CHAPTER 3: STRATEGIC PLANNING IN RETAILING
Chapter Objectives

• To show the value of strategic planning for all types of retailers
• To explain the steps in strategic planning for retailers: situation analysis, objectives, identification of consumers, overall strategy, specific activities, control, and feedback
Chapter Objectives (cont.)

- To examine the individual elements of a retail strategy (both controllable and uncontrollable), and to present strategic planning as a series of integrated steps.
- To demonstrate how a strategic plan can be prepared.
Retail Strategy

• The overall plan or framework of action that guides a retailer
  • One year in duration
  • Outlines mission, goals, consumer market, overall and specific activities, and control mechanisms
Figure 3-1: Elements of a Retail Strategy

- Situation analysis
  - Organizational mission
  - Ownership and management alternatives
  - Goods/service category

- Objectives
  - Sales
  - Profit
  - Satisfaction of publics
  - Image

- Identification of consumers
  - Mass marketing
  - Concentrated marketing
  - Differentiated marketing

- Overall strategy
  - Controllable variables
  - Uncontrollable variables

- Specific activities
  - Daily and short-term operations
  - Responses to environment

- Control
  - Evaluation
  - Adjustment

Feedback
Benefits of Strategic Retail Planning

- Provides thorough analysis of the requirements for doing business for different types of retailers
- Outlines retailer goals
- Allows retailer to determine how to differentiate itself from competitors
- Allows retailer to develop an offering that appeals to a group of customers
- Offers an analysis of the legal, economic, and competitive environment
- Provides for the coordination of firm’s total efforts
- Encourages anticipation and avoidance of crises
Organizational Mission

Retailer’s commitment to a type of business and to a distinctive role in the marketplace.
Lands’ End Mission Statement

• Lands’ End is a global multi-channel retailer designing and selling classically styled apparel, swimwear and outerwear for Women, Men and Kids, plus a complete line of home products, luggage and seasonal gifts.

• We provide our customers with the highest levels of service in our industry, unparalleled quality and value, and an unequivocal ironclad guarantee.
MTC Mission Statement

MTC is committed to improving the lives of our customers by providing quality services, products and solutions that earn them trust and build lifetime relationships.
Questions About Sears Holdings’ Mission Statement

- Role of private labels (Craftsman, Kenmore and DieHard) vs. national brands
- Integration of Lands’ End and Kmart (electronics, toys etc.) into Sears (appliances, clothing etc.)
- Strength in hardware, appliances where profit margins are low; low in clothing where margins are high
- Also strength as nation’s largest provider of home services (12 million service calls per year)
Core Values Statement of L.L. Bean

- Outdoor heritage— The natural environment and the outdoors experience
- Integrity— 100 percent guarantee of satisfaction
- Service— Treat customers like human beings
- Respect— Respect for all publics
- Perseverance— A long-term perspective
Need to Revise Sears Holdings Mission Statement

- Emphasizing online shopping, mobile apps, and an Amazon.com marketplace; yet Sears is primarily a bricks and mortar retailer
- Kmart one-quarter the sales productivity of Wal-Mart
- Much of locations in older decrepit malls. Also stores have not been refreshed
- Home Depot and Lowes as formidable competitors
- Subleasing space in selective stores to Forever 21 and French Connection???
Ownership and Management

Alternatives

• **Sole proprietorship** is an unincorporated retail firm owned by one person

• A **partnership** is an unincorporated retail firm owned by two or more persons, each with a financial interest

• A **corporation** is a retail firm that is formally incorporated under state law; it is a legal entity apart from its officers
Figure 3-3: Checklist to Consider When Starting a New Business

### A. Self-Assessment and Business Choice
- Evaluate your strengths and weaknesses.
- Commitment paragraph: Why should you be in business for yourself? Why open a new business rather than acquire an existing one or become a member of a franchise chain?
- Describe the type of retail business that fits your strengths and desires. What will make it unique? What will the business offer customers? How will you capitalize on the weaknesses of competitors?

### B. Overall Retail Plan
- State your philosophy of business.
- Choose an ownership form (sole proprietorship, partnership, or corporation).
- State your long- and short-run goals.
- Analyze your customers from their point of view.
- Research your market size and store location.
- Quantify the total retail sales of your goods/service category in your trading area.
- Analyze your competition.
- Quantify your potential market share.
- Develop your retail strategy: store location and operations, merchandising, pricing, and store image and promotion.

### C. Financial Plan
- What level of funds will you need to get started and to get through the first year? Where will they come from?
- Determine the first-year profit, return on investment, and salary that you need/want.
- Project monthly cash flow and profit-and-loss statements for the first two years.
- What sales will be needed to break even during the first year? What will you do if these sales are not reached?

### D. Organizational Details Plan
- Describe your personnel plan (hats to wear), organizational plan, and policies.
- List the jobs you like and want to do and those you dislike, cannot do, or do not want to do.
- Outline your accounting and inventory systems.
- Note your insurance plans.
- Specify how day-to-day operations would be conducted for each aspect of your strategy.
- Review the risks you face and how you plan to cope with them.
Figure 3-4: Checklist for Purchasing an Existing Retail Business

NAME OF BUSINESS ____________________________

✓ Why is the seller placing the business up for sale?
✓ How much are you paying for goodwill (the cost of the business above its tangible asset value)?
✓ Have sales, inventory levels, and profit figures been confirmed by your accountant?
✓ Will the seller introduce you to his or her customers and stay on during the transition period?
✓ Will the seller sign a statement that he or she will not open a directly competing business in the same trading area for a reasonable time period?
✓ If sales are seasonal, are you purchasing the business at the right time of the year?
✓ In the purchase of the business, are you assuming existing debts of the seller?
✓ Who receives proceeds from transactions made prior to the sale of the business but not yet paid by customers?
✓ What is the length of the lease if property is rented?
✓ If property is to be purchased along with the business, has it been inspected by a professional engineer?
✓ How modern are the storefront and store fixtures?
✓ Is inventory fresh? Does it contain a full merchandise assortment?
✓ Are the advertising policy, customer service policy, and pricing policy of the past owner similar to yours? Can you continue old policies?
✓ If the business is to be part of a chain, is the new unit compatible with existing units?
✓ How much trading-area overlap is there with existing stores?
✓ Has a lawyer examined the proposed contract?
✓ What effect will owning this business have on your life-style and on your family relationships?
Figure 3-5a: Selected Kinds of Retail Goods and Service Establishments

**Durable Goods Stores:**
- Automotive group
- Furniture and appliances group
- Lumber, building, and hardware group
- Jewelry stores

**Nondurable Goods Stores:**
- Apparel group
- Food group
- General merchandise group
- Gasoline service stations
Figure 3-5b: Selected Kinds of Retail Goods and Service Establishments

Service Establishments (Personal):
- Laundry and dry cleaning
- Beauty/barber shops
- Funeral services
- Health-care services

Service Establishments (Amusement):
- Movie theaters
- Bowling alleys
- Dance halls
- Golf courses
Figure 3-5c: Selected Kinds of Retail Goods and Service Establishments

Service Establishments (Repair):
Automobile repair
Car washes
Consumer electronics repair
Appliance repairs

Service Establishments (Hotel):
Hotels
Motels
Trailer parks *(mobile homes)*
Camps
An *image* represents how a given retailer is perceived by consumers and others.
Positioning Approaches

- **Mass merchandising** is a positioning approach whereby retailers offer a discount or value-oriented image, a wide or deep merchandise selection, and large store facilities.

- **Niche retailing** occurs when retailers identify specific customer segments and deploy unique strategies to address the desires of those segments rather than the mass market.
Figure 3-6: Niche Retailing by Babies “R” Us
Figure 3-7: Selected Retail Positioning Strategies
Target Market Selection

• Three techniques
  • Mass marketing
  • Concentrated marketing
  • Differentiated marketing
Figure 3-8: La Boqueria
Strategic Implications of Target Market Techniques

- Retailer’s location
- Goods and service mix
- Promotion efforts
- Price orientation
- Strategy
Figure 3-9: Developing an Overall Retail Strategy

**Controllable Variables:**
- Store location
- Managing business
- Merchandise management and pricing
- Communicating with customer

**Uncontrollable Variables:**
- Consumers
- Competition
- Technology
- Economic conditions
- Seasonality
- Legal restrictions

Retail Strategy
Retail Strategy– Low Costs

- Removal of bad costs
- Use of private label products to reduce costs of national/manufacturer brands
- Reduce product proliferation *(rapid increase in numbers)*
- Obtain best net price instead of focus on promotional monies, trade incentives and forward buying
Retail Strategy– Low Costs (cont.)

• Supply chain initiatives
• Low promotional expense (*everyday low pricing*)
• Proper employee utilization
Retail Strategy--Differentiation

- Well-thought out private labels (Checkers, Big Daddy?, Bokomo, etc.)
- Hiring right employees (value-profit chain)
- Empowering employees
- Use of a fun atmosphere
- “Little things that mean a lot”
- Money-back guarantees
Table 3-4a: Legal Environment and Retailing

**Store Location**

- ZONING LAWS (*Diamond Restricted Area*)
- BLUE LAWS (*a law prohibiting certain activities, such as shopping, on a Sunday*)
- ENVIRONMENTAL LAWS (*Protection of animals and plants.*)
- direct selling laws
- LOCAL ORDINANCES (*code of laws for a political division smaller than a state or nation*)
- leases and mortgages

**Managing the Business**

- licensing provisions
- personnel laws (*HR*)
- antitrust laws (*competition law*)
- franchise agreements
- business taxes
- recycling laws (*deposits or refund*)
Table 3-4b: Legal Environment and Retailing

Merchandise Management and Pricing

- Trademarks (*distinguishing the goods or IPR*)
- merchandise restrictions
- product liability laws and lemon laws
- sales taxes
- collusion laws (*between two or more parties*)
- sale prices (*customer*)
- price discrimination laws
Table 3-4c: Legal Environment and Retailing

**Communicating with the Customer**

- truth-in-advertising and selling laws
- truth-in-credit laws
- telemarketing laws
- **bait-and-switch laws** *(A store attracts customers by an advertisement for a bargain-priced product)*
- **inventory laws** *(organization's major asset after physical buildings and equipment.)*
- **labeling laws** *(Fair Packaging and Labeling Act)*
- **cooling-off laws** *(a 3-day right to cancel a sale made at your home, workplace or dormitory, or at a seller's temporary location, like a hotel)*
Table 3-6: Sample Strategic Plan

Sally’s is a small, independently owned, high-fashion ladies clothing shop located in a suburban strip mall. It is a full-price, full-service store for fashion-forward shoppers. Sally’s carries sportswear from popular designers, has a personal shopper for busy executives, and has an on-premises tailor. The store is updating its strategic plan as a means of getting additional financing for an anticipated expansion.
Additional Concerns for Global Retailing

- In addition to the strategic planning process:
  - assess your international potential
  - get expert advice and counseling
  - select your countries
  - develop, implement, and review an international retailing strategy
Factors Affecting the Success of a Global Retailing Strategy

- Timing
- A balanced international program
- A growing middle class
- Matching concept to market
- Solo or partnering
- Store location and facilities
- Product selection
Figure A3-1: Factors to Consider When Engaging in Global Retailing

**International retailing strategy**

**Institutional factors**
- Ownership form
- Goods/service category
- Existing channels of distribution
- Level of competition
- Level of technology (e.g., media, transportation network)
- Government restrictions
- Desirability of a standardized approach

**Operations factors**
- Availability and caliber of personnel
- Appropriate management style
- Facilities (e.g., availability of air-conditioning)
- Expected pilferage rates

**Merchandising factors**
- Width and depth of assortment
- Merchandise quality
- Level of innovativeness
- Availability and caliber of suppliers
- Inventory control

**Pricing factors**
- Level
- Use of set pricing versus negotiable pricing
- Typical purchase terms

**Store location factors**
- Availability of desirable areas and sites
- Leasing/purchase terms
- Level of transportation facilities
- Hours of operation

**Image and promotion factors**
- Store atmosphere
- Interior layout and displays
- Advertising
- Personal selling

**Consumer factors**
- Retailing preferences
- Population trends
- Predominant language
- Level and distribution of income
- Level of literacy/education
- Cultural values and lifestyle patterns
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