Thirteenth Edition

Retail Management

A Strategic Approach

STRATEGIC PLANNING TEMPLATE

Scenarios for Use with the Strategic Planning Template

There are nine different retailing scenarios presented below. Each of these scenarios may be used to devise a comprehensive retail strategy **in conjunction with our Strategic Planning Template**. *Simply select one of these scenarios as the basis for completing all the steps in the template.* Each scenario in this document provides background material. In the template, YOU make all of the necessary decisions by typing directly in the PDF file. Good luck!

Scenario 1: Italian Restaurant

An independently-owned, 35-year-old restaurant is located in a central business district of a major city. This is a popular-priced restaurant catering to locals, as well as to tourists. The restaurant has a broad appeal in that it attracts young and mature individuals, couples and singles, and middle-class and affluent customers. It is fondly remembered by many in the community as a place where important celebrations are held.

The consumers for the local and tourist segments are quite different. Since many locals are loyal customers, the restaurant needs to change the menu frequently for them. Food diversity is much less of a concern for tourists. However, much of the tourist business is arranged through tour operators selling pre-packaged vacations (consisting of hotel, sightseeing, transportation, and meals). The tour operators are much more price conscious and have much less loyalty than locals.

The restaurant has seen a surge in traffic since getting a favorable review in Zagats, a major restaurant guide (**www.zagats.com**), and is concerned about how to manage the associated growth. The owners are particularly concerned that the surge in demand will alienate some of their most loyal customers. Some customers have had to make reservations as much as 10 days in advance. Others have been told the only available reservations are either before 6 P.M. or after 10 P.M.

To better manage its surge in demand, the restaurant is considering several options. One, it can attempt to secure additional space by buying out an adjacent tenant's lease and undertaking a major renovation. This will take considerable time. Two, it can establish a second branch on the other side of town. In addition to high construction costs due to the need for two kitchens, this strategy would require two separate kitchen staffs. Three, the restaurant can build up its small take-out division. While this involves much less strain on the restaurant's facilities than on-premises consumption, this strategy would result in lost sales and profits from wine consumption.

The restaurant also needs to review how to best capitalize on its current “hot” status. (1) It can establish a line of sauces and spaghetti with the firm’s name. (2) It can add a premium-priced, wine-tasting dinner featuring wines paired with the selected appetizers and entrees. (3) It can also run cooking classes.

The restaurant has owned its current building for over 30 years. This location enables it to better control maintenance, to obtain depreciation allowances, and to be ensured of long-term occupancy.

Scenario 2: Camera Dealer

A camera dealer sells both new and used camera equipment in a traditional bricks-and-mortar store, as well as on eBay (**www.ebay.com**). Although the retailer started its eBay site as a means of expanding its customer base, this business is now larger than its store-based revenues as a result of its access to a global marketplace and its very high customer feedback ratings on eBay.

The camera dealer caters to three different segments: professional photographers, advanced amateurs, and collectors. There is high overlap between professional and advanced photographers. In both cases, there are customers who insist on new equipment, and those that prefer gently used equipment providing that it is warranted and available at a 20 to 30 percent savings over the cost of new equipment. On the other hand, collectors seek out “classic” discontinued equipment with special features and design. Unlike professionals and amateurs, collectors favor mint equipment complete with the original box, packing materials, and directions.

To maintain its excellent reputation, the camera dealer fully tests all used equipment, does not sell “gray” market equipment imported through unauthorized channels, and conservatively ranks used equipment as to its condition. The firm is also an authorized dealer for all of its new equipment. All used equipment carries a 90-day unconditional guarantee, as well as a 14-day “no questions asked” exchange privilege. In comparison to the merchandise sold in its store, the retailer generally sells lower-priced photographic equipment, cameras parts for repairpersons, and slow-moving merchandise on eBay. The firm has a perfect feedback score on eBay and zealously seeks to maintain it.

The store occupies a low-rent location in a neighborhood strip mall. And while its store fixtures, flooring, and lighting are clean, they are dated and unattractive.

Much of the retailer’s promotional budget is based on quarterly mailings to past customers, maintaining a Web site that is updated weekly, and advertising in specialty photography magazines that cater to professionals, advanced amateurs, and collectors. Recently, the firm decided to invest more in its Web site and eBay than in traditional advertising media.

The retailer is now pondering the potential role of each retail format and opportunities for synergy. For example, eBay enables the retailer to have a true global market. The use of multiple channels also enables the retailer to use eBay to clear excess inventories and to reduce its advertising expenditures.

Scenario 3: Appliance Chain

An appliance chain with five locations faces increased competition from Lowe’s and Home Depot. Thus, this family-owned business must now re-evaluate its overall retail strategy. Among its major concerns are the low prices at competitive outlets because of the giant chains’ quantity discounts and high bargaining power when making purchases, the high level of advertising by the chains, and the large inventory levels of appliances on their selling floors. This small chain is pondering a number of alternate strategies to enable it to better compete.

On a merchandising end, the chain is considering joining a buying cooperative. In a buying cooperative, appliance retailers pool their purchases to secure greater bargaining power and quantity discounts. The cooperative members share the costs of centralizing ordering, as well as the costs of operating a common warehouse where goods are stocked. Many cooperatives also develop common advertising materials which its members can use.

The chain is also re-evaluating its product strategy. The firm recognizes that it does not currently feature and display many of the high-end American and European brands like Asko, Bosch, Miele, Sub-Zero, and Viking. These brands are often favored by architects and kitchen designers due to their sleek design, energy savings, and professional features. Most of the chain's traditional competitors do not sell these brands.

The retailer is also re-examining its service strategy. Currently the chain outsources the installation of appliances to an independent contractor. This provides a source of revenue to the chain while enabling it to be free from purchasing additional trucks, as well as from additional tasks and expenses associated with a salaried workforce. On the other hand, this strategy has resulted in the chain's having less control in scheduling. Typically, delivery and installation are on separate times. Often, they are even on separate days.

The chain aims to be within 10 percent of the lowest legitimate competitor's price. It monitors local competition by having comparison shoppers visit local stores, by reviewing sale prices in local newspapers, and through calling local discounters for price quotes. Unlike deceptive merchants, the chain will not engage in "bait-and-switch" tactics, or advertise a low price that does not include delivery. Some alternative pricing strategies are to advertise a "total price" that covers the costs of the product, delivery and installation, as well as the removal of the old appliance. A second strategy is based on a "we will not be undersold strategy" that promises to beat all advertised prices from local authorized dealers.

Scenario 4: Appliance Repair Business

A local appliance repair business specializes in such major appliances as refrigerators, gas and electric ranges, washers and dryers, and dishwashers. The business, which has been established for over 30 years, is now facing competition from three sources and needs to reconsider its current retail strategy.

First, many appliance retailers have begun to sell major appliances with an extended 5-year warranty. These retailers typically contract these repairs to large firms under special pricing arrangements. Consumers that purchase these contracts will not consider the local appliance repair firm during this time period. Second, the do-it-yourself market for repair has rapidly expanded due to the sale of repair manuals by many appliance manufacturers, as well as the availability of troubleshooting assistance and replacement parts on the Web. Third, retailers such as Sears and Best Buy have entered the appliance repair business. These retailers aggressively advertise that they will repair all appliances, regardless of where they were purchased. As a result of the increased competition, the local repair firm's business has been down about 10 percent per year over the past three years.

The firm prides itself on the high quality of its services. All repairpersons are required to satisfactorily complete courses offered by a local trade association. Unlike other firms that use rebuilt parts or replacement parts made by independents, only new factory-built parts are used in all repairs. And, all repair technicians are evaluated based on the number of callbacks and a questionnaire mailed to consumers.

The local appliance repair firm uses modern vans stocked with diagnostic equipment, as well as parts. The cost of a service call is $59 plus the retail cost of the parts and supplies. Advertising is largely based on a 1/4-page ad in the local Yellow Pages, and weekly full-page ads in the local weekly newspaper. The weekly ad generally features a $10 discount coupon. The repair technician also asks permission to place a sticker on the side of each repaired appliance to serve as a reminder.

There are a number of options to increase the sales and profitability of the firm's repair service:

- Reducing prices by offering rebuilt and independently-manufactured replacement parts as an option. This could reduce the average cost of a repair job by $15-$20.
- Branching out and installing, repairing, and hooking up gas barbecue units to natural gas lines. While this is highly specialized, the technology of a gas barbecue is similar to a gas range.
- Selling replacement parts and offering over-the-counter advice to do-it-yourselfers.

Scenario 5: Traditional Department Store

A traditional department store chain is facing greater competition from full-line discount stores, specialty stores, and Web-based retailers. This firm is especially concerned about the heightened vulnerability of its furniture department to competition from a variety of formats. It is worried about the effects of the low prices and immediate availability of goods at stores like Ikea, as well as the availability of in-home decorator services at independently-owned home furnishing stores.

The chain's furniture is displayed in room settings. This format better enables shoppers to conceptualize what the furniture will look like in their homes. It also results in the sale of accessories such as lamps, paintings, and throw pillows.

Much of the chain's furniture is moderately priced, well-designed, and available in a variety of fabrics and finishes. The chain relies on well-known manufacturers with excellent reputations for product quality, as well as delivery time commitments. Unlike many discounters, all of the chain's furniture is available in a variety of sizes, fabrics, and finishes. Also, unlike Ikea or category killers such as Bed Bath and Beyond, the firm does not sell low-quality "ready-to-assemble" furniture.

To reduce price competition, the department store chain typically requires its suppliers to sell it exclusive merchandise. This often consists of a selection of unique fabrics, finishes, leg designs, and even sizes. In other cases, the firm requires that its vendors assign unique model numbers to its goods. Thus, a customer seeing a sofa in a department store would either be unable to purchase a comparable item at a lower price or have a difficult time locating the good.

The chain's employees come from a variety of backgrounds. Some of its staff have either significant experience as interior decorators or have a flair for decorating. While others may be excellent salespeople, they have much less knowledge of fabrics and are less comfortable developing room arrangements or selecting coordinating or contrasting fabrics.

Although many specialty stores offer in-home interior decorating assistance, Web-based merchants and discounters do not provide this service. While the fee for these services vary, many specialty stores charge a fee of $100 to $200 per visit to confirm that the merchandise ordered is appropriate for one's home. This fee may be waived if a purchase exceeds a given level (such as $2,500). The department store chain offers only in-store-based services (such as confirming that the sofa is the proper color based on viewing a fabric sample of a chair that the client owns).

Scenario 6: Local Jeweler Going to the Web

A retired local jeweler with a lot of connections in the fine watch business is considering developing a Web-based fine watch business. The traditional market for fine Swiss mechanical watches is based on sales through authorized dealers, often at list price.

Consumers seeking these fine watches at a discount have often bought gently used watches that have been properly cleaned and polished. In contrast to selling used watches, the jeweler is seeking to sell watches that are “new, old stock,” meaning that they have been discontinued, to sell surplus stock from authorized dealers, and to promote the sale of new watches that have been purchased on consignment.

The jeweler plans to sell these watches on the Web. The market for goods on the Web is a global one. The jeweler is freed from the traditional costs of store rent, and catalog production and mailing. The store can operate on a 24/7 basis.

Although the jeweler has not finalized his overall retail strategy, certain aspects are relatively clear:

- Sales will be concentrated on major status brands, such as Breguet, Patek Phillipe, and Rolex.
- All watches will be fully photographically displayed on the firm’s Web site along with the suggested retail price and sale price. On average, watches will be priced at 30-40 percent off list price.
- The Web site will have a search engine that enables consumers to shop for watches based on price, brand, men’s or ladies, and special features (such as alarms).
- A three-day trial period will be offered on all watches. During that time, unworn watches can be returned for full credit less the cost of shipping and insurance.
- All watches will be guaranteed as new and authentic, and sold with an unconditional three-year warranty. Typically, authorized dealers offer only a one-year warranty.
- The jeweler’s biographic sketch will be featured on the Web site.

In contrast, other aspects of the retailer’s strategy are not as clear. For example:

- The jeweler is uncertain as to how much to budget for placement in major search engines.
- The sale of fine-quality used watches offers higher profit margins and enables sales to watch collectors. However, this may blur the current image.
- How often should the Web site be updated? Some competitors update the site on a weekly basis to generate excitement and Web visits. What is the right balance between excitement and costs?

Scenario 7: Small Supermarket Chain

Changing demographics have forced an owner of a small supermarket chain to reconsider its overall retail strategy. Originally, the trading area served by the chain had a high concentration of older shoppers. Now, it has become increasingly inhabited by young singles and by working couples. The current strategy is built on the store’s picking and delivering orders to a customer’s home for a $5 additional charge, a “heat and serve” department featuring broiled chickens and fried fish, and a large selection of high-quality meats and fruits and vegetables. Promotion has been through a weekly circular distributed with the Sunday local newspaper. The chain’s owner wants to better target the younger shopper without alienating the older shopper.

The owner has mapped out some of the major purchasing factors for his older customers:

- Older customers who are mobile may shop at multiple food stores or shop multiple times per week. Those who are less mobile use the store’s picking and delivering option and order on a weekly basis. The picking and delivering option is especially popular during snow storms.

- Many older customers seek out store specials. They are also prone to use manufacturer coupons.
- Many older customers are concerned about the salt content of prepared foods. Some also prefer bland food recipes and comfort foods such as mashed potatoes, meat loaf, and roasted chickens.

The owner has also mapped out some of the major purchasing factors for his young singles and working couple customers:

- These customers typically have smaller annual supermarket purchases due to their eating several meals per week at restaurants or on a take-out basis.
- A number of young customers would rather order via computer or by fax.
- Some would prefer a computer system that contained last week's purchases so that commonly purchased items could be more easily reordered.
- Many of the younger customers do not purchase the store's prepared foods. Instead, they prefer ethnic foods (such as Italian, Chinese, and Japanese) that can be purchased on a take-out basis in local restaurants or on a prepared basis in larger supermarkets.

In evaluating its current strategy against the needs of both segments, the supermarket chain's owner is aware that the firm currently does not offer fax or computer-based ordering, and that its selection of ethnic prepared foods is poor.

All of the supermarket's stores are located in strip neighborhood shopping centers. Typically, the neighboring stores in these centers include a dry cleaner, pharmacy, and bakery. The supermarkets are open from 8 A.M. to 9 P.M. seven days per week.

Scenario 8: Omnichannel Electronics Store

A local electronics store chain with 10 units within a 75-mile radius is seriously considering designing and operating a dynamic new Web site to generate more business to better supplement its bricks-and-mortar stores and its mail order business.

The chain has been in business for over ten years and enjoys an excellent reputation in its communities. Its stores sell middle-quality electronics, high definition televisions, and speaker systems from such manufacturers as Sony, Panasonic, Sharp, LG, Visio, and Samsung. Although most goods are sold at slightly below the manufacturers' suggested list price, the chain enjoys high customer loyalty through a liberal return policy, a highly trained sales force that is paid on a straight salary basis, and relatively inexpensive installation services for equipment purchased in the store. The chain also has its own repair service technicians who cover extended warranty repairs. The store-operated repair technicians enable customers to get in-home service for large televisions. In many cases, the chain's technicians are able to repair a large television unit in the customer's home within a three-day period.

While an enhanced Web site will enable the electronics chain to further extend its trading area and allow customers to order online and pick up at a store (if they want), the owners of the electronics chain have several unanswered questions:

- How can they apply their full-service strategy to their enhanced Web operations?
- How can they prosper in a Web marketplace that is a more price sensitive than store-based retail environment?
- How can the Web business better supplement the store-based strategy (as opposed to compete against it)?
- Should a customer who purchases a product on its Web site be able to return it to ANY one of the retailer's stores? Why or why not?

The chain's preliminary plan for its enhanced Web site is as follows:

- To limit price competition between the two channels, the price for all goods will be the same regardless of channel (with the exception of sales tax and delivery expenses).
- All product designations will be the same in both channels. Thus, a customer seeing an item on the Web will be able to easily order the item via phone, fax, or in-store.
- Customers can use the Web site to determine a good's specifications, to download user manuals for additional information, to read customer unedited product reviews, and even to determine if a good is in stock at a local store.
- Web purchasers will be given loaner equipment while their electronic equipment is being repaired. In this way, they will be able to enjoy the use of a television or home theater system during an extended repair period.
- In addition to traditional merchandise, the Web will be used to offer closeouts, trade-in, and refurbished equipment. Consumers can opt-in to receive E-mails of these special offers.

Scenario 9: Campus Coffee Shop

A recent college graduate with a retail management degree has been pondering several new business ventures to pursue upon graduation. She wants to remain in the college town where she earned her degree due to its low cost of living, the large number of friendships with local community members, and her love for college sports.

She not only does not have a lot of capital, but also is very reluctant to borrow from her friends and family. This rules out buying an existing business, becoming a franchisee, or starting a business with high capital requirements (such as a clothing shop, DVD rental store, or a restaurant). One alternative she is seriously considering is a coffee shop located on a side street nearby the college campus.

These are some of the preliminary plans for the Campus Coffee Shop:

- Currently, coffee is available within a 5-mile radius at a local Starbucks, McDonald's, and Dunkin' Donuts. Many students would favor purchasing coffee at a local store owned by a recent graduate than at any of these commercial outlets.
- Of the three food stores, only Starbucks offers fair trade coffee. Fair trade coffee provides higher prices to coffee growers, helps poor coffee growers get financing, and offers assistance in transitioning to organic farming. Campus Coffee will only sell fair trade coffee. The fair trade logo will be prominently illustrated within the store, on all coffee cups, and on all napkins.
- To reduce its environmental impact, Campus Coffee will use china cups and saucers and stainless flatware for all coffee and food products consumed in the store. Take-out coffee and foods will utilize recycled paper (never Styrofoam).
- Campus Coffee will have comfortable chairs for customers to lounge in, as well as free Wi-Fi service. Poetry readings, musicians, palm readings, and meet-the-local politicians forums will be presented in the evenings. Recognizing that each of these events draws a different audience, they will be rotated throughout the month.
- In addition to coffee, high-quality Italian and French pastries will be served. This will be supplemented by Italian ice cream and ices during the summer.

In computing capital requirements, the prospective owner has made several assumptions. One, it will take four months for the coffee shop to break even. She will need working capital for rent, utilities, payroll, and personal expenses during this time period. Two, to lower investment, she plans on purchasing used commercial espresso equipment, as well as restaurant fixtures (refrigerators, tables, utensils, etc.). And three, she plans to get some trade credit from the coffee, ice cream, and pastry suppliers to cover the cost of some of this equipment.