



MK 322 Retail Management

Chapter 2: Types of Retailers Part I

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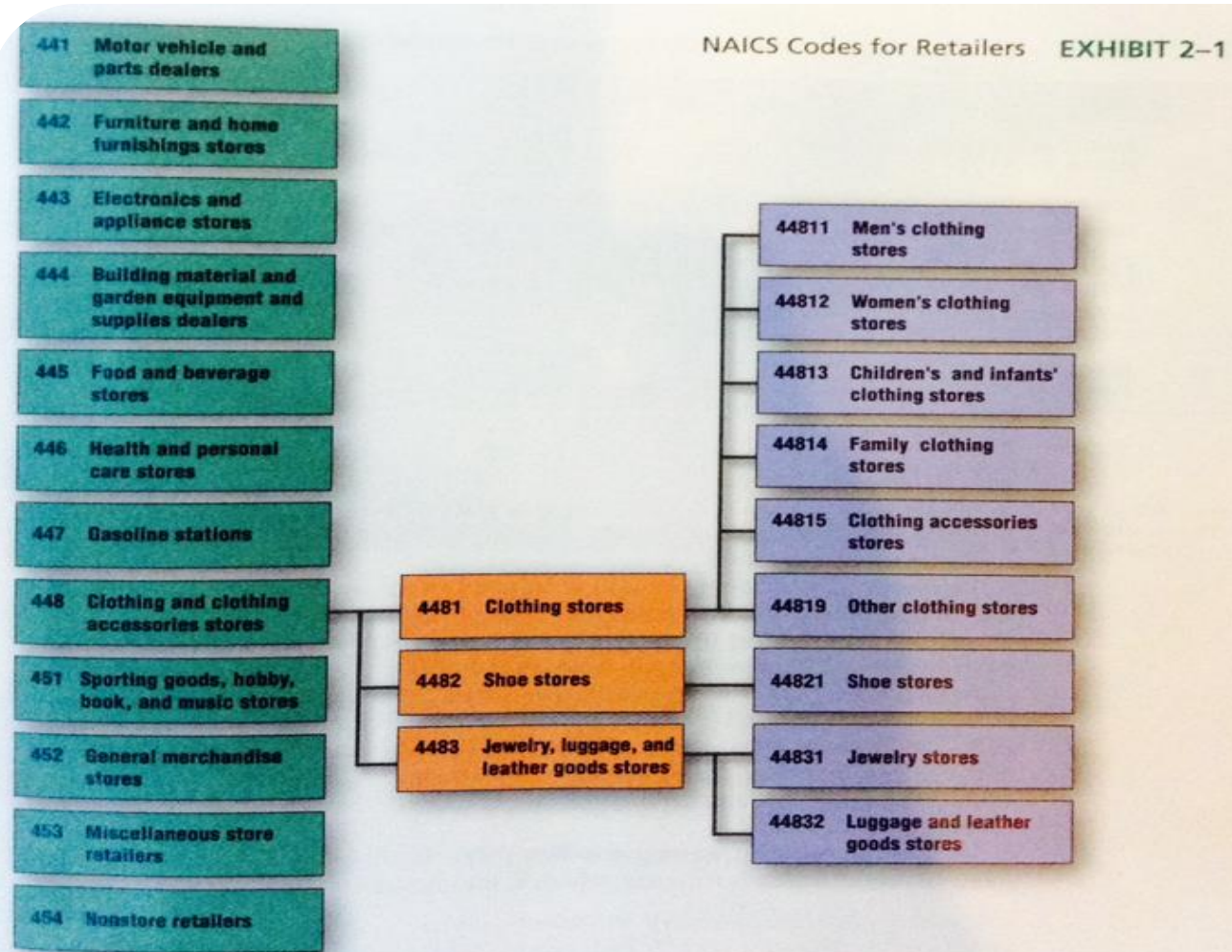
Retailer Characteristics



Type of Merchandise

- North American Industry Classification System (NAICS)- developed in U.S, Canada and Mexico to collect data on business activity of each country.
- The classifications for retailers selling merchandise, based largely on the type of merchandise sold, are illustrated in Exhibit 2-1

Type of Merchandise



SOURCE: "North American Industry Classification System (NAICS)," U.S. Census Bureau, www.census.gov/epcd/www/naics.html.

Variety and Assortment

- **Variety:** the number of merchandise categories a retailer offers.
 - Referred to as Breadth of merchandise
- **Assortment:** is the number of different items offered in a merchandise category.
 - Referred to as Depth of merchandise
- **Stock-keeping unit (SKU):** each different item of merchandise

Type of Merchandise

EXHIBIT 2-2

Variety and Assortment of Bicycles in Different Retail Outlets

	Adult Road	Adult Hybrid	Mountain	Child
Wheelworks	Bianchi, Colnago, Peter Mooney, Serotta, Trek 150 SKUs \$419.99–\$7,999.99	Bianchi, Specialized, Trek 96 SKUs \$349.99–\$1,899.99	Salsa, Santa Cruz, Specialized, Trek 122 SKUs \$299.99–\$1,899.99	Electra, Gary Fisher, Haro, Kettler, Trek 56 SKUs \$159.99–\$429.99
Toys R Us	Mobo Triton Pro 3 SKUs \$299.99–\$359.99	—	Cycle Force, Huffy, Schwinn 4 SKUs \$79.98–\$135.99	Avigo, Cycle Force, Huffy, Mongoose, Pacific Cycle 228 SKUs \$45.99–\$499.99
Walmart	Cycle Force, Genesis, Kent, Mongoose 26 SKUs \$99.97–\$499.00	Cycle Force, Genesis, Schwinn, Tour de France 9 SKUs \$179.00–\$349.00	Havoc, Genesis, Schwinn, NEXT, Roadmaster 63 SKUs \$88.00–\$379.00	Huffy, Koxx, Micargi, Schwinn, Tour De France 195 SKUs \$28.13–\$675.00

Type of Merchandise



How does Wheelworks' variety and assortment compare with Toys R Us and Walmart?

Services Offered

- Retailers also differ in the services they offer customers.
- Customers expect almost all retailers to provide certain services: displaying merchandise, accepting credit cards, providing parking, and being open at convenient hours.
- Some retailers charge customers for other services such as home delivery and gift wrapping.

Type of Merchandise



Why do the three retailers' assortments differ from each other?

Prices and Cost of Offering Breadth and Depth of Merchandise and Services

- Stocking a deep and broad assortment is appealing to customers but costly for retailers.
- When a retailer offers many SKU's, its inventory investment increases because the retailer must have backup stock for each and every SKU.

Prices and Cost of Offering Breadth and Depth of Merchandise and Services

- Services attract customers to the retailer, but are also costly
 - More staff must be paid to provide information and assist customers, alter products to meet customers' needs, and demonstrate merchandising.
 - Child care facilities, restrooms, dressing rooms take up valuable space that could be used to stock and display merchandise.

Prices and Cost of Offering Breadth and Depth of Merchandise and Services

- To make a profit, retailers that **offer broader variety, deeper assortments, and/or additional services need to charge higher prices.**
- For example, department stores have higher prices than discount stores partially because of their higher costs.
 - Department stores stock more fashionable merchandise and have to reduce prices when they make a mistake about guessing what popular styles will be.
 - They also provide more personal sales service and have expensive mall locations.

Food Retailers



Food Retailers

- The food retailing landscaping is changing dramatically.
- Many supermarkets offer pharmacies, health care clinics, banks and café.
- The world's largest food retailer, Walmart attains more than \$443 billion in sales of supermarket-type merchandise.
- In this measure it is followed by Carrefour(France), Tesco(United Kingdom), Metro Group (Germany), Schwartz Group (Germany) and Kroger (United States)

Food Retailers

EXHIBIT 2-3
Sales and Growth Rate
for Retail Sectors

	Estimated Sales, 2013 (\$ millions)	Estimated Sales Growth 2008-2013 (%)
Food Retailers		
Conventional supermarkets	\$622,896	3.3
Supercenters	354,905	7.1
Warehouse clubs	159,075	6.7
Convenience stores	748,186	3.0
General Merchandise Retailers		
Department stores	73,291	-0.9
Apparel and accessory specialty stores	210,236	4.5
Jewelry stores	35,848	3.4
Shoe stores	29,606	1.8
Furniture stores	66,262	2.2
Home furnishing stores	59,465	2.8
Office supply stores	26,404	2.2
Sporting goods stores	49,717	5.3
Bookstores	19,101	2.1
Building material, hardware, and garden supply stores	393,254	3.6
Consumer electronics and appliance stores	141,800	4.4
Drugstores	250,172	4.2
Full-line discount stores	126,385	0.0
Extreme-value stores	52,454	3.1
Nonstore Retailers		
Nonstore retailing	340,421	9.0
E-commerce	282,055	15.0

Food Retailers



Kroger is the largest supermarket chain in the United States.

Food Retailers

	Conventional Supermarket	Limited- Assortment Supermarket	Supercenter	Warehouse Club	Convenience Store
Percentage food	70-80	80-90	30-40	60	90
Size (000 sq. ft.)	35-40	7-10	160-200	100-150	3-5
SKUs (000)	30-40	1-1.5	100-150	20	2-3
Variety	Average	Narrow	Broad	Broad	Narrow
Assortment	Average	Shallow	Deep	Shallow	Shallow
Ambience	Pleasant	Minimal	Average	Minimal	Average
Service	Modest	Limited	Limited	Limited	Limited
Prices	Average	Lowest	Low	Low	High
Gross margin (%)	20-22	10-12	15-18	12-15	25-30

Supermarkets

- A conventional supermarket: is a large, self-service retail food store offering groceries, meat, and produce, as well as some nonfood items such as health and beauty aids and general merchandising.
- Perishables including meat, produce, baked goods and dairy products account for 30% percent of supermarket sales and typically have higher margins than packaged goods.

Supermarkets

- Conventional supermarkets carry about 30,000 SKUs
- Limited-assortment supermarkets or extreme-value food retailers only stock about 1,500 SKUs.
- Example in US is Save-A-Lot and ALDI

Supermarkets

- Other retailers offer food merchandise to build the traffic in their stores and increase the sales of more profitable nonfood merchandise
- They have superior operating efficiencies and bargaining power to achieve low costs and low prices.

Supermarkets

To compete successfully, supermarkets differentiate their offerings by

- 1) emphasizing fresh perishables
- 2) targeting green and ethnic consumers
- 3) providing better value with private-label merchandise
- 4) providing a better shopping experience

Supermarkets



Health-conscious and environmentally conscious are demanding organic and locally produced foods from food retailers.

Supercenters

- Supercenters: large stores (160,000 to 200,000 square feet) that combines a supermarket with a full-line discount stores.
- Walmart operates more than 3,000 supercenters in US
- Tesco Lotus
- Big C

Hypermarkets

- Hypermarkets: also large (160,000-200,000 square feet), combination of food (60 to 70 percent) and general merchandise (30 to 40 percent) stores.
- The world's second largest retailer Carrefour operates hypermarkets.
- They stock fewer SKUs than supercenters – between 40,000 and 60,000 items ranging from groceries, hardware, and sports equipment to furniture and appliances to computers and electronic

Hypermarkets

- Both face challenges in finding locations for new big box (large, limited-service) stores
- Land for building in Europe and Japan is expensive

Hypermarkets



Supercenters offer a vast assortments under one roof.

Warehouse Clubs

- Warehouse Clubs: retailers that offer a limited and irregular assortment of food and general merchandise with little service at low prices for ultimate consumers and small businesses.
- Warehouse clubs are large (100,000 to 150,000 square feet) and typically located in low-rent districts.

Warehouse Clubs



People go to warehouse clubs such as Costco to search for treasures like computers at prices lower than those of competitors.

Convenience Stores

- Convenience Store: a store that provides a limited variety of assortment of merchandise at a convenient location in a 3,000- to 5,000-square-foot store with speedy checkout.



Convenience Stores

- More than half the items bought are consumed within 30 minutes of purchase.
- Charge higher prices than supermarkets for similar products like milk, eggs, and bread, etc
- To compete against big retailers, they add counter services for bill payments, etc.
- To increase convenience, they open stores close to where consumers shop and work.
- Open 24 hours

Convenience Stores



At convenience stores you can jump out of your car and pick up a Coke and some chewing gum while getting gas.