Chapter 16

Retailing and Multichannel Marketing
Supply chain (simplified)

Make

Some of the activities include:
- Making the actual product
- Research & Development
- Supply chain management (efficiency, savings)

Move/store

This level in the supply chain may (or may not) include a wholesaler like Costco

Sell

Retailers, distributors, and manufacturers will often work closely with one another to create a more efficient supply chain, which can improve sales and profitability. It can even result in savings for the consumer.

Consumers

If the consumer is not happy, no one along the supply chain is happy!
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Definition: Set of business activities that add value to products and services sold to consumers for their personal of family use
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- **Location** → bring product/service closer to consumers
- **Wide selection** of products
- **Salespersons** can help in final choice/fit a product, e.g.:
  - Clothes → tailor to fit perfectly
  - Bike → bike fitting and sizing
Manufacturer – retailers relationship

Which factors do manufacturers consider to establish relationship with retailers?

- Who fits your image best?
- What type of retailer should you pursue?
- What is your retail strategy?
- Multichannel presence – Online, brick & mortar
Factors manufacturers should consider when it comes to choose with which retailer(s) to partner

1. Choosing retailing partners
2. Identifying types of retailers
3. Developing a retail strategy
4. Managing an omnichannel strategy
Choosing Retail Partners

1. Channel structure is important

Every entity has its own goals

Entities act as unified system
2. Customer expectation
   – Does Chanel sell perfumes at CVS?
Choosing Retail Partners

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   – Does Chanel sell perfumes at CVS?

Doesn't allow any online sales except from specialized.com, where everything is sold at MSRP
  • Brand will look less valuable
  • Don’t upset “local bike shops”

PROTECT BRAND & THEIR (OFFLINE) RETAILERS
Choosing Retail Partners

3. Channel members characteristics

Larger firms

Less likely to use supply chain intermediaries

Can gain more control, be more efficient, and save money.
Choosing Retail Partners

4. Type of distribution

– Intensive distribution → Place product everywhere possible

– Exclusive/Selective distribution
  • Luxury goods use only one or very few high-end retailers! (Recall brand value)
  • Control inventory easily
  • Less competition
Identify types of retailers

<table>
<thead>
<tr>
<th>Food</th>
<th>General merchandise</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarket</td>
<td>Full-line discount</td>
<td>Auto rental</td>
</tr>
<tr>
<td>Supercenter</td>
<td>Category specialist</td>
<td>Health spa</td>
</tr>
<tr>
<td>Convenience</td>
<td>Drug</td>
<td>Vision center</td>
</tr>
<tr>
<td>Warehouse club</td>
<td>Off-price</td>
<td>Bank</td>
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Food retailers

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<th>Supermarkets</th>
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<th>Warehouse clubs</th>
<th>Convenience stores</th>
<th>Online grocery retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited nonfood</td>
<td>Supermarket combined with a full-line discount store</td>
<td>Limited assortment and little service, low prices</td>
<td>Limited variety Speedy check out</td>
<td>Customers willing to pay more to order online and have groceries delivered</td>
</tr>
<tr>
<td>Differentiated by number of SKUs (Whole Foods, Trader Joe’s)</td>
<td>Walmart, Meijer, K-Mart, Target</td>
<td>Costco, Sams, BJ’s</td>
<td>7-elevn</td>
<td>Instacart, Amazon Prime Fresh</td>
</tr>
</tbody>
</table>
• **Department stores**: broad variety and deep assortment

• **Full-line discounts**: Broad variety at low prices

• **Specialty**: Limited merchandise with service in small stores

• **Drugstores**: Specialty for pharmaceutical and health

• **Category specialists**: Big-box or category killers with narrow but deep assortment

• **Extreme-value**: Full line, limited, very low prices

• **Off-price**: Inconsistent assortment of brand-name merchandise at low prices
Firms that primarily sell services rather than merchandise are a large and growing part of the retail industry.
Retailers add value using the four Ps

1. **Product:** Home Depot Case
   - Provides customers better access to product they want!
   - Provides **right assortment**
   - Online store to match consumer needs
     - Easier to locate items
     - No need to have physical product in stores
     - Online we can find low selling items
Retailers add value using the four Ps

2. Price
   – It sets the image and perception of consumers
Retailers add value using the four Ps

3. Promotion
   – Facilitate sales
   – Affect firm image
   – Different forms
     • Offline/online
     • Coupon
     • Credit cards
     • Social media
     • Mobile
     • Etc.
Retailers add value using the four Ps

4. Location, location, location
   - Being in a good location gives competitive advantage
     • If Starbucks is in a very good location, how can competitors find a competitive place where to open their stores?
Retail strategy: Place

How would you choose a good location if you have to open a business?
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**Brand Image** - Is the location consistent with the image you want to maintain?

**Competition** - Are the businesses around you complementary or competing?

**Local Labor Market** - Does the area have potential employees? What will their commute be like?

**Plan for Future Growth** - If you anticipate further growth, look for a building that has extra space should you need it.

**Proximity to Suppliers** - They need to be able to find you easily as well.

**Safety** - Consider the crime rate. Will employees feel safe alone in the building or walking to their vehicles?
How do you think Starbucks finds good locations?
Retail strategy: Place

How do you think Starbucks finds good locations?

– (Big) Data analysis, e.g., using ArcGIS Online, a technology platform for visualizing data in the form of maps
  • How far from home are customers willing to travel to get to a coffee?
  • Risks associated with building new stores

“Retailers not only need to know where their potential customers are, they need to know where they will be over the 10-to-25 year lifetime of the investment they make in physical space.” Jack Kilmartin, CEO
Confirmed: Starbucks knows the next hot neighborhood before everybody else does
Retail strategy: Place

Full article available at: http://qz.com/334269/what-starbucks-has-done-to-american-home-values/
Retail strategy: Presentation

• Retailer physical appearance and atmosphere
Retail strategy: Personnel
Multichannel retailing

• Today it is more common than ever
• Retailers use multiple channels to reach customers
  – At least two: online and offline
• Can you think about other channels?
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What are the challenges associated with having multiple retail channels?

– Consumers desire a **seamless** experience when interacting with multichannel retailers
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– Consumers desire a **seamless** experience when interacting with multichannel retailers
  1. Integrated **Customer Relationship Management (CRM)**

Data will help better handling
- Complains
- Returns
- Targeting
- Sales
What are the challenges associated with having multiple retail channels?

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2. **Brand image**
   – Must be consistent across the different channels!

What are the challenges associated with having multiple retail channels?

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3. **Pricing** (it’s complicated)
   – Should be consistent across channel...but competition can be different, e.g., online vs offline
What are the challenges associated with having multiple retail channels?

– Consumers desire a **seamless** experience when interacting with multichannel retailers

4. Supply chain

– Different channels require different organizations at each level → Difficult to provide seamless experience
– Today retailers try to integrate all operations under the same organization, e.g., same distribution center for online and offline

**GOAL:** **Unified commerce**  
multiple retail channels will work with each other to provide users a seamless, friction-proof shopping experience.
Almost all shoppers will channel-hop
- 86% of shoppers around the world shopping on at least two channels now
Online platforms and social networks will influence offline sales even more

- Ads should mirror your product catalog, which should reflect the actual inventory your stores carry

- In other words, consistent, clean, and updated product data is a necessity
Shipping Innovations

– Same day delivery (Amazon now)
– Drone delivery
– Distributing inventory geographically (Amazon anticipatory shipping)
• Mobile traffic is booming
  – More conversions from mobile commerce
    • Apple/Samsung/Google pay
    • Paypal
    • Etc.
• Social commerce and search commerce take off
  – Online shopping no longer restricted to retailers’ websites or marketplaces
  – Social networks like Pinterest, Facebook, search engines like Google are getting in on the retail action
Online vs offline retailing

- Offline
  - Personal service
  - Can use cash
  - Immediate gratification
  - Touching/feeling
  - Risks reductions (test/try)

- Online
  - Wider selection
  - Easier search
  - Personalization
    - Offering
    - Discounts/promotions
    - Customer service
Retail strategy: eBay case

https://www.wsj.com/video/digits-ebay-to-buy-gsi-commerce/EDAD494D-8293-4E0C-B796-45C82E144066.html

GSI Commerce is a technology and services company that provides e-commerce, multichannel, and interactive marketing solutions to hundreds of brands and retailers in the U.S. and internationally.
Retail strategy: eBay case

https://www.wsj.com/video/digits-ebay-to-buy-gsi-commerce/EDAD494D-8293-4E0C-B796-45C82E144066.html

Why did eBay acquire GSI Commerce?
Retail strategy: eBay case

Why did eBay acquire GSI Commerce?

It will help eBay compete better with Amazon.
• Improve shipping
• More products/selection
• Improve/revamp image
• Better payment service

https://www.wsj.com/video/digits-ebay-to-buy-gsi-commerce/EDAD494D-8293-4E0C-B796-45C82E144066.html
Recap

Manufacturers must look at the
1. Channel structure
2. Customers expectations
3. Channel member characteristics
4. Type of distribution

We classified this strategies into the four Ps + 2 additional Ps: product, price, promotion, place, presentation, and personnel

Consumers desire a seamless experience when interacting with multichannel retailers. Four factors to control/manage channels are CRM, Brand Image, Pricing, Supply chain