target promotions and the development of frequent shopper programs are discussed in Chapters 11 and 16.

Globalization of Retailing In recognition of the increasing globalization of retailing, the fourth edition includes expanded treatment of non-U.S. global retailers such as Ahold, Carrefour, and IKEA as well as discussions of issues confronting U.S. retailers as they expand from their domestic base. For example, we explore

- Keys to success in global retailing (Chapter 6).
- Evaluation of international expansion opportunities (Chapter 6).
- Global sourcing of merchandise (Chapter 14).
- Consumer behavior (Chapter 5), employee management (Chapter 17), and customer service (Chapter 19) in international markets.

Reader-Friendly Textbook In the fourth edition, we have continued to interest and involve students in the course and the industry by making the textbook a “good read.” For example, we have

- Added 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? Or that the teabag was developed by a Macy's buyer and the pantyhose were developed by a JCPenney buyer?
- Provided new and updated vignettes called Retailing Views in each chapter to relate concepts to activities and decisions made by retailers. These vignettes include major retailers like Sears, Wal-Mart, JCPenney, Taco Bell, and Home Depot that interview students on campus for management training positions; innovative retailers like REI, Starbucks, The Container Store, Sephora, and The Bass Pro Shop; and retail entrepreneurs like Bluefly.com and Sheetz.

Website for Students and Instructors (www.mhhe.com/business/levyweitz/retail) Just as retailers are using the Internet to help their customers, we have developed a

website to help students and instructors use the fourth edition of this textbook effectively. Some of the features on the website are

- News articles about current events in retailing.
- PowerPoint slides summarizing key issues in each chapter.
- Hot links to retailing news sites and sites associated with the Internet exercises in the textbook.
- Additional cases about retailers.
- Sample test questions for each chapter.

BASIC PHILOSOPHY The fourth edition of *Retailing Management* maintains the basic philosophy of the previous three editions. We continue to focus on the broad spectrum of retailers, both large and small retailers selling either merchandise or services. The text examines key strategic issues with an emphasis on the financial considerations and store management issues. We include descriptive, how-to, and conceptual material.

Broad Spectrum of Retailing In this text, we define retailing as the set of business activities that adds value to the products and services sold to consumers for their personal or family use. Thus, in addition to the products in stores, this text examines the issues facing service retailers like Travelocity, Starbucks, and Marriott and nonstore retailers like Lands' End, eBay, and Avon.

Critical Issues in Retailing Strategic thinking and the consideration of financial implications are critical for success in the present dynamic, highly competitive retail environments. In addition, operations and store management are playing an increasingly important role.

Strategic Perspective 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 financial aspects of retailing are becoming increasingly important. The financial problems experienced by some of the largest retail firms like Kmart and Montgomery Ward 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.

Operations and 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 chapter to information systems and supply chain management and 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 the block and tackling of getting merchandise to the stores and customers and providing excellent customer services and an exciting shopping experience. Due to this shift toward store management, most students embarking on retail careers go into store management rather than merchandise buying.

BALANCED APPROACH

The fourth edition continues to offer 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 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).
- Approaches for entering international markets (Chapter 6).
- Locations (Chapter 8).
- Organization structure of typical retailers (Chapter 10).
- Flow of information and merchandise (Chapter 11).
- Branding strategies (Chapter 14).
- Methods for communicating with customers (Chapter 16).
- Store layout options and merchandise display equipment (Chapter 18).
- Career opportunities (Appendix 1A to Chapter 1).

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 2A to Chapter 2).
- Attracting customers to your website (Chapters 3 and 16).
- 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).
- Designing an electronic retailing website (Chapter 18).

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 fourth edition are

- Retail evolution theories (Appendix 2B to Chapter 2).
- Customers’ decision-making process (Chapter 5).
- Market attractiveness/competitive/position matrix for evaluating strategic alternatives (appendix to Chapter 6).
- Activity-based costing analysis of merchandise categories (appendix to Chapter 7).
- 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 Materials To improve the student learning experience, the fourth 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 Electronic retailers (eBay, Garden.com, Webvan, and Peapod); traditional store-based retailers (Abercrombie & Fitch, Old Navy, Neiman Marcus, Wolf Camera, and Borders); and service retailers (Starbucks, Marriott, and Cleveland Clinic) are presented in the new and significantly revised cases. New international cases examine the issues faced by supermarket retailers in the UK; a hypermarket-type retailer in Singapore; and a computer retailer in Canada.

Videos Ten new video segments on Starbucks, AOL, Papa John's, Walgreens, Circuit City, L.L. Bean, HomeGrocer.com, and the Pebble Beach Resort complement 15 updated videos featuring Home Depot, JCPenney, Sears, Burdines, Rainforest Cafe, Wal-Mart, Fiesta Markets, and Southwest Airlines.

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