



ASSIGNMENT MEMORANDUM

**SUBJECT : RETAIL MARKETING (RM)
RETAIL MARKETING (RM001)**

ASSIGNMENT : 2ND SEMESTER 2011

The following memorandum outlines the basic topics that should have been covered in the student's answers to the assignment. The memo does not cover every possibility and the marker is to use his/her discretion when allocating marks based on the quality of the student's answers. In addition, students did not have to cover every point identified in this memorandum – it serves as a guide only. As stated previously, marks are allocated based on the student's comprehension of the work and insight shown through their examples and practical applications.

Take note that 10 marks are allocated to presentation. This includes the following elements:

- Length
- Spelling checked
- Structure
- Use of headings and paragraphs
- Logical development of answers
- Harvard referencing method.

Prescribed textbook: Levy, M., and Weitz, B.A. 2009. *Retailing Management*. 7th edn. McGraw-Hill.

QUESTION 1 [10]

See Levy & Weitz 2009: Chapter 2, pp. 40-54

Using the relevant characteristics of the different types of food and general merchandise retailers identified in the prescribed textbook, students had to first identify what type of retailer Fruit & Veg City is and then provide practical reasons for their choice. The motivation of their choice had to be done based on the characteristics of the chosen type as well as referring to the other types of retailers by showing why Fruit & Veg City is not classified as the other types.

Take note that the classification of Fruit & Veg City is not as clear-cut as it might seem at face value. One would instinctively classify it as one of the food retailers (which could be the case) but it also displays the characteristics of a category killer, which falls under general merchandise retailers. The marker should read the student's answers carefully with this in mind to assess the student's level of comprehension of the concepts.

The focus of the answer should have been practical application by addressing the characteristics of Fruit & Veg City. Students were not specifically required to discuss the theory.

Students had to make sure they identified the differences as well as the similarities between the two. It was important that they motivate the statements that they made. If they simply rewrote what is given in the textbook they should not obtain a pass mark for the question – practical application is essential.

Total = 20 marks

Students had to address the type that is most appropriate/relevant to Fruit & Veg City with reference to the other types. In most cases, students will identify a supermarket and a category specialist. Some may identify other options which should be considered but only accepted if sufficient and valid motivation is given.

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)	20–30	7–10	150–220	100–150	2–3
SKUs (000)	20–40	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

- Offer merchandise at 40-60% lower prices than conventional supermarkets
- Spar.

Trends in supermarket retailing

- Competition from discount stores
- Changing consumption patterns.

Ways to handle trends/threats

- Emphasise fresh perishables
- Target health conscious and ethnic consumers
- Provide a better in-store experience
- Offer more private label brands.

1. CONVENIENCE STORES

- Tailors assortments to local market
- Makes more convenient to shop
- Offers fresh, healthy food
- Fast, casual restaurants
- Financial services available
- Opening smaller stores closer to consumers (like airports).

2. BIG-BOX FOOD RETAILERS

- Supercentres
- Hypermarkets
- Supercentres vs. hypermarkets
- Warehouse clubs.

GENERAL MERCHANDISE RETAILERS

Exhibit 2-6 in Levy & Weitz (2009) summarises the characteristics of general merchandise retailers that sell through stores. Many of these general merchandise retailers sell through multi-channels, such as the Internet and catalogues.

The following types of general merchandise retailers can be identified:

Type	Variety	Assortment	Service	Prices	Size (000 sq. ft.)	SKUs (000)	Location
Department stores	Broad	Deep to average	Average to high	Average to high	100–200	100	Regional malls
Discount stores	Broad	Average to shallow	Low	Low	60–80	30	Stand alone, power strip centers
Specialty stores	Narrow	Deep	High	High	4–12	5	Regional malls
Category specialists	Narrow	Very deep	Low to high	Low	50–120	20–40	Stand alone, power strip centers
Home improvement centers	Narrow	Very deep	Low to high	Low	80–120	20–40	Stand alone, power strip centers
Drugstores	Narrow	Very deep	Average	Average to high	3–15	10–20	Stand alone, strip centers
Off-price stores	Average	Deep but varying	Low	Low	20–30	50	Outlet malls
Extreme value retailers	Average	Average and varying	Low	Low	7–15	3–4	Urban, strip

department stores.

The most significant trend in discount store retailing is the push toward super-centres that carry grocery items. Additionally, discount stores face intense competition from specialty stores that focus on a single category of merchandise. To respond to this competitive environment, discount stores have created more attractive shopping environments, placed more emphasis on apparel, and developed strong private-label merchandise programmes.

People are looking for good value, but that doesn't mean the same thing as cheap. It has also been realised that consumers who are further up the economic ladder than typical discount shoppers will become customers if the merchandise is well designed and of high quality.

1. Specialty stores

A specialty store concentrates on a limited number of complementary merchandise categories and provides a high level of service in an area typically less than 8,000 square feet.

In recent years, specialty apparel stores have been one of the weakest, slowest-growing areas in retailing. One reason is the aging population: Older people typically don't spend as much money on clothing as teenagers. A soft economy and a shift to more casual apparel in the workplace have further dampened apparel sales.

2. Category specialist

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 durables offer assistance to customers. 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.

By offering a complete assortment in a category at low prices, category specialists can 'kill' a category of merchandise for other retailers and thus are frequently called category killers. Because category specialists dominate a category of merchandise, they can use their buying power to negotiate low prices and are assured of supply when items are scarce. Department stores and full-line discount stores located near category specialists often have to reduce their offerings in the category because consumers are drawn to the deep assortment and low prices at the category killer. Most category specialist chains started in one region of the country and saturated that region before expanding to other regions.

Now competition between specialists in each category is very intense as the firms expand into the regions originally dominated by another firm. In many merchandise categories, the major firms are now in direct competition across the nation. This direct competition focuses on price, resulting in reduced profits because the competitors have difficulty differentiating themselves on other elements of the retail mix. All the competitors in a category provide similar assortments since they have

similar access to national brands. They all provide the same level of service.

In response to this increasing competitive intensity, the category killers continue to concentrate on reducing costs by increasing operating efficiency and acquiring smaller chains to gain scale economies. Where appropriate, category specialists have attempted to differentiate themselves with service.

3. Extreme value retailers

These small, full-line discount stores offer a limited merchandise assortment at very low prices. This is extremely fast-growing segment in retailing. Extreme value retailers reduce costs and maintain low prices by offering limited assortment and operating in low rent, urban, or rural locations. They mostly target low-income consumers, whose shopping behaviour differs from typical discount store or warehouse customers. Although they demand well-known national brands, they often can't afford to buy large size packages and therefore retailers create special smaller packages to suit their needs.

These retailers were previously considered low status retailers dedicated purely to lower income consumers. However, given the current economic situation even higher income consumers are increasingly making use of these stores.

QUESTION 2

[20]

Refer to Levy & Weitz 2009: Chapter 4; pp. 98-116 as a reference.

Students had to discuss how consumer buying-behaviour will be changed/influenced and how the social factors influencing the buying process will be affected. They also had to discuss the implications for the retailer.

There is no specific correct answer for this question. The key issue is that the student looked at the points identified in the article and then gave an informed opinion on the implications on consumer buying behaviour and the social influences affecting decision making. The discussion should use the points identified in the prescribed textbook as a guideline on the areas that will be affected. It was also important that the students consider the implications of the changes for the retailer.

Approximate mark allocation (rough guideline only):

- 8 marks for the impact on decision making
- 8 marks for the influence on social factors affecting the buying process
- 6 marks for the impact on the retailer specifically

Marker to use discretion when allocating marks based on the overall quality of the answer.

Total = 20 marks

The following areas need to be considered but **not** discussed as theory only. **Focus on how the changes identified in the article will affect this process.**

THE BUYING PROCESS:

1. Need recognition

- Processes triggered when people recognise an unsatisfied need
- Many different types of needs
 - Utilitarian needs
 - Hedonic needs
 - Functional needs
 - Psychological needs
- Rational versus emotional needs
- Psychological needs include stimulation, social experience, learning new trends, status and power, and self-reward.
- Conflicting needs
- Cross shopping – premium and low priced merchandise
- Needs can be stimulated by a source other than an internal need arousal.

2. Information search

- Consumers will seek information about retailers and products
- The amount of information searched for depends on the type of decision, the product that is being purchased, and the value to be gained from the search versus the costs of the search.
- Sources of information – internal versus external sources
- The retailer must reduce the consumers' information search by steering them in the direction of their retail store.

3. Evaluation alternatives: The multi-attribute model

- Based on the notion that customers see a retailer or a product as a collection of attributes or characteristics
- Beliefs about performance
- Importance weights
- Evaluating stores
- Numerous implications for retailers – must get into the consumers' consideration set
- Where necessary, performance beliefs must be changed
- Importance weights can be changed to focus on superior performance
- New benefits can be added.

4. Purchasing the merchandise

- Evaluations have been completed and the merchandise is purchased
- Retailer must ensure that stock is available
- Return policies must be implemented
- Credit should be offered
- Payment should be easy
- Waiting times need to be reduced.

5. Post purchase evaluation

- Process does not end with purchase
- Customer evaluates satisfaction or dissatisfaction
- Results of the purchase action are used as information in future decisions
- Dissatisfaction can lead to loss of customers to competitors
- Satisfaction helped to build store loyalty.

SOCIAL FACTORS INFLUENCING BUYING DECISIONS

Focus on addressing how these factors will be affected by the changes identified in the article

1. FAMILY

Many purchase decisions are made for products that the entire family will consume or use. Thus, retailers must understand how families make purchase decisions and how various family members influence these decisions.

When families make purchase decisions, they often consider the needs of all family members. In a situation such as choosing a vacation site, all family members may participate in the decision making. In other situations, one member of the family may assume the role of making the purchase decision. For example, the husband might buy the groceries, the wife uses them to prepare their child's lunch, and the child consumes the lunch in school. In this situation, the store choice decision might be made by the husband, but the brand choice decision might be made by the mother, though greatly influenced by the child.

Children play an important role in family buying decisions. Satisfying the needs of children is particularly important for many baby boomers who decide to have children late in life. They often have high disposable income and want to stay in luxury resorts, but they still want to take their children on holidays. Resort hotels now realise they must satisfy children's needs as well as adults.

Retailers can attract consumers who shop with other family members by satisfying the needs of all family members. By accommodating the needs of men and children who might not be interested in shopping, the family stays in the stores longer and buys more merchandise.

2. REFERENCE GROUPS

A reference group is one or more people whom a person uses as a basis of comparison for beliefs, feelings, and behaviours. A consumer might have a number of different reference groups, although the most important reference group is the family, as we discussed in the previous section. These reference groups affect buying decisions by (1) offering information, (2) providing rewards for specific purchasing behaviours, and (3) enhancing a consumer's self-image.

Reference groups provide information to consumers directly through conversation or indirectly through observation. Some reference groups influence purchase behaviours by rewarding behaviour that meets with their approval. For example, the reference group of employees in company might define the appropriate dress style and criticise fellow workers who violate this standard.

By identifying and affiliating with reference groups, consumers create, enhance, and maintain their self-image. Customers who want to be seen as members of an elite social class may shop at prestige retailers; while others who want create an image of an outdoors person might buy merchandise from an outdoors retailer website.

Department stores use their teen boards to provide a reference group influence on teenage shoppers. The teen board members are selected because they are a group of students whom other students would like to emulate. By buying apparel worn by teen board members, other students can identify with these student leaders.

3. CULTURE

Culture is the meaning and values shared by most members of a society. For example, core values shared by most Americans include individualism, freedom, mastery and control, self-improvement, achievement and success, material comfort, and health and fitness.

Gift giving is another example of how cultural values affect shopping behaviour. Gift giving plays a much more important role in Japanese than American culture.

Subcultures are distinctive groups of people within a culture. Members of a subculture share some customs and norms with the overall society but also have unique perspectives. Subcultures can be based on geography (Gautengers), age (baby boomers), ethnicity (Asian Americans), or lifestyle (punks).

QUESTION 3

[35]

See Levy & Weitz 2009: Chapter 5, pp. 153-160

Students had to practically explain the steps in the strategic retail planning process that Fruit & Veg City will go through when developing a strategic plan to achieve their growth objectives.

Step 2 should be explained in detail and has more marks allocated to it than the other steps in the process.

Approximate mark allocation – discretion to be applied

4 marks for the discussion of step 1	(4 marks)
16 marks the discussion of step 2	(15 marks)
4 marks each for the discussion of steps 3 – 5	(4 x 3 = 12 marks)
2 marks each for the discussion of steps 6 – 7	(2 x 2 = 4 marks)

Total = 35 marks

Step one: Define the business mission

- Mission statement gives a broad description of a retailer's objectives and the scope of activities it plans to undertake.
- The mission statement defines the general nature of the target segments.
- Five key questions need to be answered when developing the mission statement.
 - What business are we in?
 - What should our business be in the future?
 - Who are our customers?
 - What are our capabilities?
 - What do we want to accomplish?

Step two: Conduct a situation audit

- Analyse market factors
 - Size
 - Growth
 - Seasonality
 - Business cycles
- Analyse competitive factors
 - Barriers to entry
 - Bargaining power of offenders
 - Competitive rivalry
- Analyse environmental factors
 - Technology
 - Economic
 - Regulatory
 - Social
 - Legal
 - Political
- Conduct a strengths and weaknesses analysis
 - Management capabilities
 - Financial resources
 - Locations
 - Operations
 - Merchandise
 - Store management
 - Customer loyalty.

Step three: Identify strategic opportunities

- Identifying opportunities for increasing retail sales.

Step four: Evaluate strategic opportunities

- Evaluate the opportunities that have been identified.
- The potential for a sustainable competitive advantage is established
- Investment should be made in areas where the retailer has a strong

competitive position.

Step five: Establish specific objectives and allocate resources

- Objectives need to be established for each opportunity.
- The retailers' objectives are included in the mission statement.
- Specific objectives have three components – the performance sought, a timeframe, and the level of investment needed to achieve the objective.

Step six: Develop a retail mix to implement strategy

- A retail mix develops each opportunity in which investment will be made.
- Performance is controlled and evaluated.

Step seven: Evaluate performance and make adjustments

- The results of the strategy and implementation programme are evaluated.
- If objectives are not being met analysis is necessary so that changes can be made.
- This step starts with the reviewing of implementation programs.
- Other issues like strategy and objectives may need to be adapted.

QUESTION 4

[25]

Refer to Levy & Weitz 2009: Chapter 7; pp. 195-214

After taking the theoretical issues addressed in Chapter 7 on retail locations into account, students had to visit their closest Fruit & Veg City outlet (or equivalent where not available) and evaluate their retail location. They then had to write a report on the type of location, the tenant mix, the match between location type and the retailer's strategy, proximity to target market, and other relevant considerations as identified in the textbook in Chapter 7.

Approximate mark allocation:

8 marks to the discussion on type of location	(8)
14 marks to location and retail strategy issues	(14)
3 marks for any other relevant points	(3)

Mark allocation is at the marker's discretion and is to be based on the quality of the answer given by the student. Students may focus more on some areas than others and marks should be allocated accordingly.

Total = 25 marks

Take note that the question required students to consider all aspects contained in Chapter 7 of the prescribed textbook. However, they did not have to discuss all aspects contained in the chapter. Rather, they had to use the information given in the textbook to analyse their selected Fruit & Veg City outlet. In other words, they only had to discuss and explain those topics that were relevant to their selected Fruit

& Veg City store. They were however expected to address the relevant topics in detail.

It was essential that they select a particular location type that they thought relevant to Fruit & Veg City. They could not just address all of them – a decision had to be made.

The following topics should have been considered in the student's evaluation of their chosen Fruit & Veg City store:

	Size (000 sq. ft.)	Trading Area (Miles)	Annual Occupancy Cost (\$ per sq. ft.)	Shopping Convenience	Pedestrian Traffic	Vehicular Traffic	Restrictions on Operations	Typical Tenants
UNPLANNED AREAS								
Free standing	Varies	3–7	15–30	High	Low	High	Limited	Convenience, drug stores, category specialists
Urban locations/ Central business district	Varies	Varies	8–20	Low	High	Low	Limited to medium	Specialty stores
SHOPPING CENTERS								
Neighborhood and Community shopping centers	30–350	3–7	8–20	High	Low	High	Medium	Supermarkets, discount stores
Power centers	250–600	5–10	10–20	Medium	Medium	Medium	Limited	Category specialists
Enclosed malls	400–1,000	5–25	10–70	Low	High	Low	High	Department and specialty apparel stores
Lifestyle centers	500+	5–15	15–35	Medium	Medium	Medium	Medium to high	Specialty apparel and home stores, restaurants
Fashion/specialty centers	80–250	5–15	10–70	Medium	High	Low	High	High-end fashion-oriented specialty stores
Outlet centers	400+	25–75	8–15	Low	High	High	Limited	Off-price retailers and factory outlets
Theme/festival centers	80–250	N/A	20–70	Low	High	Low	Highest	Specialty stores and restaurants

Source: Personal communications with industry executives; "North American Retail Highlights 2006," http://www.colliers.com/Content/Repositories/Base/Corporate/English/Market_Report_Corporate/PDFs/RetailNAHighlights2006.pdf.

UNPLANNED RETAIL LOCATIONS

1. FREESTANDING SITES

- These are retail locations for an individual, isolated store unconnected to other retailers.
- They might be near other freestanding retailers, a shopping centre, or in the case of a kiosk, inside an office building or shopping centre.
- Advantages:
 - Convenience
 - High traffic and visibility
 - Modest occupancy cost
 - Separation from competition
 - Few restrictions

- Disadvantages:
 - No foot traffic
 - No drawing power
- Merchandise kiosks – small temporary selling stations located in walkways of enclosed malls, airports, train stations or office building lobbies.

2. CITY OR TOWN LOCATIONS

- Gentrification is bringing population back to the cities.
- Advantage to retailers:
 - Affluence returned
 - Young professionals
 - Returned empty-nesters
 - Incentives to move provided by cities
 - Jobs!
 - Low occupancy costs
 - High pedestrian traffic.

CBD's

- Refers to the traditional downtown business area in a city or town
- Due to its daily activity it draws many people and employees into the area during business hours
- Is a hub for public transportation, and there is a high level of pedestrian traffic
- There are a large number of residents living in the area
- Advantages
 - Draws people into areas during business hours
 - Hub for public transportation
 - Pedestrian traffic
 - Residents
- Disadvantages
 - High security required
 - Shoplifting
 - Parking is poor
 - Evenings and weekends are slow.

MAIN STREETS

A main street refers to a shopping area in a smaller town or a secondary business street. Many cities have a so-called shopping street.

- Occupancy costs lower than CBD's
- They don't attract as many people
- There are not as many stores
- Smaller selections offered
- Not as much entertainment
- Some planners restrict store operations.

INNER CITY

- Unmet demand tops 25% in many inner city markets
- Inner city retailers achieve high sales volume, higher margins and higher profits
- Inner city customer wants branded merchandise.

SHOPPING CENTRES

A shopping centre is a group of retail and other commercial establishments that is planned, developed, owned, and managed as a single property. A number of different types of shopping centres can be identified:

- Neighbourhood and community shopping centres
- Power centres
- Shopping malls
- Lifestyle centres
- Fashion/specialty centres
- Outlet centres
- Theme/festival centres
- Others (omnicentres).

❖ NEIGHBOURHOOD AND COMMUNITY SHOPPING CENTRES

- Convenient locations
- Easy parking
- Low occupancy costs
- Limited trade area
- Lack of entertainment
- No protection from weather.

❖ POWER CENTRES

Shopping centres that consist primarily of collections of big-box retail stores such as discount stores, off-price stores, warehouse clubs, and category specialists.

Open air set up:

- Free-standing anchors
- Limited small specialty stores
- Many located near enclosed malls
- Low occupancy costs
- Convenient
- Modest vehicular and pedestrian traffic
- Convenient
- Large trade areas.

❖ SHOPPING MALLS

Shopping malls are shopping centres, in which customer's park in outlying areas and

walk to the stores. They are enclosed with a climate-controlled walkway between two facing strips of stores.

Advantages:

- Many different types of stores
- Attracts many shoppers
- Comfortable surrounding to shop
- Uniform hours of operation
- Greater merchandise assortments
- Entertainment opportunities
- Enhances total shopping experience with food and entertainment
- Tenant mix can be planned
- Retailers and their customers don't have to worry about external environment.

Disadvantages:

- Occupancy costs are high
- Competition can be intense
- Retailers might not like the centre manager's control of the operations.

Challenges for malls:

- Time pressured society makes it impractical to wander malls
- Fashion apparel sold in malls experiencing limited growth
- Malls are getting old and rundown – unappealing to shop
- Anchor tenants are decreasing due to retail consolidation
- Strategies:
 - Make shopping more enjoyable (e.g., sofas, children's playing areas)
 - Great food destination (fast food and full-service restaurants)
 - Tailor make its offering to cater to changing demographics
 - Mall renovation and redevelopment.

❖ **LIFESTYLE CENTRES**

- Usually located in affluent residential neighbourhoods
- Includes 50K sq. ft. of upscale chain specialty stores
- Open-air configuration
- Design ambience and amenities
- Upscale stores
- Restaurants and often a cinema or other entertainment
- Small department store format may be there.

❖ **FASHION/SPECIALTY CENTRES**

- Upscale apparel shops
- Tourist areas/central business districts
- Need not to be anchored
- Décor is elegant
- High occupancy costs
- Large trade area.

❖ **OUTLET CENTRES**

These shopping centres contain mostly manufacturers and retail outlet stores.

❖ **THEME/FESTIVAL CENTRES**

- Located in places of historic interests or for tourists
- Anchored by restaurants and entertainment facilities
- E.g. Gold Reef City.

❖ **OMNICENTRES**

- Combines enclosed malls, lifestyle centre, and power centres
- Larger developments are targeted:
 - To generate more pedestrian traffic and longer shopping trips
 - To capture cross-shopping consumers.

❖ **MIXED USE DEVELOPMENTS**

- Combine several different uses into one complex, including shopping centres, office towers, hotels, residential complexes, civic centres, and convention centres.
- Offer an all-inclusive environment so that consumers can work, live, and play in a proximal area
- Nelson Mandela square, Montecasino.

LOCATION AND RETAIL STRATEGY

- The selection of a location type must reinforce the retailer's strategy.
- The location type decision needs to be consistent with the shopping behaviour and size of its target market and a retailer's positioning in its target market.

A number of factors need to be considered in this regard:

- Shopping behaviour of consumers in the retailer's target market
 - It is important to establish the shopping situation in which the consumer is involved.
 - Three types of shopping situations can be identified:
 - Convenience shopping
 - Comparison shopping
 - Specialty shopping
- Density of target market
- Uniqueness of retail offering.

LEGAL CONSIDERATIONS

A number of legal considerations may need to be evaluated when considering different location types. Each location type will have different legal considerations

and will be different for different types of stores.

Some of the legal issues that may affect location decisions include the following:

- Environmental issues
- Zoning and building codes
- Signs
- Licensing requirements.

Not all of these may necessarily be applicable in the case of Fruit & Veg City and it is therefore up to the student to identify those which need to be addressed.

PRESENTATION [10]