

Basic Retailing
TEXT AND CASES

Ronald R. Gist

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Preface

This book represents, basically, an abridgment of my *Retailing: Concepts and Decisions*. But this book should be easier to teach—it has been developed on the basis of editorial advice from community- and junior-college sources. Specifically, two types of changes have been made. First, mathematical solutions to particular managerial problems—especially where the solutions involve somewhat elaborate formulations—have been eliminated or greatly simplified. Second, where theoretical materials involved a level of abstract reasoning that was excessive for the practical orientation of many community-college programs, materials have been either eliminated or recast in less abstract terms.

But there are other significant features that distinguish this textbook. A chapter on computer applications in retailing management is included, which gives the student a familiarity with the problems of the use of computers in retailing and introduces the basic idea of the management information system. Also 38 cases have been prepared. These are purposely developed to complement the materials in the text. Thus a teacher may assign a particular case and know that the student will find the text discussion directed to the solution of issues or problems in that case. *Basic Retailing* is therefore teachable as a source for a lecture-discussion format or as a case-oriented course plan.

This volume is comprised of three main Parts. Part One briefly portrays the importance of retailing in our economy and—at greater length—identifies the basic types of retailing institutions that are a part of our retailing system. This “background” material is purposely held to a necessary minimum. Part Two, “Management of the Retail Enterprise,” is developed around the basic idea of the retailing “mix.” This mix involves seven basic types of management problems in retailing:

1. Location decisions (including both trade area and site).
2. Layout decisions.
3. Merchandise decisions (including buying).
4. Organization decisions.
5. Promotion decisions.
6. Pricing decisions.
7. Services decisions.

These seven major elements in the retailing mix represent a convenient memory device for the student, and they encourage him or her to view retail management as an interacting system of decisions. Each chapter in Part Two includes several cases and review questions to assist the teacher.

Part Three develops four special areas, each of which represents a special form of decision aid to retailing management:

1. Market research.
2. Cost and expense analysis.
3. Special-purpose accounting techniques.
4. Computer systems.

Again, each of these chapters includes several cases and review questions, which permit the instructor some latitude of choice in his approach to the material.

RONALD R. GIST

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PART ONE *Retailing and Retailing Institutions*

The purpose of Part One is to develop two basic types of understanding. First, Chapter 1 defines retailing and identifies the place of retailing in the economic process. The chapter develops in a modest way some understanding of why retailing as a form of human activity occurs.

The second major purpose of Part One is to develop an awareness in the student of the universe of retail institutions that is the American retailing system. Two chapters are devoted to this cause. These chapters are not merely descriptive, they attempt to impart some understanding of *why* retail institutions assume such varied forms.

CHAPTER 1 *The Nature of Retailing*

Ideas to look for:

THE ECONOMIC PROCESS □ MARKETING □ CONSUMPTION □

RETAILING □ FINAL CONSUMERS □

THE DISTRIBUTION SYSTEM □ PLACE CONVENIENCE □

BREAKING BULK □ CONVENIENCE GOODS □ SHOPPING GOODS □

RETAILING COSTS

Retailing is an important, sometimes controversial, and often fascinating subject. Retailing always promises risk and occasionally offers reward. The importance of retailing is evident from virtually any perspective. Approximately 10 million people derive their livelihood from employment in some facet of retailing. This represents about 13 percent of our labor force.¹ Moreover, the relative ease with which it is possible to enter retailing makes it an attractive way to achieve the independence of being one's own boss. The importance of retailing is enhanced because it is one of a decreasing number of meaningful alternatives for the investment of modest sums of individual private capital.

It has been said, and not necessarily in jest, that retailing provides an opportunity for every individual to exercise an inalienable right to lose his shirt at least once in a business venture. Many such "shirts" have been lost; the number of store failures in retailing is very high and the causes of such failure are varied. One source indicates that over 6000 retail firms failed in the United States in 1966. The number of retail failures was even higher in 1965.²

¹Data used here are from the *Survey of Current Business*, United States Department of Business, Office of Business Economics, March, 1967, pp. S-12 and S-13. The exact figures are 9,683,000 employed in retail trade, and 74,455,000 in the "total civilian labor force."

²*Dun's Review*, a monthly publication of Dun & Bradstreet, Inc., compiles a regular feature titled "Business Failures." A failure occurs "when a concern is involved in court proceedings or voluntary action likely to end in loss to creditor's." Data are compiled for five different types of firms, of which retailing is one classification.

Retailing is fascinating because our retailing system is in a state of perpetual change: it presents a continuous array of new products and of new methods of merchandising those products. Within the average human life span, a basic innovation in retailing methods normally occurs. Perhaps future innovations will be based on technological advancements which are, as yet, unrealized. These innovations may evolve *indirectly* from advances in a field apparently far removed from retailing.

From the perspective of the early 1900's, the supermarket as we know it today would most surely have seemed "economically unfeasible." Similarly, the character of retail stores of the future may be virtually impossible to anticipate. Our vision today is restricted by what we "know" to be impossible. Change will occur, however, and new methods will replace the old ones. Some stores may be fully automatic—that is, they may require little or no personal supervision. Some stores may be entirely "cashless" in the sense that money transactions may become a distinct inconvenience for both buyer and seller. No matter what the exact outcome is, the future of retailing is fascinating.

Retailing is not a bland and uncontroversial subject. Retailing is a very *costly* human activity—indeed, about 25 cents of every dollar that we spend with retailers goes to compensate them for their activities. Obviously, we should be very much concerned with an activity that affects our economic well-being as profoundly as does retailing. And concern with the cost of retailing is apparent. The history of retailing is dotted with instances in which the economic legitimacy of the retailer has been challenged. From time to time, consumers have *collectively* undertaken to perform the retailing activities for themselves, avowedly to avoid paying the profits that might otherwise accrue to the retailer. In more recent years, housewives have taken steps to systematically boycott some retailers because of the expensive promotional ventures that these retailers have undertaken. But retailing is controversial in still another way. The image of retailing as a career choice has been extremely poor among university students. One recent study indicated, for example, that of 12 industries rated by students, retailing ranked last.³

THE PLACE OF RETAILING IN THE ECONOMIC PROCESS

What is the position of retailing in the economic system of which it is a part? In developing an answer to this question, it is helpful to identify three essentially different but basic types of economic activity. These three

³ See "Retailing's Unfortunate Image," John K. Ryans, Jr. and Richard H. Wise, *Economic and Business Bulletin*, Temple University, Fall 1969, pp. 39–43. A source that is generally optimistic about retailing as a career choice is Peter F. Drucker,

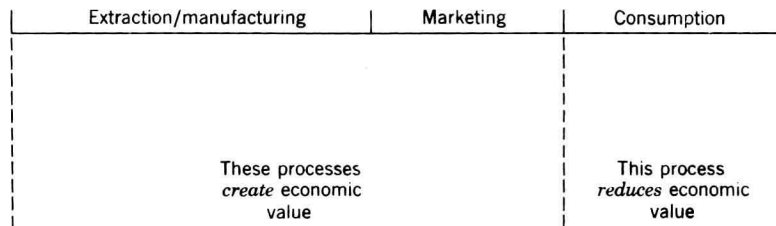
types of activity are (1) extractive or manufacturing activities, (2) marketing activities, and (3) consumption activities.

Extractive processes are those that involve the withdrawal of natural resources; for instance, mining, fishing, and agrarian pursuits. Manufacturing includes those processes that alter the form or the chemical composition of matter; for instance, assembling, processing, fabricating, and chemical and molecular modification.

Marketing activities do not normally alter physical or chemical composition, although they may. Marketing activities include those forms of human involvement which create “time,” “place,” and “possession” utilities. Time utility may be defined as the increment of economic value which results from the holding of merchandise until it is most marketable. Storage may create time utility. Place utility is economic value created through the physical movement of goods to those markets which are most desirous of them. Transportation may create place utility. Possession utility is value created primarily through the process of informing the prospective buyer regarding the attributes, capabilities, and usefulness of products. Marketing activities are performed by both wholesaling and retailing firms, and in some cases by manufacturers and final consumers.

Consumption activities are the *justification* for both extractive/manufacturing and marketing activities. Consumption involves the performance of activities which result in a reduction in the economic value or usefulness of a product. Economic value is thus embodied or created by the extractive/manufacturing processes and economic value is withdrawn or “used up” through consumption. As a clarification, let us represent this total economic process as a *sequence of events* beginning with extraction/manufacturing and ending with consumption. This process is shown in Figure 1.1.

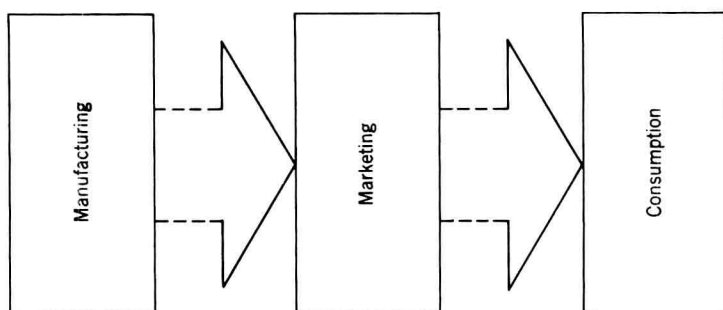
FIGURE 1.1



“Careers in Retailing, by Retailing and for People,” *Stores*, February 1969, pp. 5–8.

The marketing sector of our economy (represented by Stage II in Figure 1.1) is comprised of many specialized institutions which add economic value to the products which they handle through the creation of time, place, and possession utility. As a first approximation, these marketing institutions may be viewed as a kind of economic bridge between manufacturing and consumption. Figure 1.1 might now be refined so that it appears as Figure 1.2.⁴

FIGURE 1.2



Among the specialized marketing institutions that evolve are, for instance, wholesalers of many types, including manufacturer's agents, selling or sales agents, rack jobbers, bulk-tank stations, and drop-shippers. Also included among these marketing institutions are diverse *retail* institutions.⁵ There is, in both a figurative and a literal sense, a chain of economic institutions which often runs from the site of raw materials to the point of the consumption process. Several of the "links" in this economic chain are institutions that have, as their basic purpose, the performance of marketing activities. The final link in this "chain"—the link that immediately precedes consumption—is retailing.

⁴ One distinct warning is in order. Figure 1.2 implies a discreteness or insularity between manufacturing, marketing, and consumption activities which may not exist in any particular instance. That is, some manufacturers obviously perform marketing activities in which case we would find it much more difficult to make the separation as neatly as it is executed in Figure 1.2.

⁵ In French, the word "retail" means *to cut again*, or to sell again in smaller quantities than were bought. Thus, "re" means *again* and "tailer" means *to cut*. We recognize this "cutting" activity of the retailer with the term "breaking bulk," but use the term "retailer" to include many other activities—activities that will become evident in the remainder of this chapter.