Retailing

Retail Formats

The Retail Business Scenario is changing rapidly. Some of the most significant changes are growing diversity of retail formats, increasing industry concentration and globalisation. Over past 20 years many retail formats have been developed. There is wider variety of retailers from where one can purchase now. With non-store retailing becoming popular retailing has taken a new shape. All these new formats coexist with the traditional form of retail. Each form of retail offers different kind of benefits and hence different customers favour different formats. Also people depending on their socio-cultural structure favour different formats.

Types of Retail Format

Retailers may be classified by ownership and by assortment and variety of merchandise.

Classification by Type of Ownership

Retail operations may be classified into at least four basic categories according to form of ownership. The first category consists of independents that are not affiliated with other retail operations (sole proprietorships and partnerships). Corporate retail chains consisting of two or more stores make up the second category. This includes relatively small retail chains as well as large ones. The third category includes co-operative and voluntary chains of independently owned operations organised by retailers or their wholesalers. The largest portion of this category exists through franchise agreements. The fourth category consists of consumer co-operatives, which are retail establishments owned and managed by consumers.

Unaffiliated independents

Unaffiliated independents are establishments owned and operated as single-unit operations. For example, the Cauldron is a limited-line store selling a wide selection of prints, paintings, pottery, handcrafted jewellery, and ready-made picture frames. In addition, the store offers custom and do-it yourself framing services. It is owned and operated by a family and offers the personalised atmosphere and service that so often characterise independently owned stores. Because it is independently owned and operated, the Cauldron can reflect the tastes and preferences of its owners and customers; it can therefore be very flexible and responsive to change. On the other hand, a store like the Cauldron does not experience the benefits of being part of a large scale operation, and its success depends exclusively on the skills of its owner managers. Back in India we have several such stores been owned and maintained by a single owner or family. For example Goutam's the famous beverage shop and Kanishka the famous apparel shop both in Kolkata.

Corporate retail chains.

In contrast to the single retail store that is independently owned and operated, a corporate retail chain is made up of multiple retail units under common ownership and management. This type of retail chain is defined as two or more stores selling similar lines of merchandise, having similar architectural motifs, and featuring centralised buying. Corporate chains may vary in size from just two stores to organisations with hundreds of outlets.

Real Life Case Scenario

The Art Adventure is part of a chain consisting of only two stores located in college communities about forty miles apart. Both sell the same lines of art and drafting supplies. At the other extreme, stores such as Home Depot, BabySuperstore, Sears, and J. C. Penney have hundreds of retail outlets in the United States and are expanding around the world. In India we have Pantaloons, Big Bazar, Shoppers' Stop etc.

Cooperative chain

One type of voluntary association is the **cooperative chain.** For example, a hardware store in your city may be a member of the cooperative chain called True Value Hardware Stores. This store would be one of the more than 5,000 hardware stores that together own Cotter & Company, the wholesale distribution and merchandising organization developed and managed to serve True Value Hardware Stores. Cotter & Company provides its member stores with large-scale buying and warehousing operations. Ten regional distribution centers, with a combined warehousing capacity of 3.6 million square feet, are strategically located across the nation. In addition to warehousing and assistance in buying, Cotter & Company provides member stores with other services. Other services include assistance in accounting, selecting store sites, planning store layouts, inventory control, merchandising, sales training, and financing.

Voluntary chain

The voluntary chain is also an association of independent retailers, but it is sponsored by a wholesaler rather than by the retailers themselves. Like cooperative chains, voluntary chains are also found in the food industry as well as in other industries. The Colony Market, for example, belongs to a voluntary chain called Western Grocers. As a member of such a chain, the Colony Market buys a considerable amount of merchandise from the Western Grocers' wholesale operation, but it still can maintain its identity as an independent grocer.

Franchise Systems

Another association of independent retailers is created by franchise agreements. Many independent retailers are members of **franchise systems sponsored by manufacturers, distributors, and service firms.** Gas stations, for example, are usually owned by independent retailers who operate according to franchise agreements with their distributors or manufacturers. Comparable franchise arrangements are commonly sponsored by manufacturers of cars, trucks, motorcycles, appliances, and lawn and garden equipment. A service firm may also sponsor a chain of franchised operations. In this case we would have a franchise system sponsored by a service firm, usually a large retail organization.

Real Life Case Scenario

Mc.Donald's

The growth of franchise systems in the fast food industry is illustrated best by the success of McDonald's. Since the first restaurant was opened in 1955, the chain has expanded to more than 13,000 stores with sales over $22 billion; about 70 percent of them are franchised. In other service-oriented types of retailing, franchise systems are common for motels, hotels, auto rentals, and recreation services.

Consumer Cooperatives

In contrast to the large number of stores that are part of chains and franchise systems, relatively few retail operations are owned and managed by consumers. Such operations are appropriately called **consumer** cooperatives, because member consumers usually cooperate in buying, transporting, and pricing the goods sold for the store. Consumer cooperatives saw their peak during the inflation-ridden 1970s as individuals sought to get control of prices. In addition, some consumers seek to save money by substituting their own labor; consumer cooperatives also may allow customers access to products such as "health foods" that may not be available from traditional stores.

Classification by Assortment and Variety of Merchandise

Two basic types of retailing have evolved across the world economy beginning with US. In their purest forms, these two types may be called *general-line retailing* and *limited line retailing*. As the name suggests, general-line retailing refers to operations that carry a wide variety of product lines with at least some depth of the assortment in each line. In contrast, limited-line retailing refers to operations that carry a considerable assortment of goods within only one or a few related product lines. In spite of the fact that there is not always a clear distinction, we can use these categories in describing many of the retail institutions. A third kind included in this is the Food Retailing.

General-Line Retailing

Department stores

Department stores are retailers that carry a broad variety and deep assortment, offer considerable customer services, and are organized into separate departments for displaying merchandise. The largest department store chains in the United States are Sears ($33.5 billion annual sales). Each department within the store has a specific selling space allocated to it, a POS terminal to transact and record sales, and salespeople to assist customers. The department store often resembles a collection of specialty shops. The major departments are women's, men's, and children's clothing and accessories; home furnishings and furniture; and kitchenware and small appliance.

Department stores are unique in terms of the shopping experience they offer-the services they provide and the atmosphere of the store. They offer a full range of services horn altering clothing to home delivery.

General merchandise discount stores

Discount department stores are departmentalised retail stores with limited customer service and low mark-up, carrying diversified product lines, including soft lines like apparel and linens and hard lines like computers, furniture, and consumer electronics. These stores typically consist of a sales area of at least 20,000 square feet and are usually housed in a one-level structure. General-line discount stores like Kmart, Wal-Mart, and Target may have 100,000 square feet. They try to keep operating costs as low as possible by hiring a minimum of personnel, relying on self-service merchandising, and locating in less expensive buildings with less expensive equipment and fixtures. Service is kept at a minimum, and price is the most frequently used promotion appeal. These discount stores vary in size, merchandise assortment, operations, and management.

Full-line discount

A **full-line discount** store is a retailer that offers a broad variety of merchandise, limited service, and low prices. They offer national brands, but these brands are typically less fashion-oriented than brands in department stores. The "big three" full-line discount store chains-Wal-Mart Stores (with 1998 annual sales of $58.8 billion), Kmart ($29.1 billion), and Target, a division of Dayton

Hudson ($22.5 billion)-account for over 85 percent of the U.S. sales made by full-line discount stores. In India we have Vishal Megamart and Big Bazar which are full line discount stores.

Membership warehouse stores

Membership warehouse stores, or wholesale clubs as they are sometimes called, have been around since 1976. They have familiar names like Sam's and Price/Costco. In India we have Metro Cash and Carry. The success of this format lies in volume selling, operating at about half the expense rate of its primary competitors, and surviving on about half their gross margin. Clearly, in exchange for lower prices, many customers appear quite ready to give up many amenities, and services, to purchase in bulk.

Variety stores

Variety stores, although dead in many U.S. cities, are also a form of general-line retailing. The F. W. Woolworth Company, the largest variety and general merchandise store operation, closed 970 general merchandise and specialty stores in the United States and Canada in 1993 and 1994, eliminating 13,000 jobs.

In India we still see some variety stores running successfully but the market is limited locally.

Typically, variety stores carry stationery, gift items, women's accessories, toilet articles, light hardware, toys, housewares, and confectioneries, at prices that nearly every consumer can afford. As retailing evolved to meet the needs of consumers, the variety store, with its wide collection of merchandise and low price range, was superseded by the more complex discount store meeting a wider variety of customer needs, often at lower prices.

Limited-Line Retailing

In contrast to general-line retailing, limited line retail encompasses all operations that carry only one or few related lines of merchandise. Limited-line stores sell a single but broad category of merchandise. One example of a limited-line store would be a shoe store that carries a variety of styles of footwear for men, women and children.

Specialty Stores

A specialty store is a limited-line store that sells one or a few lines of merchandise within a broader category such as food, furniture, or hardware. Specialty stores also compete on uniqueness of offerings, rather than price. The Spaces is a specialty store that carries only house furnishing items, whereas a limited-line store like Gallenkamp's handles footwear for adults as well as children. Like department stores, large limited-line stores and specialty stores may be departmentalised for the purposes of promotion, buying, accounting, and control. However, they are clearly different from department stores, since both are limited to the sale of merchandise within some broad category. The c store concept can be built around narrow and deep selections versus wide and shallow selections. A traditional specialty store concentrates on a limited number of complementary merchandise categories and provides a high level of service in an area typically under 8,000 square feet.

Boutiques

Another type of limited-line store is the boutique. The rise in the number of boutiques is an example of the changing attitudes of today's customers. They expect and want more from their purchases, including not only practicality but also individuality. Such stores are much like specialty stores, but they are smaller and appeal to more limited target markets. They are usually found in downtown areas, fashionable shopping districts, and large upscale shopping centers. Boutiques are also found in self-contained areas within department stores. A typical boutique, for example, might carry an assortment of women's apparel selected for a particular and rather limited target market, such as furs. Such stores are small operations with distinct personalities, and they provide a unique product assortment that usually consists of special types of goods like expensive clothes, high-quality sporting goods, or shoes in special sizes. Satya Paul in India is a very famous Designer Saree Boutique.

Category dominant limited-line stores

The late 1980s saw the emergence of a new segment of limited-line discount retailers who focused on the public's appetite for one-stop shopping and the desire for value. Large discount-oriented stores specializing in one or a few product lines like Toys 'R' Us, CompUSA, OfficeMax, BabySuperstores, and Circuit City grew rapidly. The appeal of these *category dominant stores or category killers* is based not only on low price but also on extensive assortment and variety within a narrow product line. Sales for these stores can be extensive.

Factory Outlet Stores

Recent years have seen a tremendous growth in factory outlet limited-line stores. These stores are typically in a strip centre located at least fifty to seventy-five miles from a major metropolitan area. Originally, these stores were viewed by manufacturers as a place to dispose of production overruns, seconds, and returns. In many cases they still are. Some manufacturers produce products and brands especially for their outlet stores. Van Heusen will have different brands and slightly different styles in their outlet stores than in the department stores in the nearby towns.

Drugstores

Drugstores are specialty stores that concentrate on health and personal grooming merchandise. Pharmaceuticals often represent over 50 percent of drugstore sales and an even greater percentage of their profits. The largest drugstore chains in the United States are Walgreens ($15.3 billion in annual sales), CVS ($15.3 billion), Rite Aid ($12.7 billion), and Eckerds, a division of JCPenney ($10.3 billion).

Category Specialists

A category specialist is a discount store that offers a narrow variety but deep assortment *of* merchandise. These retailers are basically discount specialty stores. Most category specialists use a self-service approach, but some specialists in consumer durable offer assistance to customers. For example, Office Depot stores have a warehouse atmosphere, with cartons *of* copying paper stacked on pallets plus equipment in *boxes* on shelves. However, some merchandise, such as computers, is displayed in the middle *of* the store, and salespeople in the display area are available to answer questions and make suggestions.

Off-Price Retailers

Off-price retailers offer an inconsistent assortment of brand name, fashion-oriented soft goods at low prices. America's largest off-price retail chains are:

- T. J. Maxx Marshalls (1998 annual sales of $7.8 billion)
- Ross Stores ($2.2 billion), and
- Burlington Coat Factory ($1.8 billion).

Off-price retailers can sell brand-name and even designer-label merchandise at low prices due to their unique buying and merchandising practices. Most merchandise is bought opportunistically from manufacturers or other retailers with excess inventory at the end of the season. This merchandise might be in odd sizes or unpopular colors and styles, or it may be irregulars (having minor mistakes in construction). Typically, merchandise is purchased at one fifth to one-fourth of the original wholesale price. Off-price retailers can buy at low prices because they don't ask suppliers for advertising allowances, return privileges, markdown adjustments, or delayed payments.

Closeout Retailers

Closeout retailers are off-price retailers that sell a broad but inconsistent assortment of general merchandise as well as apparel and soft home goods. The largest closeout chains are Consolidated

Stores (Odd Lots/ Big Lots, Mac Frugal's) ($5.5 billion in annual sales) and Tuesday Morning ($396 million).

Single-Price Retailers

Single-price retailers are closeout stores that sell all their merchandise at a single price, typically $1. The largest single-price retailers are Dollar Tree ($919 million in annual sales) and 99 Cents Only ($323 million).

Hypermarkets

A hypermarket is a very large retail store offering low prices. It combines a discount store and superstore food retailer in one Warehouse like building. Hypermarkets can be up to 300,000 square feet larger than six football fields-and stock over 50,000 different items. Hypermarkets are unique in terms of store size, low operating margins, low prices, and the size of the general merchandise assortment. Annual revenues are typically over, $100 million per store.

Food Retailers

Conventional Supermarkets

Prior to 1930, most food was purchased in small neighbourhood markets referred to as mom-and-pop stores because they were family-owned and -operated. In India we call them *kirana* shop. These have been replaced by larger self-service supermarkets, which offer considerably lower prices. Societal changes stimulating the development of supermarkets include the widespread use of cars, improved road systems, development of national mass media, rise of national brands, consumers' growing sophistication, and improved packaging and refrigeration. These changes made it easier for consumers to go to a store beyond the walking distance from their home. Also as a result of these changes, consumers have information that lessens their need for store employees' assistance when they make purchase decisions.

A conventional supermarket is a self-service food store offering groceries, produce with limited sales of non-food items, such as health and beauty aids and general merchandise. Half of the conventional supermarkets are very promotional. One day each week, they advertise that week's sale items in local papers. These promotion-oriented supermarkets also offer their own coupons and may agree to reimburse customers double or triple the face value of manufacturer coupons. This is called a hi-low pricing strategy. The other half of conventional supermarkets would use very few promotions and sell almost all merchandise at the same price every day. This is called an everyday low pricing (EDLP) policy. Typically, everyday prices in these supermarkets are lower than regular prices in promotional supermarkets.

Supercentres

Supercentres are 150,000-to-200,000-square-foot stores that combine a superstore (a large supermarket) and a full-line discount store. Supercentres are the fastest growing retail category.

The supercentres and full-line discount stores sell groceries at low prices to build store traffic. By offering broad assortments of grocery and general merchandise under one roof, supercentres provide a one-stop shopping experience. Customers will typically drive farther to shop at these stores than to visit conventional supermarkets (which offer a smaller selection). General merchandise items (non-food items) are often purchased on impulse when customers' primary reason for coming to the store is to buy groceries. The general merchandise has higher margins, enabling the supercentres to price food items more aggressively. However, since supercentres are very large, some customers find them inconvenient because it can take a long time to find the items they want.

Warehouse Club

A warehouse club is a retailer that offers a limited assortment of food and general merchandise with little service at low prices to ultimate consumers and small businesses. Stores are large (about 100,000 square feet) and located in low-rent districts. They have simple interiors and concrete floors. Aisles are wide so forklifts can pick up pallets of merchandise and arrange them on the selling floor. Little service is offered. Customers pick merchandise off shipping pallets, take it to checkout lines in the front of the store, and pay with cash. The largest warehouse club chains are Costco Club (annual sales of $24.3 billion); Sam's Warehouse Club, a division of Wal-Mart (annual sales of $22.9 billion); and BJ's Wholesale Club ($3.6 billion).

Convenience Stores

Convenience stores provide a limited variety and assortment of merchandise at a convenient location in a 2,000-to-3,000-square foot store with speedy checkout. They are the modern version of the neighbourhood mom-and-pop grocery store.

Convenience stores enable consumers to make purchases quickly, without having to search through a large store and wait in a long checkout line. Over half the items bought are consumed within 30 minutes of purchase. Due to their small size and high sales, convenience stores typically receive deliveries every day.