

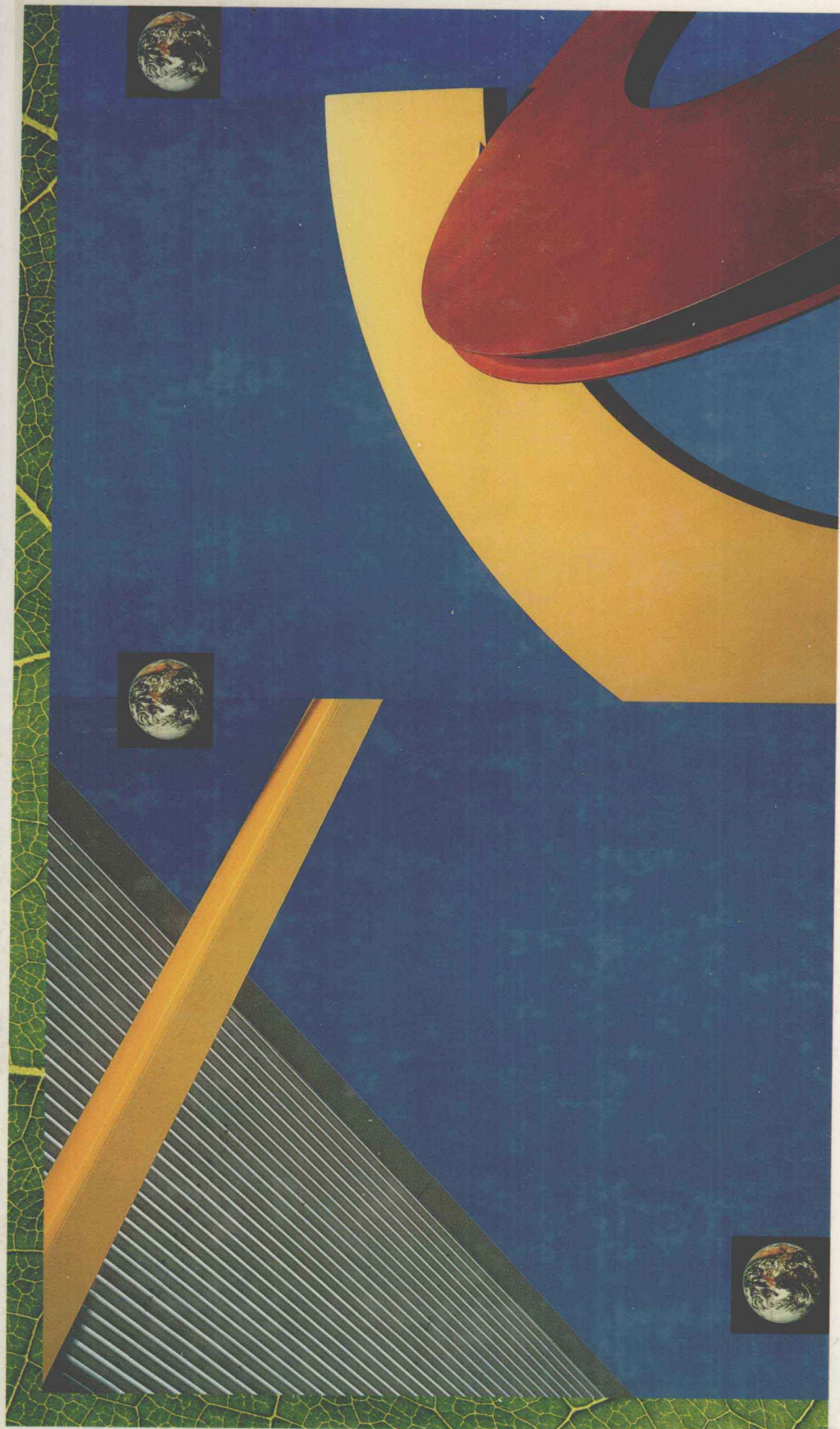
BUSINESSES

for the

21st

Century

SKINNER
IVANCEVICH



BUSINESS

for the

21st

C e n t u r y

Steven J. Skinner

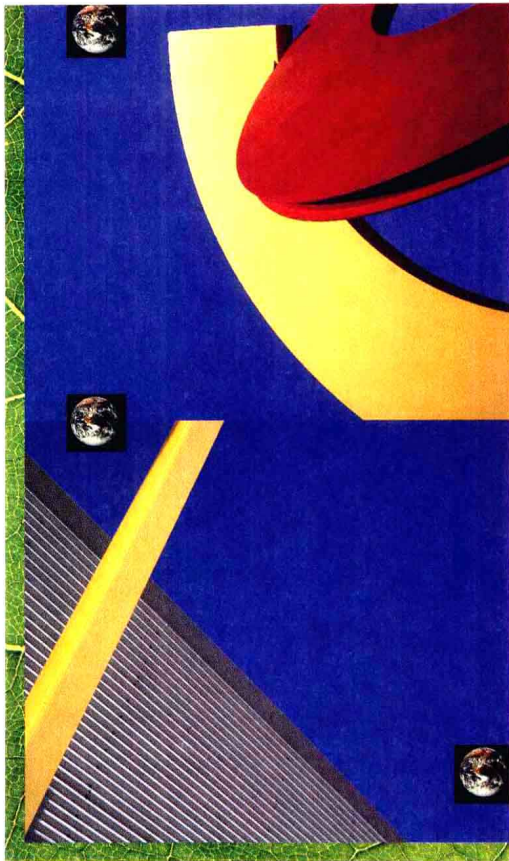
University of Kentucky

John M. Ivancevich

University of Houston

IRWIN

Homewood, IL 60430
Boston, MA 02116



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 Moira, Aaron, and Carrie 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 manual 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 planning.
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. So are demographics. Markets are becoming global. Businesspeople may not realize that the ways goods and services get to customers are changing just as fast.



© Jonathan Selig 1986

In the United States, mutual 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 Mister 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 in trouble 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 skipping stores altogether and using catalogs, television shopping networks, and buying clubs. This stiff competition, combined with poor customer service over the years and an aging and busier population less inclined to shop, may send many retail stores and regional malls into decline.

Nowadays 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 dwindled. 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. Kennametal 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 ID 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 distributive channels . . . should be a major concern of every business and every industry."

After organizations devise marketing strategies, and produce products and price 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 producer to ultimate customers.² 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 customers 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.

B 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 1988, when Wal-Mart was named in *Fortune* magazine's survey as the ninth most admired corporation in America. It jumped to fourth place in 1991, and first place among retailers. Now the third-largest and fastest-growing retailer in the world—only Kmart and Sears are larger—is 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 rural 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 80 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 50,000 other items.

Walton's location strategy was to build 30 or 40 stores within 600 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. When 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 then 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 "SuperCenters," 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

531

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 *manufacturers' 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
A wholesaler who brings together buyers and sellers on a temporary basis.

RETAILING

The side 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.¹⁸ Retailers, an essential link in the marketing channel, are often the only intermediary who deals 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.¹⁹ 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
Ten Largest Retailers in the United States
DID YOU KNOW? Sears, the largest retailer in the United States, has annual sales of nearly \$56 billion.

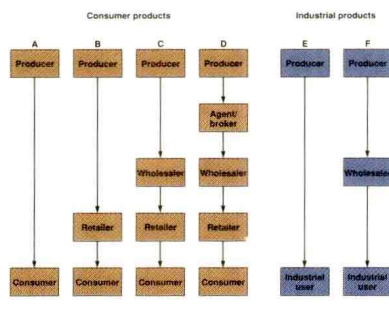
Rank	Name	Sales (\$ in millions)
1	Sears Roebuck	\$55,972
2	Wal-Mart Stores	32,602
3	Kmart	32,080
4	American Stores	22,156
5	Kroger	20,261
6	J. C. Penney	17,410
7	Safeway Stores	14,874
8	Dayton Hudson	14,739
9	Great Atlantic & Pacific Tea (A&P)	11,164
10	May Department Stores	11,027

Source: "The 50 Largest Retailing Companies," *FORTUNE*, June 3, 1991, p. 274. © The Time Magazine Company. All rights reserved.

524

Part Five Marketing

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 arts and crafts items at fairs. Most services are distributed directly from service producers to the consumer, such as hair styling, dry cleaning, and auto repair.

Channel B reflects the movement of products from producer to retailer to consumer. This channel is commonly used for large, bulky products (automobiles, furniture), as well as perishable items (fresh seafood). Bringing in another intermediary, such as a wholesaler, would add delays or unnecessary costs to the distribution of these products.

Channel C, producer to wholesaler to retailer to consumer, is the traditional marketing channel. A wide range of products, including appliances, beverages, tobacco, and most convenience goods, is distributed through this channel.

The final channel (D) for consumer products—producer to agent/broker to wholesaler to retailer to consumer—is used 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 wouldn'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 owning 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
Nonstore retailing that uses nonpersonal media to introduce products to consumers, who then purchase the products by mail, telephone, or computer.

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, L. 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.



Calling cards allow phone companies to distribute telephone services to consumers.

Courtesy of AT&T

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 mom-'n'-pop stores of days gone by. Hypermarkets covering nearly 200,000 square feet will stock groceries, discount clothes, appliances, and housewares, plus videos, carryout meals, and other convenience services for hurried people on the run. At the same time, small, quick-stop specialty stores and boutiques will flourish, while the

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

KEY TERMS

Marketing Channel (Channel of Distribution), p. 523	Specialty Store, p. 532
Marketing Intermediary, p. 523	Supermarket, p. 533
Vertical Integration, p. 525	Superstore, p. 533
Vertical Marketing System (VMS), p. 526	Convenience Store, p. 533
Corporate VMS, p. 526	Warehouse Showroom, p. 533
Administered VMS, p. 526	Catalog Showroom, p. 533
Contractual VMS, p. 526	Warehouse Club, p. 533
Market Coverage, p. 526	Nonstore Retailing, p. 535
Intensive Distribution, p. 526	In-Home Selling, p. 535
Selective Distribution, p. 527	Direct Marketing, p. 536
Exclusive Distribution, p. 527	Atmosphere, p. 538
Wholesaling, p. 527	Scrambled Merchandising, p. 539
Merchant Wholesaler, p. 529	Wheel of Retailing, p. 539
Sales Branch, p. 530	Physical Distribution, p. 540
Sales Office, p. 530	Service Standard, p. 541
Agent, p. 530	Transportation, p. 541
Broker, p. 531	Warehousing, p. 543
Retailing, p. 531	Order Processing, p. 543
Department Store, p. 532	Materials Handling, p. 544
Discount Store, p. 532	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 method.
6. Wholesalers perform a variety of services in product distribution. What are those services? Whom do they benefit?

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.

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.²³

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 nonstore retailing methods of in-home selling, direct marketing, and vending machines.
5. To discuss the major considerations in retail planning.
Retail planning, crucial to success in the retail sector, involves several important considerations. Store location is a critical decision since it influences 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.

CASE 15.1 Kmart Tries to Get Back on Track

Kmart, the pioneer discount retailer that experienced rapid growth in the 1970s, seems to have lost its momentum. The price of its stock has fallen, earnings are flat, and sales growth is slow. Trouble comes from stiff competition from Wal-Mart and newer retail outlets, changes in consumer buying habits, the chain's image, and its dated distribution system. Marketing expert Joseph E. Antonini, Kmart chairman since 1988, has been leading the drive to get the giant company back on track.

To compete with the increasingly popular specialty retailers that offer a huge selection of merchandise in one or two categories, Kmart has developed Builders Square, Office Square, and Sports Giant. To ward off the threat from hypermarkets and warehouse clubs, which force down the usual profit margins of discount stores, Kmart started American Fare (an Atlanta hypermarket) and purchased Pace Membership Warehouse Inc.

Such ventures may help Kmart compete in the 1990s, but Antonini and his management must also improve the 2,300 core Kmart stores, which produce 80 percent of the firm's sales. An important first step has been upgrading merchandise and image. Even in discount stores, shoppers increasingly want quality. So stores such as Kmart and Wal-Mart need to keep a delicate balance between convincing customers that prices are low and making people feel the stores are too cheap. Tactics like Kmart's "blue light special" may increase impulse buying but cheapen the store's image.

Experts say Wal-Mart excels at attending to the details that mold shoppers' attitudes. Some say Wal-Mart's simple logo in white letters on a brown background conveys a warm inviting message, which is carried out further by the "people greeters" inside the stores. Kmart followed suit by changing its logo and placing employees near the door to answer questions. Its highly recognizable logo of a bright red "K" and cool turquoise "mart" grabbed attention and signaled low prices but gave the impression the store hadn't changed in decades. So Kmart adopted a simpler logo with red letters on a gray background.

Antonini hired actress Jaclyn Smith and decorator Martha Stewart to design and promote better-quality apparel and housewares, and professional golfer Fuzzy Zoeller to promote sporting goods. The Martha Stewart promotion, heavily advertised, was especially successful, but almost a third of Kmart's stores were too small to properly carry the housewares line. Antonini earmarked \$1.3 billion to enlarge and remodel 700 of the company's oldest outlets to feature wider aisles, bolder displays, and taller, deeper shelves. The roomy new design will make items available where customers can get them instead of in the stockroom.

Adapted from David Woodruff, "Will Kmart Ever Be a Silk Purse?" *Business Week*, January 22, 1990, p. 46; Francine Schwadel, "Little Touches Spur Wal-Mart's Rise," *The Wall Street Journal*, September 22, 1989, p. B1; "Lessons from Kmart's Very Tough Fight to Make It," *Business Week*, February 1, 1990, pp. 3-5.

Cases

Two current, realistic cases allow you to put business concepts into practice.

Career Appendixes

Each of the seven parts of the book ends with a comprehensive and informative section on business careers.

Careers in MARKETING

Marketing is everywhere. On a typical day, you see newspaper ads, TV commercials, and billboards advertising countless products. Flyers, catalogs, and brochures arrive in your mail daily. Each time you go to the supermarket, you look through hundreds of products packaged in myriad shapes and colors. In the mall, you're asked to fill out a questionnaire on which brand of toothpaste you use.

These are just some of the most obvious signs of the marketing effort. The field of marketing involves all of the steps that bring countless goods and services to consumers. These steps include marketing research, developing new products, advertising, packaging, distribution, and sales.

Marketing is a huge field employing millions of people. Opportunities in the field are vast and the demand for skilled, well-trained people continues to grow. While competition for entry-level positions is high, thousands of new jobs open in the field each year.

RETAILING

All of us are familiar with shopping in stores, but few actually understand what is involved in working in retailing. The field of retailing includes department stores, chain stores, supermarkets, specialty stores, franchise stores, mail-order businesses, and sidewalk vendors. Retailers buy their goods wholesale, display their wares, and sell them to individual consumers for a price higher than they initially paid.

Requirements: Retailing

- Personal skills
 - Initiative
 - Analytical ability
 - Decision-making ability
- Education
 - Bachelor's degree
 - Any major

Because the field is very fast paced and involves constant change, careers in retailing can be exciting. Most follow one of two career paths, buying and store management.

Selected Employers of Marketing Personnel

- | | |
|--------------------------|--------------------------|
| Advertising agencies | International firms |
| Agents or brokers | Manufacturers |
| Computer service bureaus | Marketing research firms |
| Consulting firms | Marketing specialists |
| Credit bureaus | Media |
| Delivery firms | Nonprofit institutions |
| Entertainment firms | Public relations firms |
| Exporters | Real estate firms |
| Financial institutions | Retailers |
| Franchisees | Service firms |
| Franchisors | Shopping centers |
| Government | Sports teams |
| Health care providers | Transportation firms |
| Industrial firms | Wholesalers |

Which path you first choose depends primarily on the employer. Many stores separate store management from buying at the entry level and you must choose which type of work you want to do. Other stores start all new trainees as assistant buyers. Smaller retailers often start people as salespeople or assistant managers. Most large department stores provide entry-level training programs for people first entering the field.

Buying

The buyer decides what goods to acquire and offer for sale in a store. Buyers purchase the goods directly from the manufacturers and set the price at which they will be sold in the store. A good buying decision results in profits for the store and advancement for the buyer. The buyer is also held responsible when a particular line does not sell.

Buyers need to understand customer preferences and anticipate trends, tastes, and styles months in advance. Careful analysis of previous sales, market research reports, and consumer trends are all important in making good buying decisions. A buyer must take calculated risks and have the courage to

Duties: Buying

- Ordering merchandise
- Negotiating with suppliers
- Pricing merchandise
- Assisting with advertising
- Analyzing sales
- Overseeing sales promotions
- Determining markdowns

Career Ladder: Retail Buying Management

	Divisional Merchandise Manager	Supervises merchandise managers for a group of stores.
5-10 years	Merchandise Manager	Supervises all buyers within a merchandise group, for example, women's ready-to-wear clothing.
2-5 years	Buyer	Purchases merchandise for departments, possibly for several stores, or for many stores.
1-2 years	Assistant Buyer	Works with the buyer monitoring the merchandise, sales, markdowns, and promotions.
6-16 weeks	Trainee	A learning position with formal training in the store's policies and procedures.

make decisions worth thousands or even millions of dollars.

Buyers often must travel a great deal of the time. They make frequent buying trips to manufacturers and wholesalers to purchase merchandise. The amount of travel time varies, but most buyers spend at least four or five days each month on the road.

In large stores, buyers specialize in one area or department; each department needs a buyer to select its stock. In small stores, all buying may be performed by only one or two people.

Store Management

Store management involves directing operations so that the store functions effectively and efficiently. Store managers have the

overall responsibility for ensuring the store operates at a profit.

Generally store management involves overseeing the flow of goods. This includes receiving and marking the goods, arranging and displaying them, and supervising the selling of the merchandise.

Duties: Store Management

- Hiring and training salespeople
- Supervising the unpacking of merchandise
- Handling customer complaints
- Managing cash receipts
- Displaying merchandise
- Tracking inventory levels

The duties of store managers depend on the size of the organization. In a small store, one manager may be responsible for all of the operations. Larger department