RETAIL MANAGEMENT (MKTG30006)
LECTURE SUMMARY NOTES

The University of Melbourne

LECTURE CONTENTS

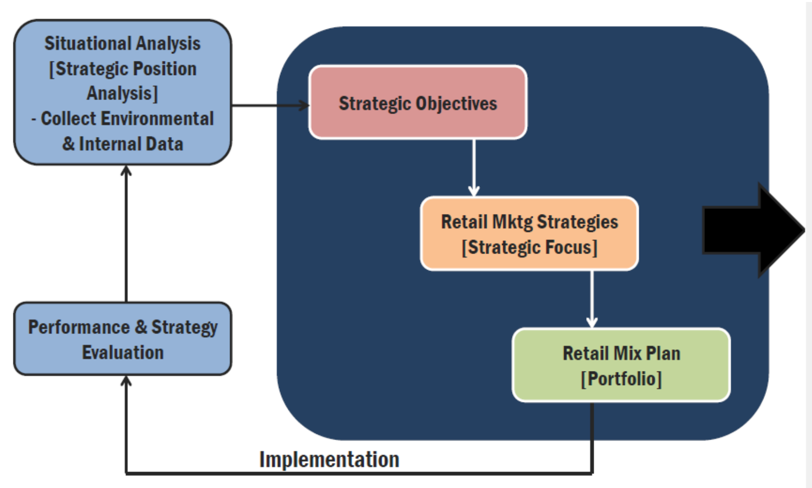
LECTURE 3 – DEVELOPING RETAIL STRATEGY 1

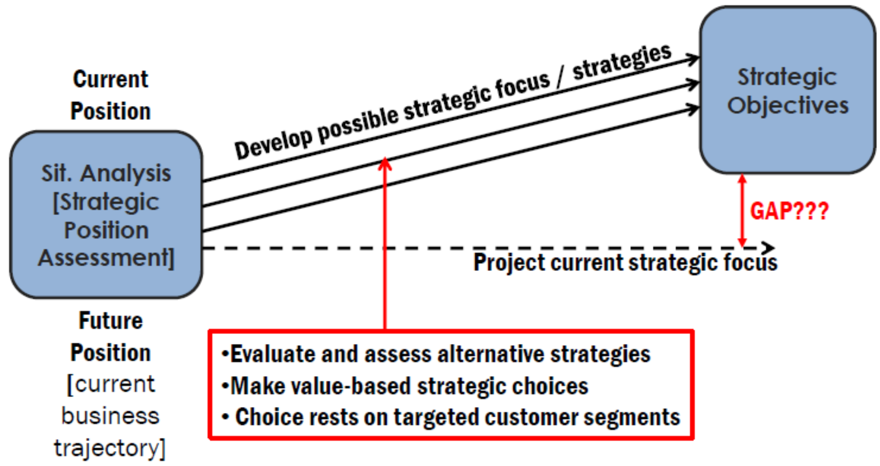
INTRODUCTION TO RETAIL STRATEGIES

Retail Strategy → an overarching framework or set of plans guiding the retailer's channel and marketing decision making
- markets and customers to be targeted and served
- which and how customer needs will be met
- how sustainable competitive advantage will be gained
- resource deployment
- performance review
- absence of strategy → incoherence, diffusion of resource and effort, confusion

Reasons for developing Retail Strategy
- Facilitate change
- Force managers to ask the right questions
- Motivate and control
- Balance the tyranny of accountants

RETAIL MARKETING STRATEGIES: SYSTEMATIC PROCESS

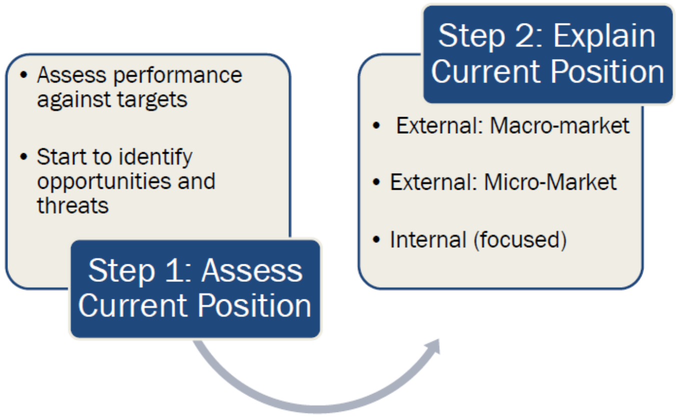




** retail mix to implement strategic focus

Characteristics of Strategy:
- Direction → vision, goals
- How to reach goals
- By what means/Resources
- Time frame

I. SITUATIONAL ANALYSIS



Step 1: Assess Current position
Performance Assessment needs to occur across all level and portfolio dimensions important to how the retailer defines market:

- Product and service categories
- Geographies
- Customer segments
- Channels/Formats

→ Identify which sections of the business are *driving value* and achieving set objectives, and which sections of the business are *falling below expectation*

Step 2: Explain Current Position (identify context to current performance to explain the success or failure to meet expectations) (SWOT → but do external first)
External analysis (OT): Macro environment (PEST), Micro-market dynamics
Internal analysis (SW): Internal capability to create a *competitive advantage* (cost benefit, benefit differentiation)
** internal analysis must be based on external analysis)

1. PEST Analysis (External: FAR, Macro-market)
2. Micro-market Dynamics (Overall, Customer segments)
3. Competitors (Definition, 5 forces to assess)
4. Retail Cycles (Wheel of Retail, Life Cycle)

1. PEST Analysis

Political / Legal	Economic
Change of government	GDP Trends
Tax policies	Regional Economies
Employment Law	Disposable incomes
Minimum Wage	Savings Ratio
Trading Hour Restrictions	Interest Rates
Planning Guidelines	Employment Levels
Trading Terms Codes	Exchange Rates
Environmental Laws	Fuel Costs

Sociocultural	Technological
Environmental Concerns	High-tech Products
Consumerism	Food Processing
Changing work Patterns	Internet
Holiday / Leisure Time	Interactive Devices
Food Concerns	E-data interchange
Levels of Education	Warehousing technology
Aging Population	Satellite Tracking
Delays in starting family	Security technologies

2. Micro-market Dynamics

Customer Landscape

Retailer's lines of enquiry

- Who is the shopper
- Why do they shop
- How do they shop
- What and when do they shop

→ Profiling – customer segments (Big Data, Bespoke Research)

**cannot use loyalty to segment → loyalty data will only pick out data of people who are already shopping with you, a potential segment in the market could be out there but invisible to you

Market Segmentation

a. Identify a homogenous segment that differs from other segments, with similar wants, needs and responses to the retail mix

b. Specify the characteristics that define the segment, profile them clearly enough so members can be readily identified and contacted

c. Determine segment attractiveness based on size and potential, then use to explain current performance and choose which segments to target

Segmentation Criteria

- **Demographic** (age, gender, education, income, occupation, cultural background)
- **Geographic** (where customers live, work and shop makes a significant on their buying characteristics)

Catchment Area Geodemographic

- profile of a retailer's customers within a catchment radius is of interest to retailers
- census geodemographic data can be used to assess size and potential of market segments defined by postcodes

- geodemographic data can be used to predict customer behaviour at postcode level

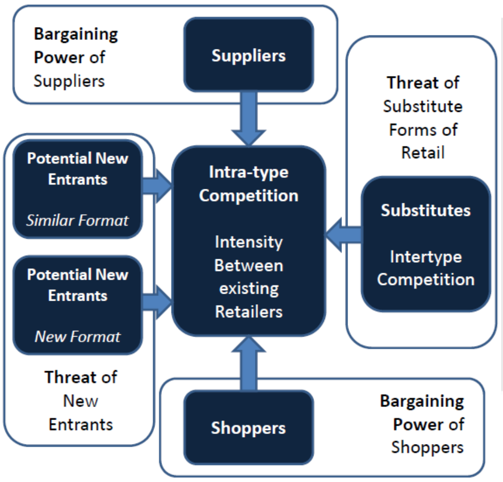
- **Behavioural** (highly specific behavioural characteristics used to define sharply focused market segments based on *what customers do* can be powerful)
    - Customer Needs / Benefits Sought
        customer needs expressed as benefits sought; offer that provides the best bundle of benefits for the individual is most likely chosen)
    - Shopping related behaviour
        in-store shopping modes, missions and behaviour)
    - Benefit variables include:
        value for money, fashionability, provenance, identity reinforcement, convenience)
- **Psychographic** (assumes customers are individuals with different personalities, identities, perspectives on life, values and decision-making processes
    - Example: VALs Framework (Values, Attitude, Lifestyle)
    - Psychographic variables include:
        social class, lifestyle, personality, attitudes

Composite Segmentation
Often used to identify useful segments by *combining* multiple variables

Segmentation Evaluation
Criteria for evaluating market segment attractiveness:
a. Actionable
    → can clearly see what should be done to satisfy needs
b. Identifiable
    → can determine which customers are in the segment, then determine, size growth and composition
c. Substantial
    → will segment generate significant/sustainable profit to support business objectives?
d. Reachable
    → can I actually reach out to the customers with my products or marketing?

- Segment customers to identify context to current performance, to explain the success or failure to meet expectations
- Customer Segment Dynamics and Metrics:
    - Size - Growth Rate - Market Share
    -Profitability - Life Cycle Status - Long-term value

3. Competitors



5 Forces Driving Retail Competition
a. Threat of New Entrants
b. Bargaining Power of Suppliers
c. Bargaining Power of Shoppers
d. Threat of Substitutes
e. Intensity of Existing Competition

a. Threat of New Entrants

Attractiveness of a sector/market to new entrants, dependant on:
- market profitability
- barriers to entry

Barriers to entry:
a. Capital requirements
b. Economies of Scale
c. Access to customers or availability of sites
d. Differentiation, Brand identity & Store Loyalty
e. Expected Retaliation
f. Access to Supply & Distribution

b. Bargaining Power of Suppliers

Power has shifted towards retailers:
- retailer dictates shelf price
- retail concentration & size
- own brands and marketing capacity

Influence of a supplier depends on relative size to the Retailer
- Large MNC suppliers such as Nestle, Unilever& P&G often have market shares larger than respective retailers in respective market, they're in position to negotiate trade terms
- Large suppliers draw their power from brand strength & customer loyalty
- Small retailers are vulnerable to pressure – particularly ranging and shelf price
- For large retailers like Walmart in US and Coles/Woolworths in AU, the power is theirs

c. Bargaining Power of Shoppers

- Individual Shopper’s Transactions are relatively small
    - individuals have little impact on retailer strategies
    - but cost of switching to another retailer is also small
- Internet reducing shopper immobility and *information asymmetry*
- Legislation and formal regulation is always a threat

d. Threat of Substitutes

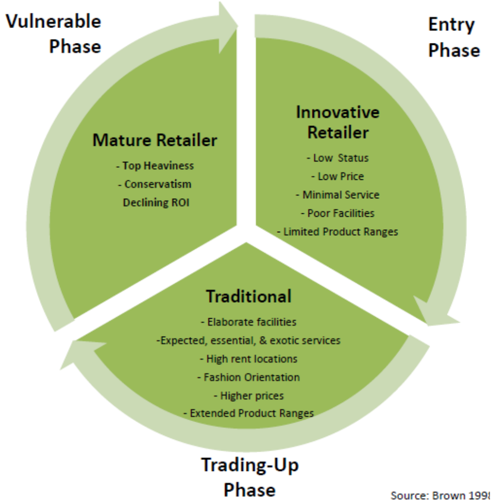
- The rise of multi-channel retailing and online/mobile commerce has increased the threat of substitutes
- Substitute threats can also come from other sectors such as the competition between restaurants and supermarket convenience meals
- Retail expenditure also *competes with other forms of consumer spending,* such as holidays and entertainment

e. Intensity of Competition

Intense competition within an existing market is dependent on factors such as:
- slow market growth
- market maturity
- high concentration
- low differentiation
- high exit costs (possibility of reinvesting our capital somewhere else?)

4. Retail Cycles

Wheel of Retailing



- new types of retailers usually enter the market as low status, low margin, low price
- gradually acquire more elaborate establishments and facilities, with both increased investments and higher operating costs
- finally *mature* as, high-price merchants, vulnerable to newer types who go through the same pattern higher-cost

- you plot yourself against your competitors in the wheel

- find out what are the threats and opportunities (e.g. if you're in the trade-up phase and there's a company at the vulnerable phase, there's an opportunity to phase them out)

- the wheel rotates and can be spun and turned back (i.e. mature retailer doesn't necessarily mean they must be vulnerable)
- retailers can *re-invent and refresh* themselves through new formats and channels, merchandise, brand extensions, etc.

Retail Life Cycle

Introduction

- Few competitors, rapid sales growth, low profitability (high start-up costs)

Growth

- rising profitability, increasing competition (fast followers)

Maturity

- Many competitors, plateauing profits

Decline

- Falling sales and profit

	Develop	Introduction	Growth	Maturity	Decline
Sales	Low/ growing		Rapid acceleration	High, levelling	Dropping
Profitability	Negative to break even		High yield	High/ declining	Low to break even
Positioning	Concept Innovation		Niche	Broad Market	Niche
Competition	None		Limited	Extensive	Intensive

External analysis → identify threats & opportunities: current & future

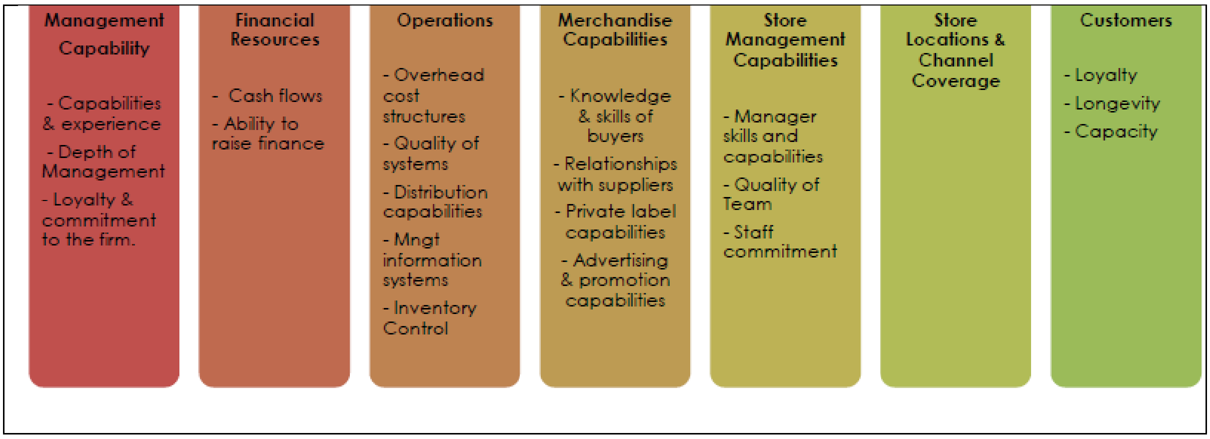
- time frame?
- size/importance/relevance?

(competitors, customer profiles, P.E.S.T, Retail cycles)

Internal analysis

- Internal capability to create competitive advantage
    - *cost leadership*
        - same benefits as competition, lower long-term costs
        - offer same price as competition but at higher margins or lower price with increased market share
    - *benefit differentiation*
        - product/ service leadership OR personalised offers
        - must be accompanied with increased willingness to pay
- Long-term strategic competitive advantage
    - excelling on a specific dimension of value (that meets target customers' needs) while maintaining threshold standards on other value dimensions
- Guided by the <u>opportunities and threats</u> identified in external analysis

Internal Analysis: Strengths and Weaknesses (to deliver SCA)



Example of SWOT analysis

STRENGTHS / WEAKNESSES (internal)	
Stores & Channels	• Size profile, locations, ambiance, development potential
Buying	• Buying power, experience & expertise
Product Range	• Width / depth of assortment, own-brand penetration
Management	• Skills and capabilities, leadership & vision, cohesiveness
Marketing	• Skills and capabilities, effectiveness, market research, mix.
Team	• Flexibility, skills, demographics (e.g. age)
Systems / Operations	• Order/payment systems, PoS information, SOH data, reporting
Distribution / Supply	• Warehousing & transportation systems, SOH, order lead times
Finance	• Cost structures, profit mix, RoI, working capital, assets

OPPORTUNITIES / THREATS (external)	
Economic Changes	• Unemployment levels, distribution of wealth, disposable incomes, interest rates
Social Changes	• Ageing population, smaller HHs, two-career families, changing lifestyles
Consumer Changes	• Changing needs and wants, beliefs & attitudes, perceptions of the company, loya
Suppliers	• Bargaining power, production capability, flexibility, reliability, R & D capacity
Market Structure	• Relative market share, leader/follower roles, monopolistic competition
Competitors	• Existing/new competition, direct/indirect competition, likely competitor strategi
Social Expectations	• CSR, business sustainability & responsibility
Legislation	• Competition policy, laws/codes on terms of trade, advertising and pricing restrict

After SWOT situational analysis → we still have to predict the future by using the data

LECTURE 4 – DEVELOPING RETAIL STRATEGY 2

Step 3: Project Future Position

In a 'do nothing differently' scenario:

→ forecast future business performance based upon the current marketing/retail strategies

→ and predicting the future market dynamics and differential/competitive position

Future Predictions – impacted by macroeconomic forces (PEST)

- market/segment size
- market/segment growth
- competitive structure
- retail phase
- risks

Predicting future differentiation (competitiveness)

→ to accurately predict the future differentiation competitiveness of the business requires comprehensive analysis of:

- competitor strategy
- changing consumer needs

[how will prices, cost and value chains, market shares, competitor strategies and customer needs change over the next 5 years?]

**SITUATIONAL ANALYSIS TOOLBOX
- Threats & Opportunities: Macro-market Trends
    - PEST
- Threats & Opportunities: Micro-market Trends
    - Customer/Market
    - Competitor
    - Wheel of retail
    - Retail life cycle
- Internal Capacity for competitive differentiation
    - Strengths
    - Weaknesses
- Current performance opportunities
    - Growth drivers
    - Under performers
- Future predictions

II. SETTING STRATEGIC OBJECTIVES

- after analysing the situation, retailer needs to define direction in which It should progress, essential to define the overall vision

- Where are we?
- How did we get here?
- Where should we be?
- How should we get there?

Mission

- a stable anchor point

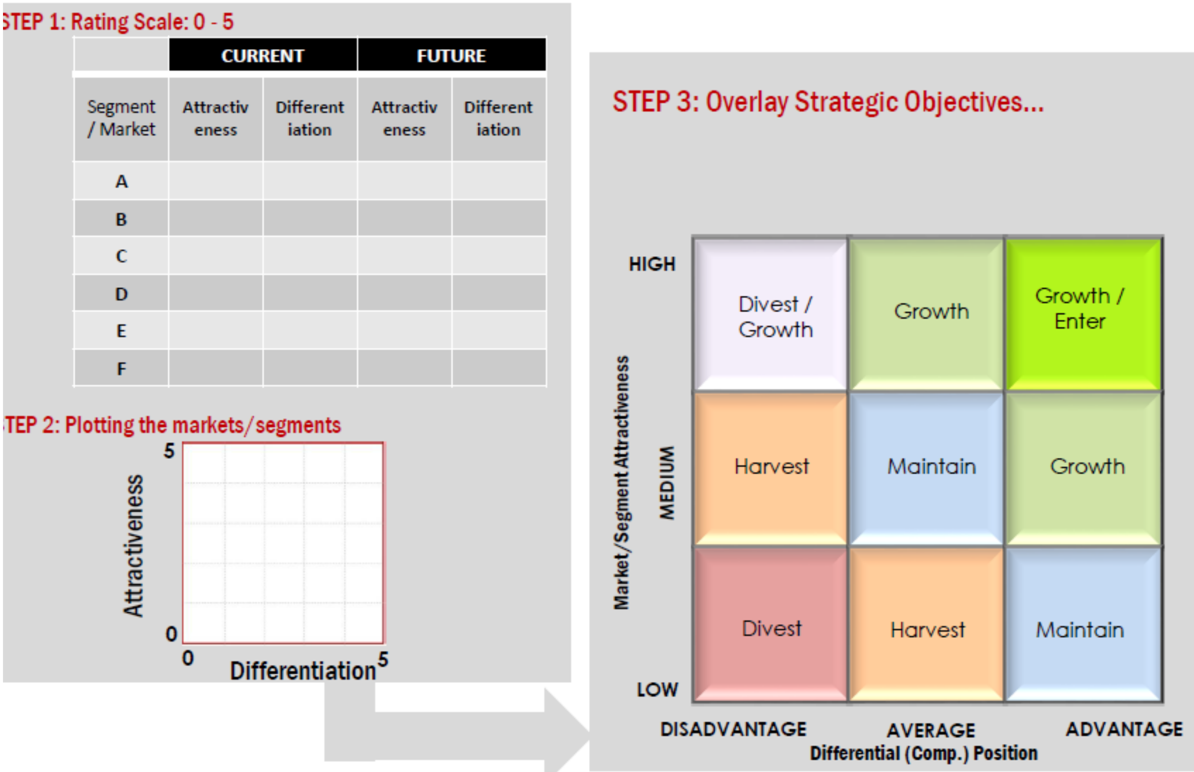
Vision

→ antecedent to a strategy, which is dependent on a vision in order to give it form and direction

→ description of a place or state you wish to be

→ *evolves* to meet *changing stakeholder needs*

DETERMINE OBJECTIVES ACROSS PORTFOLIOS



Rating scale → 0 to 5, then plot the current and future, linking both together

Objectives for each entity in the portfolio can be set:

- Market / Customer Segment
- Product / Service Category
- Geography
- Channel

EXPLANATIONS:

Market/Segment Attractiveness → fast-growing? Low entry cost?

Differential (Competitive) Position → number of competitors and how strong they are

Divest → Take out capital, invest in another business, and consider how to shift the loyal customers away with you

Harvest → (strategically very important) Not investing in the market anymore, but still harvesting the profit. Take the profit and re-investing in somewhere to get growth. You're not going to get growth in harvesting but you're still going to get profit, so use this profit to get growth in another market.

Maintain → strategically use part of their organization to further grow

Divest/Growth → [DECISION POINT] do we think we can get a competitive advantage against the competitor? If we can then grow / If we can't then divest.

Growth/Enter → If you can predict that you will immediately have a advantage over competitors

Goal Formation Criteria:

1. Objectives/goals should be *arranged hierarchically* from the most to the least important
2. The goals should be *quantitative and measurable* where possible
3. The goals should be realistic
4. The objective should be consistent and not contradictory (e.g. cost minimisation vs share growth)
(e.g. getting an average of *10 more* customers *each day*)
(e.g. must grow profit as well as market share, target to grow market share from *10% to 15%* while growing profit at the same time *within 3 years*)

**each objective will have a specific set of goals or targets to be achieved over the planning period and should be relevant to customer segment

S p e c i f i c **M** e a s u r a b l e **A** t t a i n a b l e **R** e l e v a n t **T** i m e – b o u n d

Gap between current strategic focus and strategic objectives:
- Caused by the inability of our current strategies to achieve our goal → implies we must change our strategy. The gap is usually there in fast-growing markets.
- Draw upon the future projections of the 'do nothing' scenario to determine if there are gaps between this projected performance and the newly set strategic objectives.
- If there is a gap, a range of alternative strategies need to be developed to meet the set objectives.

III. DEVELOPING ALTERNATIVE RETAIL STRATEGIES

GENERIC STRATEGIES

3 generic strategies that provide a good starting point (Porter):

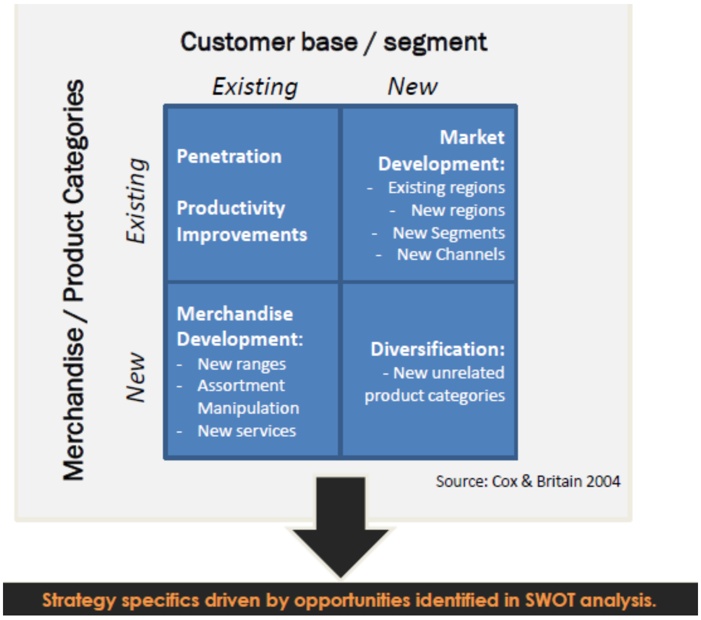
i. Overall Cost Leadership
ii. Differentiation advantage (superior benefit valued by target market segments)
iii. Focus (pursuit of niche market segments, gaining an intimate

** large retailers cannot choose 2 and sit on the fence, have to focus on ONE.
Entries can sit on the fence first to figure out their niche and try a few things from each area for 6 months, and see what works.
** This is informed by targeted customer segments and positioning strategy

ANSOFF'S INTENSIVE GROWTH STRATEGIES

Product-Market Matrix

1. **Penetration** *(Existing customer, Existing product)*
   - aggressive *market share stealing* tactics
   - we already have customers, but want more customers, steal from competitors, or want existing customers to shop more
   - most cost-effective (we already have it, we just want more)
2. **Merchandise Development** *(Existing customers, New product)*
   - broaden our offerings to meet more customer needs
   - getting existing customers to buy new products)
3. **Market Development** *(New customer, Existing product)*
   - Organic growth: trying to break into new market by trying out new locations/segments
   - Reduces the risk because product already works in another market
   - In decision point, this is where we choose to enter (grow) because new market is attractive and we already have an advantage
4. **Diversification** *(New customer, New products)*
   - high risk, high return
   - this is where we usually see established retailers failing (e.g. Marks & Spencer failed in Europe, had to shut down)



e.g. Starbucks

Market Penetration	- Identified niche for gourmet coffee cafes - Penetrated the Seattle market with existing coffee products
Market Development	- Applied successful Seattle formula across Northern US - Launched cafes across US then into global market (Canada first) - **Harvesting in US market to invest in global market

Merchandise Development	- Once cafes were established internationally, focus on increasing customer basket size with *new beverage products* and *in store merchandise*, including tumblers and CDs
Diversification	- Diversification into supermarket aisles with Frappuccino bottled drinks and Ice Cream - Acquisition of Teavana (India is more into tea, but Starbucks already created a niche and known for coffee, and has *no brand equity for tea*, therefore, to grow into the tea market, the have to acquire a new brand specifically for TEA.

CONSOLIDATION/MAINTENANCE STRATEGIES

1. Maintaining market share in a growth market
2. Tightening & consolidating offer around a core market/offer (efficiency strategy, not 'do nothing')

e.g. Myers had a gardening and BBQ market but since Bunnings came in, Myers stepped back from the competition and consolidated their core market by bringing back in their furniture and living room stuff

PRODUCTIVITY/HARVEST STRATEGIES

Improve profit and efficiency:

- Cost reductions and efficiency improvements (e.g. putting confectioneries in correct supermarket aisle such that targeted customers WILL walk through that aisle and grab a few bunch)
- Manipulating assortments/ranges to improve profit return
- Often employed in mature markets, harvested profits can be used to fuel growth strategies

e.g. Smiggle

While it is very profitable in Australia, it is now in the harvesting stage in AU market because profits are used to invest in the European market

IV. EVALUATING ALTERNATIVE STRATEGIES

When developing possible strategic focus/strategies

- Evaluate and assess alternative strategies
- Make value-based strategic choices
- Choice rests on targeted customer segments

→ choose at most 3 strategies from the 10-12 developed

→ assess the strategies and see which one will bridge the gap the most, estimate what each of them will do to bridge the gap

→ look at the risk and cost that we need to implement the strategy

→ make decision of a combination of 3 strategies and sell it

Evaluating Competitive Advantage (basically SWOT):

- compare the *attractiveness of the opportunity* with the *retailer's strengths* relative to competition
- evaluation criteria for alternative strategies –
    i. what contribution will each strategy make to bridging the gap between current and vision (quantify where possible, e.g. profit, market share)
    ii. what are the risks involved
    iii. timeframe?
    iv. ability of the firm to undertake the strategy (internal capability) within the strategic timeframe

e.g. Targeting a new customer segment or channel

Attractiveness of new channel/segment	Retailer's competitive strength
- size - growth rate - profitability - channel requirement - technology requirement - legal issues - environmental issues - reachability	- current market share - marketing capabilities - merchandising skills - buying strength - supply chain management - supplier relationships - financial resources - managerial capability - fit with retail brand & positioning