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# Retail Management

## *A Strategic Approach*

THIRTEENTH EDITION

Barry Berman • Joel R. Evans • Patrali Chatterjee



# RETAIL MANAGEMENT

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## Advantages of Omnichannel Retail Strategies

There are several advantages to a retailer's enacting an omnichannel approach, including the selection of specific channels based on their unique strengths, opportunities to leverage assets, and opportunities for increased sales and profits by appealing to omnichannel shoppers.

### Selecting Among Channels Based on Their Unique Strengths

A retailer with an omnichannel strategy can use the most appropriate channels to sell particular goods or services or to reach different target markets. Because each channel has a unique combination of strengths, an omnichannel retailer has the best opportunities to fulfill its customers' shopping desires.

Store-based shopping enables customers to see an item, feel it, smell it (e.g., candles or perfumes), try it out, and then pick it up and take it home on the same shopping trip without incurring shipping and handling costs. Catalogs offer high visual impact, a high-quality image, and portability (they can be taken anywhere by the shopper). The Web offers high-quality video and audio capabilities, an interactive format, a personalized customer interface, virtually unlimited space, the ability for a customer to verify in-stock position and order status, and, in some cases, tax-free shopping. Mobile marketing devices are always on, always connected, and always with the customer; they can be easily personalized and can generate location-sensitive offers.<sup>3</sup>

In-store kiosks are helpful for shoppers not having Web access. They can lead to less inventory in the store (and reduce the need to stock low-turnover items in each store), can facilitate self-service by providing information, and can offer high video/audio quality.

To plan an appropriate channel mix and the role of each channel, retailers must recognize how different channels complement one another. Best Buy ([www.bestbuy.com](http://www.bestbuy.com)), Costco ([www.costco.com](http://www.costco.com)), Staples ([www.staples.com](http://www.staples.com)), Home Depot ([www.homedepot.com](http://www.homedepot.com)), and Walmart ([www.walmart.com](http://www.walmart.com)) are just a few of the retailers that have a broader selection of items on the Web to encourage consumers to shop online.

### Opportunities to Leverage Assets

Omnichannel retailing presents opportunities for firms to leverage both tangible and intangible assets. A store-based retailer can leverage tangible assets by using excess capacity in its warehouse to service catalog or Web sales; that same firm can leverage its well-known brand name (an intangible asset) by selling online in geographic areas where it has no stores. Store-based retailers can also arrange to ship goods ordered online or through mobile devices from closely located stores rather than a centralized distribution center.

### Opportunities for Increased Sales and Profits by Appealing to Omnichannel Shoppers

Omnichannel consumers, on average, spend more and have a higher lifetime value to retailers than single-channel consumers. For example, Macy's found that its omnichannel customers are eight times as valuable as customers who confine their shopping experience to a single channel. Similarly, Target found that its omnichannel customers are its most valuable, as they spend three times more as those who shop in a single channel.<sup>4</sup>

## Developing a Well-Integrated Omnichannel Strategy

A well-integrated omnichannel strategy requires linkages among all the channels. Customers should be able to easily make the transition from looking up products on the Web or in a catalog to picking up the products in a retail store. If these linkages are not properly established, sales can be lost. There should be a good deal of commonality in the description and appearance of each item regardless of channel. For example, in-store personnel should be able to verify a Web or catalog purchase and arrange for returns or exchanges.

Characteristics common to superior omnichannel strategies include the following: integrated promotions across channels; product consistency across channels; an integrated information system that shares customer, pricing, and inventory data across multiple channels; a store pickup process for items purchased on the Web or through a catalog; and the search for omnichannel opportunities with appropriate partners.

### Integrating Promotions across Channels

Cross-promotion enables consumers to use each promotional forum in its best light. Following is a list of some cross-promotion tactics:

- ▶ Include the Web site address on shopping bags, in catalogs, and in newspaper ads.
- ▶ Provide in-store kiosks so customers can order out-of-stock merchandise without a shipping fee.
- ▶ Include store addresses, phone numbers, hours, and directions on the Web site and in catalogs.
- ▶ Make it possible for customers to shop for items on the Web using the catalog order numbers.
- ▶ Distribute store coupons by direct mail, online, and mobile sources; offer catalogs in stores and at the Web site.
- ▶ Encourage in-store shoppers to use their smartphones to scan barcodes and get more product information.
- ▶ Target single-channel customers with promotions from other channels.
- ▶ Send store-based shoppers targeted E-mails on their mobile device (on an opt-in basis) for selected goods and services.
- ▶ Have a strong social media presence.

### Ensuring Product Consistency across Channels

Too little product overlap across channels may result in an inconsistent image. However, too much overlap may result in a loss of sales opportunities. Omnichannel retailers often use the Web to offer very specialized merchandise that cannot be profitably offered in stores. This maximizes store space while, at the same time, fulfills specialized needs of niche market segments.

### Having an Information System That Effectively Shares Data across Channels

To best manage an omnichannel system, a retailer needs an information system that shares customer, pricing, and inventory information across channels:

- ▶ After a customer creates an online bridal registry account at Crate & Barrel, he or she can visit any of the chain's stores and seamlessly synchronize the store's scanners with their online accounts. This makes it easy for customers to add new items to their registry while in the store. Customers can also use an in-store computer to modify their product choices.<sup>5</sup>
- ▶ Rebecca Minkoff—a chain specializing in accessible luxury handbags, accessories, footwear, and apparel—utilizes apps to create user profiles that link what customers view online with what the customers try on and purchase in stores.<sup>6</sup>
- ▶ Macy's recently combined its online and offline marketing operations to create one inventory system across channels. This system displays sales data, stock-on-hand, and on-order data.<sup>7</sup>

### Enacting a Store-Pickup Process for Items Purchased on the Web or through a Catalog

In-store pickup requires that a retailer's inventory database be integrated and that the firm has a logistics infrastructure that can select and route merchandise to customers. Increasingly, shoppers are ordering big-ticket items such as digital cameras, computers, and appliances online but picking them up at nearby stores. Consumers favor this approach to avoid shipping and handling charges, to reduce their having to navigate through a big-box store, and to avoid wasting time looking for items that may be out of stock.

Store pickup often enables shoppers to get items on the same day they make a purchase. Many customers also favor in-store pickup so that they can more easily return goods that do not meet their expectations.

### Searching for Omnichannel Opportunities with Appropriate Partners

The retailer needs to understand that in almost all cases an omnichannel strategy requires added resources and competencies that are significantly greater than those demanded by a single-channel strategy. Some retailers may conclude that they do not have these competencies or resources; others look for strategic partnerships with firms having complementary resources.

## Special Challenges

An omnichannel strategy is not right for every retailer. Not all retailers possess the financial and managerial resources to do pursue omnichannel opportunities. A big challenge for many retailers, particularly small- to middle-size ones, is the consolidation of their disparate retail management systems into one customer-focused system. A 2015 study of retail CEOs found that 75 percent of the respondents did not restructure operations to provide customers with seamless shopping.<sup>8</sup>

Many of today's leading retailers began with one channel—typically bricks-and-mortar—and then added phone sales, Web sales, and mobile sales. As a result, these retailers usually devised separate information systems for each channel. Thus, each channel had a distinct information system with its own set of customer, product, sales, and inventory data. With a move to an omnichannel strategy, these retailers' overall information centers had to be unified. In this way, they could determine whether a large Web site or catalog user base exists within the trading area of a proposed retail location.

Omnichannel retailers need to maintain the same branding identity for their products across diverse channels. Graphic designers need to establish specific guidelines and templates so that type fonts, colors, and key design elements are shared across channels. To complicate matters, products often look different in a catalog versus on a computer screen due to Web sites and smartphones having lower resolutions than print. The same can be said for variations in colors. This may especially affect the purchase of apparel or furniture.

A final potential difficulty is the management of a retailer's distribution center. Such a center requires efficient procedures for handling both large orders that are shipped directly to stores and small shipments that are made to thousands or tens of thousands of customers. The system for handling large store-based retail purchase orders (which are often full caseloads) is quite different from shipping individual items to a customer's home.



## PART 2 Short Cases

### Case 1 Do Power Players Rule?\*

A power player is any U.S. retailer with sales equal to or greater than 10 percent of those of the category leader.

#### Department Stores

Department stores have survived the rise of sectors specializing in narrower product ranges, as well as the challenges of discount stores and other off-price retailers, and finally E-commerce. Gerald Storch, CEO of Hudson's Bay, parent of Saks Fifth Avenue and Lord & Taylor, says, "Increasingly, consumers don't think of stores as physical locations, they think of stores as brands. The opportunity is to customize on a mass scale so you simulate the selling experience on a mobile device."

#### Drugstores

National healthcare questions have been driving a lot of what has been going on in the drugstore industry. CVS is moving on several fronts: It broadened its pharmacy reach by acquiring Omnicare, which distributes prescription drugs to nursing homes, assisted living facilities, and so on. CVS has unveiled the makeover of the Navarro Discount Pharmacy sites it acquired. Carrying the banner "CVS pharmacy y mas," the South Florida stores feature bilingual associates and 1,500+ "trusted Hispanic products." It also acquired Target's pharmacy businesses for about \$1.9 billion.

#### General Apparel

Fast fashion has been rising among the ranks of apparel retailers. "There is an underlying sense of rebellion that comes through in today's fashion," notes Marshal Cohen, chief industry analyst with NPD Group. "The fashion industry has undergone one of the most dramatic makeovers in recent history, no doubt influenced by the Millennial consumer."

#### Home Improvement and Hardware

These have had to deal with some flooring issues. First, it was hardwood laminate flooring that was said to emit formaldehyde in excess of California state standards. Soon after, came a study of vinyl floor tiles, which found that 58 percent of samples bought from large home improvement dealers contained phthalates, several forms of which have been banned from children's products since 2009. The Home Depot clicked on several fronts, including online.

#### Jewelry and Accessories

Signet, which bills itself as the world's largest retailer of diamond jewelry, acquired Zale Corp. The company now operates stores and kiosks under a variety of banners, including Kay, Jared, and a number of regional brands in its Sterling division, along with Zale, Peoples, and Piercing Pagoda in its Zale division. Zale operations have been growing same-store sales faster than the company as a whole, and Signet expects that to continue.

#### Mass Merchants

Amazon has joined the ranks of mass merchant power players, selling everything from digital downloads to consumer

electronics, toilet paper, books, and groceries. Its limited face-to-face interaction with consumers belies Amazon's vast physical presence around the country, where a network of fulfillment centers puts it near to customers. Amazon's mass market tactics include spreading same-day delivery to more segments of the population.

#### Supermarkets

Although mergers and acquisitions have been a way of life, grocery remains the most fragmented segment of retailing. Albertsons took over the remnants of Safeway's network, covering much of North America, and Kroger completed its first full year with Harris Teeter stores under its wing. Then, after A&P and its affiliate brands were forced into bankruptcy in 2015, it was ultimately decided to sell off all the store locations to several major chains.

#### Women's Apparel

The biggest news was a deal that closed in August 2015—Ascena Retail Group's acquisition of Ann Taylor and Loft parent company Ann Inc. Ascena paid \$2 billion to bring Ann Inc. into a diverse stable of brands that included Lane Bryant, Dress Barn, Maurices, and Justice.

#### Questions

1. How can an independent retailer compete with power retailers?
2. What is the greatest opportunity for each of the retail categories described in this case?
3. What is the greatest threat for each of the retail categories described in this case?
4. What are the pros and cons of Signet's mix of retail jewelry chains: Zale, Kay, Jared, and other units?

### Case 2 Will the Favorites of Today Remain Popular?\*

While competition constantly shifts, the top tier of consumers' favorite online retailers is stable. There was little movement among the top 10 in a 2015 consumer survey by Prosper Insights & Analytics; the full list includes only six relative newcomers. This allows for greater insights about what motivates shoppers, where they like to shop, and what methods retailers are using to draw them in—and it's all been represented in recent research.

So what does it all say—and more importantly, what does it all mean? Pam Goodfellow, director of consumer insights for Prosper, provides a deeper look at two recent surveys: one assessed shoppers' favorite online retail sites; the other looked at consumer behavior. Each provides a clear message about where online retailing is today, as well as the fact that consumers still have their "favorites."

"These are some of the biggest names in retail anyway," Goodfellow says. "These are safer retailers for a lot of

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\* Based on material from Sandy Smith, "The Favorite 50," *STORES Magazine*, September 2015, pp. 21–26. Reprinted by permission. Copyright STORES magazine.

consumers to visit. Younger consumers are a little more trusting when it comes to online shopping. For Baby Boomers or someone a little older, consumers see these as safe retailers when it comes to online shopping.”

It’s no surprise that Amazon continues to dominate among all age groups, even increasing its share slightly. Millennials ranked it even higher. Walmart.com ranks second, although its share dropped slightly from 2014; Walmart ranks higher among Millennials than it does among Baby Boomers. Does this mean Amazon has a lock on online retailing? Goodfellow points to Walmart’s status as the top bricks-and-mortar retailer. Still, “Walmart has its issues competing with Amazon,” she says. “For the foreseeable future, Amazon will be the one to beat. But that’s the interesting part of retail: It’s always changing.”

There are newcomers that hope to chip away at big retailers’ dominance. Take Jet, which is tackling both Amazon and warehouse clubs. But Amazon has something that could make that tough. “Amazon has collected a loyal shopper base,” Goodfellow says. “Its customer service speaks for itself.” Even if Amazon Prime Day drew mixed reviews, “It shows that Amazon is trying different things and still testing.” A final thought on Amazon: It increased its share slightly. Goodfellow believes “this shows that people are still discovering Amazon.”

It might be easy to gloss over Best Buy’s move to number three on the list of favorites. The increase was relatively small, though it could signal a solution to an even bigger concern: show-rooming. “That had a lot of analysts wondering what the future was going to look like for Best Buy,” Goodfellow says. “With a focus on customer service and the price matching that it’s now doing, it has brought some consumers back into the fold.”

Those shopping at Best Buy and Walmart are apt to have triggers that drive them to the two Web sites: coupons for Walmart shoppers and a cable TV ad for Best Buy shoppers. Most triggering events—such as an online ad or text message—are apt to move a Walmart or Best Buy shopper to the online store more than Amazon shoppers who are more apt to be triggered by reading an article.

Data show several key insights about shoppers in general. It’s probably no surprise that Best Buy shoppers are the most mobile-savvy. But what may be surprising is those same shoppers are more likely to compare prices or ask for a price match, and are the most likely to look at another retailer’s Web site while in the store.

### Questions

1. What must retailers that are the “favorites of today” do to remain popular?
2. What criteria do you use in deciding on your favorite stores? Why?
3. Take a look at the Jet Web site (<https://jet.com>). Do you think it will succeed? Why or why not?
4. Describe what you think are Best Buy’s greatest strengths and weaknesses as a specialty retail chain.

### Case 3 Omnichannel Strategies of Top Retailers\*

It’s no longer bricks-and-mortar versus E-commerce—omnichannel is the path to success. Consumers have myriad ways to shop, and retailers must keep up. “New [technology]

tools transform the way consumers want to shop,” says Anne Zybowski, a vice-president at Kantar Retail. In response, retailers are re-thinking operations, from infrastructure and inventory systems to delivery and marketing. As measured by *STORES*’ annual “Top 100 Retailers” report, by Kantar, the evolution of retailing displays the survival skills of long-time firms. Chart-topping stalwarts—Walmart, Kroger, Costco, Home Depot, Target, Walgreen, and CVS—have maintained dominance by meeting consumers’ changing desires, including for online shopping and digital interaction.

Amazon’s ascent continues, and although E-commerce has not proven to knock bricks-and-mortar off its pedestal, the old “location, location, location” mantra doesn’t carry the same weight that it once did. Instead, the two channels continue to converge: Store operators are seeing much digital success, whereas online merchants—including Amazon—are expanding with showrooms, pop-up shops, and other ways of meeting shoppers face-to-face.

“Omnichannel remains aspirational. Today’s omni-shoppers know what they want,” Zybowski says, “retailers to offer whatever, wherever, whenever they want. When it comes to value, they want [to have] their cake and eat it too—they don’t expect to pay more for convenience.” The challenge is meeting consumers’ reset expectations. “Retailers must learn how to fundamentally transform their business models, ones built for maximum efficiency and scale, and transform them into more nimble, effective ones,” Zybowski adds.

Tom Cole, of Kurt Salmon Associates, says mobile is key in omnichannel’s push to seamless consumer experiences, although the mobile transactions’ volume is still low. Retailers need to build to omnichannel via legacy systems already in place. “Omnichannel is the new reality whether they engage or not. If you’re available where and when consumers look for you, great. If not, you lose to someone who is,” says Marge Laney, of Alert Technologies. “Online-only retailers lack the high engagement that the in-store experience can deliver. Offline-only retailers don’t deliver the comfortable experience that consumers utilize to make their shopping itineraries.”

“Digital is the connective tissue between online and in-store,” says Claude de Jocas, intelligence group director for L2. “Stores have been cast as a liability in an Amazon era, but they’ve been making a comeback as something that’s critical to a retail strategy.”

Nordstrom is advanced in all facets of its omnichannel approach. The retailer has nearly 1 million followers who can shop via Instagram; its network of fulfillment centers is growing. Nordstrom has also launched a “scan-and-shop” feature within its catalog app that links readers of the print catalog to E- and M-commerce sites. “We hope that scan and shop creates a more seamless shopping experience for our customers who enjoy browsing our catalogs but also enjoy the many benefits technology affords the experience to make it more personal,” says spokesman Dan Evans, Jr.

Nordstrom is also connecting with teen shoppers via digital mall Wanelo; and in spring 2015, it unveiled a test of a “click-and-collect” service that included curbside pickup. This complements a more traditional buy online, pick up in-store program that Nordstrom has had since 2008. A third service, TextStyle, was launched in late May 2015 and involves all of Nordstrom’s

\* Based on material from David P. Schulz, “The Future Is Now,” *STORES Magazine*, July 2015, pp. 54–56, 58. Reprinted by permission. Copyright 2016. *STORES Magazine*.

full-line stores; it allows customers to make purchases from their personal stylist or sales associate using text messages.

### Questions

1. Do you agree or disagree with this statement: “It’s no longer bricks-and-mortar versus E-commerce—omnichannel is the path to success.” Explain your answer.
2. How has Walmart evolved over the years to address changing consumer desires, new technologies, and new competitors?
3. What are keys to succeeding with an omnichannel strategy?
4. What could other retailers learn from Nordstrom’s current omnichannel strategy?

## Case 4 Omnichannel Food Retailing Still Needs Work\*

Grocery buying is changing due to the emergence of omnichannel retailing. Consumers want options, and grocers need to be ready to provide them. Thus, experts say retailers will have to deal with selling price, venue, payment, and customer experience in all transactional channels. Doing so effectively is easier said than done, however.

One who understands that well is Jim Wisner, formerly a VP at Jewel Food Stores and Shaw’s Supermarkets. He states that omnichannel retailing is being able to operate, in any fashion, when and where the customer wants to interact. That can involve customer service via social media, online chat, E-mail, or phone; browsing or shopping in-store or online; receiving products via home delivery or in-store pickup, or old-fashioned aisle browsing; or making coupons or discounts similar across channels. “As much as the ultimate goal needs to be a complete integration of ‘all things at all times,’” says Wisner, now president of Wisner Marketing, “it is important to make sure that each individual piece can operate functionally and effectively on its own. Pasting an online shopping portal to a Web site that hasn’t been redesigned in years or mobile-optimized won’t attract shoppers.”

DyShaun Muhammad, VP of consultancy Catapult, offers these three key steps for retailers:

### Educate Yourself

Get to know shoppers, especially those who are most valuable. What really drives a shopper to actually buy a particular category from you? What are the barriers to his or her doing more transactions with you? Where do tools like mobile apps, flexible fulfillment, digital couponing, and more traditional merchandising tools fit in his or her path to purchase for your priority categories? How could you best deploy these tactics to

better deliver your retail proposition to drive stronger affinity and share with the shopper? How could your vendors help?

### Evaluate Your Ecosystem

Once you have a good understanding of shoppers’ needs and key drivers, you must assess your own ecosystem. Do you have the technology, logistics, data, and organizational resources to operate against a unified view of shoppers and their activity across channels? What are the gaps in your systems that impede delivering the quality of experiences that will drive the desired level of shopper loyalty and conversion? What frustrations are shoppers communicating to your customer service teams or via social channels?

### Experiment to Find What Works

At this point, you can then engage in the hard work of determining which things to experiment against, where to invest, and how to restructure your organization to deliver. It can’t be done all at once, but each step needs to be able to deliver meaningful value for shoppers and make it easier for them to accomplish their shopping goals with you.

As with any major new initiative, obstacles stand in the way of smooth implementation. Wisner, Muhammad, and others point to organizational silos in different departments as one challenge to overcome. “There are operational, organizational, and experiential issues to resolve,” affirms Channie Mize, general manager for the retail sector for Periscope, a McKinsey solution. “It’s easier to do multichannel, but that creates silos and doesn’t extend to customer service. Also, branding may not be consistent across the channels with a multichannel versus omnichannel approach.

“In more traditional multichannel environments,” Mize continues, “the chief merchant officer controls the merchandising in the physical stores, while the CIO, or ‘head of online,’ controls the offering in the online stores. They each have different agendas tied to different or misaligned incentive structures. This can cause the same retailer to cannibalize itself across channels, which inherently provides for less than optimal results for the customer.”

### Questions

1. Why is omnichannel retailing a bigger challenge for food retailers than general merchandise retailers?
2. Apply DyShaun Muhammad’s three key steps to your favorite supermarket.
3. Comment on this statement: “It’s easier to do multichannel, but that creates silos and doesn’t extend to customer service. Also, branding may not be consistent across the channels with a multichannel versus omnichannel approach.”
4. What are *your* top five recommendations as to how to best perform as an omnichannel retailer?

\* Source: Based on material in John Karolefski, “Omnichannel Retailing: A Work in Progress,” *Progressive Grocer*, January 2016, pp. 91–95. Reprinted by permission.