

Joachim Zentes | Dirk Morschett |  
Hanna Schramm-Klein

# Strategic Retail Management

Text and International Cases



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# Preface

Retailing is becoming consistently more important in economic terms. This becomes evident when looking at the development of many individual countries, in Europe, America and Asia. In highly developed countries, retailing is assuming more and more of a leadership role in the distribution channel. The expansion strategies, retail branding strategies, innovative solutions for supply chain management etc., all reflect this trend. In transformation countries, such as in Central and Eastern Europe, as well as in emerging countries, such as China and India, fundamental changes in retailing structures become apparent and may lead to comparable developments. In view of internationalisation, a further profound change can be noticed. Retailing companies that were formerly characterised by a local or national orientation are increasingly developing into global players with worldwide operations.

## Book Concept and Overview

The present book is devoted to the dynamic development of retailing. The various strategy concepts adopted by retailing companies and their implementation in practice are at the core of the book. This is not a traditional textbook or collection of case studies, but is intended to demonstrate the complex and manifold questions of retail management in the form of 15 lessons that provide a thematic overview of key issues and to illustrate them with the help of comprehensive case studies. Internationally known retail companies are used as examples to facilitate an understanding of what is involved in strategic retail management and to present some best practices.

The book is divided into four main parts. Part I introduces “Formats and Players in Retailing” and comprises Chapters 1 to 3. In Part II, growth, internationalisation and positioning strategies, as fundamental aspects of “Strategic Marketing in Retailing” are dealt with (Chapter 4 to Chapter 6). Part III focuses on the “Marketing Mix in Retailing”. Store location, merchandise and category management, pricing, instore marketing and customer relationship management are discussed in Chapters 7 to 11. The final Part IV “Buying, Logistics and Performance Measurement” deals with retail purchasing strategies and concepts, modern concepts of physical distribution and IT-based supply chain management, as well as methods of performance and financial controlling (Chapters 12 to 15).

## Teaching and Learning

The book is targeted primarily at students in their third and fourth academic year (undergraduate and graduate level) in the field of Business Administration/Marketing/Management at different institutions, such as universities, academies and business schools. In addition, practitioners in the consumer goods industry and in retailing companies, who wish to obtain compact and practice-oriented information on current retail concepts, will also benefit from reading this book.

Furthermore, the book can be used in education as a basis for working with case studies. For this purpose, the case studies are integrated into the lessons in such a way that they provide additional content and a specific application of the individual lessons. That is, they form part of the main topic, but also lead to suggested discussion subjects and questions in order to deepen the understanding of the topic. Instructors are provided with additional resources. For each case study, a suggested solution can be requested from the H.I.M.A. (Institute for Commerce & International Marketing, Saarland University, Germany, e-mail: hima@mx.uni-saarland.de).

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JOACHIM ZENTES

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# Contents

Preface .....	V
Introduction .....	1

## Part I      **Formats and Players in Retailing**

Chapter 1	Retail Formats – Food.....	9
	<i>Case Study: Carrefour</i> .....	20
Chapter 2	Retail Formats – Non-Food.....	31
	<i>Case Study: Media Markt and Saturn</i> .....	42
Chapter 3	New Competitors – Vertical Strategies.....	53
	<i>Case Study: Esprit</i> .....	62

## Part II      **Strategic Marketing in Retailing**

Chapter 4	Growth Strategies .....	77
	<i>Case Study: Fressnapf/Maxi Zoo</i> .....	88
Chapter 5	The Internationalisation of Retailing.....	101
	<i>Case Study: Aldi</i> .....	109
Chapter 6	Retail Branding and Positioning .....	121
	<i>Case Study: IKEA</i> .....	130

## Part III      **Marketing Mix in Retailing**

Chapter 7	Store Location – Trading Area Analysis and Site Selection .....	143
	<i>Case Study: ECE Projektmanagement</i> .....	154
Chapter 8	Merchandise and Category Management.....	163
	<i>Case Study: Coop (Switzerland)</i> .....	174



## Brief Contents

Chapter 9	Pricing .....	187
	<i>Case Study: Wal-Mart</i> .....	198
Chapter 10	Instore Marketing .....	209
	<i>Case Study: Galeries Lafayette</i> .....	220
Chapter 11	Customer Relationship Management .....	231
	<i>Case Study: Tesco</i> .....	243
<b>Part IV</b>	<b>Buying, Logistics and Performance Measurement</b>	
Chapter 12	Buying – Strategy and Concepts.....	255
	<i>Case Study: Kingfisher</i> .....	266
Chapter 13	Logistics – Physical Distribution .....	277
	<i>Case Study: Sainsbury's</i> .....	286
Chapter 14	Logistics – Supply Chain Management and Information Management.....	297
	<i>Case Study: Benetton</i> .....	308
Chapter 15	Controlling and Financial Management .....	317
	<i>Case Study: Metro</i> .....	325
References	.....	337
Index	.....	363



# Introduction

Retailing is one of the world's largest industries. It is in a permanent state of change, and the pace of this change has been accelerating over the last decade. From the marketing perspective, retailers are, by definition, closer to the consumer than manufacturing companies (Reynolds 2004b, p. 3). Retailers represent the culmination of the marketing process and the contact point between consumers and manufactured products. While retailing has long set buying decisions as its highest priority and was very focussed on the product assortment, it now follows a more holistic approach to management and marketing and is seizing the opportunity to be consumer-oriented, engage in the personal contact with customers, gather information on consumer behaviour and exploit insights into consumer behaviour and preferences. What was once a simple way of doing business is transforming into a highly sophisticated form of management and marketing. Retail marketing consistently features more efficient, more meaningful and more profitable marketing practices (Mulhern 1997, p. 103).

Retailing involves those companies that are engaged primarily in the activity of purchasing products from other organisations with the intent to resell those goods to the final customer, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are therefore organised to sell merchandise in small quantities to the general public. The services added to the products commonly include transportation and stock-keeping to ensure that the products are available at the point-of-sale. However, the process also encompasses the selection of products for a retail assortment, the provision of sales advice, after-sales-service and many other functions.

A number of developments are responsible for the dynamic change in modern retail management. In most developed countries, retailing has experienced a dramatic increase in the scale of operations and in market concentration. This is due partly to the appearance of *large-scale retail chains* that have taken over market share from independently owned small shops. These retail chains first developed into regional groups and then into nationally and even internationally active retail operations. In the last decade, mergers and acquisitions between already large players have intensified this development. Many retailers now have massive turnover, very large numbers of employees and extensive store networks. The world's largest retailer, Wal-

*Evolution of  
Retail  
Management*

*Definition  
of Retailing*

*Emergence of  
Large-Scale  
Retail Chains*



## Introduction

*Mart*, achieves a turnover of 312 billion USD which exceeds the gross domestic product of many smaller countries and employs 1.8 million people. *Carrefour*, the largest European retailer and the no. 2 in the world, operates more than 12,000 stores worldwide.

### International Multi-Channel Retailers

At the same time, many retailers have developed into international multi-channel retailers, that is, they operate in many countries and offer different retail formats for their customers. For example, the French *Carrefour* is now a multi-format group that uses hypermarkets, supermarkets, convenience stores, hard discounters and other formats to sell its assortment to customers in over 30 countries. More than half of its turnover is earned outside the home market. The German *Metro Group* employs food superstores (*Real*), food supermarkets (*extra*), consumer electronics category killers (*Media Markt and Saturn*), cash & carry wholesale stores (*Metro C&C*), and other formats and earns more than 50 % of its turnover in 29 markets outside Germany. *Tesco* is expanding rapidly into Eastern European and Asian markets and, in addition to several store-based formats, very successfully operates an e-commerce channel, *Tesco.com*. While the rise of e-commerce in retailing was initially over-estimated in the days of Internet hype, it has nonetheless developed slowly but surely and *Tesco* now achieves sales of over 1 billion EUR with its online-channel.

### High Levels of Concentration

In most country markets, retailing is also a very concentrated industry. According to the market research company *Planet Retail*, the top 5 food retailers account for more than 55 % of the market in the UK. In Germany and in France, it is even above 70 %. Consequently, a *shift in power* within the distribution channel is one of the most influential developments over the last decades. The power of individual retail organisations is growing; they are now comparable to and, in many cases, even larger than many manufacturers, even for global brand manufacturers such as *Procter & Gamble*, *Sony* or *Nestlé*. Thus, manufacturers now depend on a few large retailers for a substantial share of their turnover. Hand in hand with the increasing size, retail marketing budgets, IT budgets, and budgets for top managers, have been increasing. Not only the growing size and concentration, but also the increased sophistication of retail management, combined with the better availability of customer data, contributed to the power shift. Retailing is currently one of the leading industries in the application of new technologies. Retailer *PoS data* has become more valuable as IT systems have facilitated the collection of data at the checkout. Furthermore, as retailers have grown from regional to national chains, they have been able to accumulate knowledge about consumer trends, the development of product sales, etc., that has enhanced their relevance as gatekeepers for products on their route to the customer. Customer-specific data that is now increasingly being gathered via *loyalty cards*, adds to this knowledge. Where manufacturer brands once used

### Power Shift towards Retailers