Retailing in the 21st Century
Foreword to the Second Edition

Eckhard Cordes
Chief Executive Officer of METRO Group

The world of retailing continues to change rapidly. Major changes since the publication of the first edition of this book include (1) the takeoff of RFID-based technology, (2) the world’s growing recognition of environmental and climate change problems, and (3) the retailing revolutions in emerging markets, especially in Eastern Europe, China and India. METRO Group has continued to take a leadership role in all these areas.

Specifically, in collaboration with its partners under the METRO Group Future Store Initiative, METRO Group opened in 2008 a new and larger “Future Store” demonstrating the use of advanced retailing technologies. In 2007, METRO Group completed a major step in the nation-wide operational rollout of the Radio Frequency Identification (RFID) technology to 180 Metro Cash & Carry and Real stores in Germany as well as to the central warehouses of METRO Group Logistics. Since then merchandise deliveries at these locations can be recorded automatically. The remaining locations will be converted during this year. This is the largest operational rollout of this technology in the European retail sector.

Next, long before global concerns about environmental and climate change became front-page news, METRO Group had been following deliberate greener retailing policies for several years. The central element of these activities is the continuous optimization of the Group’s energy management. Already in late 2004, the Energy and Technology Department of METRO Group Asset Management started to systematically identify energy saving opportunities within the Group, e.g., the use of the latest solar technology in Metro Cash & Carry stores in Vietnam. Store locations with an exceptionally high energy consumption and expense are subject to local assessment analyses. This has led to significant energy rehabilitation measures at different locations. For example, changes in the venting system at the Metro Cash & Carry location Walzmühle Ludwigshafen in Germany drastically reduced the local energy consumption and brought down carbon dioxide emissions by about 800 tons per year. More recently, after several positive pilot studies, plans for a Group-wide changeover from conventional coolants to
environmentally sound alternatives are underway. Improved logistics models are also guaranteeing more energy-efficient, less polluting, as well as lower-cost distribution of merchandise to 2,200 locations operated by the METRO Group. Consequently, METRO Group was the first German retail company to publish its carbon footprint in 2008.

Lastly, internationalization remains an important thrust of METRO Group’s strategy. Recently, the METRO Group opened its first Metro Cash & Carry wholesale center in the Pakistan metropolis of Lahore. Thus, the company is now represented in a total of 32 countries – with Metro Cash & Carry alone running operations in 29 countries. The METRO Group today is the most international retail and wholesale company in the world and is strongly committed to being an economic stronghold and change agent in important emerging markets. In this vein I am pleased to see the second edition of the book including a new chapter on the growth of modern retail formats in India, where Metro Cash & Carry has a significant presence.

To improve contemporary retailing’s public image, enhance the knowledge of its practitioners, and stimulate further retailing research, there is a great need for a reader that combines basic information as well as an overlook on current trends and issues in the world of trade. I believe that the second edition of *Retailing in the 21st Century – Current and Future Trends* effectively meets these objectives. The first edition has sold over 3,000 copies and has been or will be translated into other languages including Russian, Ukrainian, and Korean. I am sure the second edition will do as well and reach more corners of the global retailing world.

The editors of this book have successfully brought together an impressive list of 48 authors who include industry experts and leading academic scholars from Europe, the United States, Australia, and India. In the 26 chapters of this unique book, these experts share their knowledge and insights about diverse topics ranging from retailing trends around the world to retailing strategies, marketing, operations, and human resource management. In particular, the book provides valuable information on recent developments in marketing and technology in retailing, including RFID, electronic price tags, digital advertising displays, self check-out systems, personal selling assistants, and smart kiosks. The expert authors describe how these technologies affect consumer behavior, employee behavior, and competitive behavior. They also look ahead into the near future of retailing.

I find the combination of insights from practitioners as well as from scientists one of the major strengths of this book, leading to interesting blends of practical and academic knowledge. I am especially pleased to see the addition of a new chapter on retail entrepreneurship that tells the story of Leopold Stiefel – one of the co-founders of Media Markt and Saturn and a ‘master retailer’ from our own Group. Overall, I believe that practitioners as well as academics will strongly benefit from this book and find it stimulating and thought-provoking. Examples of best practice in retailing and most recent findings from academic research convey interesting insights into current and future trends.
As the Chief Executive Officer of METRO Group, I am glad to see the publication of the second edition of the book *Retailing in the 21st Century: Current and Future Trends* edited by Manfred Krafft and Murali Mantrala. METRO Group helped realize the first edition of this book project and is delighted to support the second edition. This book will continue to be required reading in our internal management development programs.

Eckhard Cordes  
Duesseldorf, August 2009

*Chief Executive Officer of METRO Group*
Acknowledgments for the Second Edition

The success of the first edition of “Retailing in the 21st century” has exceeded expectations. It was sold out very quickly, and has been adopted by retail executives and scholars around the world. This expanded second edition of the book now includes two new chapters on the role of retail entrepreneurs and on retailing in India. With regard to the first of these new chapters, we gratefully acknowledge the contribution of Leopold Stiefel, the founder of Media Markt and one of Europe’s most successful retail entrepreneurs, who shared his insights with us in an extended personal interview. We are also grateful to our two new and our 44 original contributors for their inputs towards bringing out this second edition. We are also pleased with the continuing support from the METRO Group, and thank its Chief Executive Officer Eckhard Cordes for contributing the Foreword to the second edition. Last but not least, we are indebted to our publisher Springer for their continuing strong support and encouragement for this book.

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Acknowledgments for the First Edition

Before we started on this project in late 2003, we were unaware of the huge investments of time and effort that go into editing a book. We naïvely thought that you simply ask some colleagues to cover certain topics, wait for their chapters being submitted on time, do some editing and send the whole material to the publisher. Now we know better …! Since the authors who contributed to this book are either top executives or among the world’s leading retailing academics with many demands on their time, our tight deadlines for submitting first drafts of the chapters, peer reviews of all manuscripts and final revisions of the contributions got challenged quite frequently. Throughout, however, there was remarkable enthusiasm for this project shown by all our contributors, and we are gratified by their dedication, commitment to quality and responsiveness that enabled this book of twenty-three chapters by 46 experts to be completed in fourteen months from the contributors’ kick-off meeting in mid-June 2004. Our many thanks to all our contributors!

This book would have never taken off without the generous support of METRO AG and exclusive access to information about METRO Group’s Future Store Initiative. It would never have been completed without the unstinting support, administrative and editorial assistance of Frederike Göhlich of University of Muenster, Thomas Hamela, Hans-Joachim Körber, Julia Merkel, Zygmunt Mierdorf, and Gerd Wolfram of METRO AG, and Martina Bihn and Irene Barrios-Kezic of Springer. Our heartfelt thanks to all these dedicated individuals!

Finally, this project consumed quite some of our leisure time that should have been devoted to our families. Though we are quite enthusiastic and proud about the final outcome of our work, we also feel sorry about neglecting them on many weekends and holidays we should have been with them. For all their patience and moral support, we dedicate this book to Anna-Kristina, Christine, Elisabeth, Ole-Michel, Surya, Vidya and Ashwini.

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Overview

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Retailing in the new millennium stands as an exciting, complex and vital business sector in most developed as well as emerging economies. The Foreword of this book by Eckhard Cordes, CEO of METRO Group, highlights the rapid changes taking place today in the world of retailing. Key trends and developments such as changing customer needs and increasing interest in the shopping experience as much as products, retailer consolidation, emerging multi-channel retailing strategies, changing nature of competition within and between retailing formats, globalization and technological breakthroughs such as radio frequency identification (RFID) and personal selling assistants (PSAs), are having or will soon have a dramatic impact on the way large retailers do business in this new century. The 2\textsuperscript{nd} edition of \textit{Retailing in the 21st Century} is intended to help business leaders, analysts, policymakers, retailing executives, consultants and academics better understand these trends in retailing and their current and potential impacts, develop strategies and tactics for better performance, and identify issues and questions for further research. With twenty-five crisp and insightful chapters contributed by many of the world’s leading experts in various facets of retailing, \textit{Retailing in the 21st Century} offers in one book a compendium of state-of-the-art, cutting-edge knowledge to understand and guide successful retailing in the new millennium.

Overview of Chapters

The twenty-five chapters in the book are divided into three Parts: (I) Introduction; (II) Global, Environmental and Market Trends; (III) Trends in Retail Management. The chapters in Part I provide an overview of current trends in retailing, key drivers of retail success in national and international markets, and the role of entrepreneurship. Part II contains chapters that examine, in more depth, specific trends in different geographical regions of the world, trends in retailing technology and data environments, and market trends with respect to retail customers, channels and competitors. Part III covers trends and evolving issues in the management
of a retail firm’s human resources, marketing mix, i.e., pricing, promotion and distribution, and supply chains. All chapters review and provide insights into current trends as well as offer predictions for the future. Below, we provide more details on the specific chapters in each of these three Parts.

**Introduction**

The Introductory section consists of three chapters which focus on the key success factors driving national and international success in retailing including the role of the entrepreneur.

**Retail Success and Key Drivers**

This chapter, co-authored by Dhruv Grewal, R. Krishnan, Michael Levy, and Jeanne Munger, describes broad changes currently occurring across the retail landscape, e.g., retail consolidation, and challenges facing retailers such as intensifying competitive pressures, overstoring, and savvier, value-seeking customers. Observing that in spite of these obstacles many retailers continue to succeed, the authors present a framework that identifies the key drivers of success in today’s retailing environment. Specifically, they distinguish between four segments of retailers: Innovative, Low-Price, Big Middle and In Trouble retailers. The authors note that most successful retailers compete in the Big Middle which is where the largest potential base of customers reside. Success drivers of Big Middle retailers include store atmospherics, customer service, attractive merchandise selections at value prices, efficient supply chain management, and advanced technology. Looking ahead, the authors foresee further retail consolidation and success being enjoyed by those retailers who continuously provide value, are innovative, and are able to control their costs.

**Retailing in a Global World: Case Study of Metro Cash & Carry**

After four decades of being in the retailing business, METRO Group has become the fourth-largest retailer in the world. Currently, about 60% of the company’s revenue comes from outside Germany. The story of the growth and transformation of METRO Group from its humble beginnings in the Ruhr valley of Germany just 45 years ago to a global retailing giant is an interesting case study that is described by Zygmunt Mierdorf, Murali K. Mantrala, and Manfred Krafft. The authors review METRO Group’s history and strategies and draw lessons and implications for retailers interested in international growth. In their case, they focus on Metro Cash & Carry (C&C), the most successful of METRO Group’s four major sales divisions. Metro C&C is a self-service wholesaling concept that is also the most international unit, with more than 650 outlets in 29 countries.
Overview

Entrepeneurship in Retailing: Leopold Stiefel’s “Big Idea” and the Growth of Media Markt and Saturn

The stories of the founders of American retail firms such as Wal-Mart, J. C. Penney, Sears and Woolworth’s are well-known in the retail industry. However, little is generally known about the role, personality, and leadership style of founders of today’s successful companies outside of the United States. One European company in the electronic goods retail business that has enjoyed tremendous growth and generated substantial profits in recent years is Media Markt and Saturn. The cofounder of this successful company, Leopold Stiefel, is considered to be one of the most interesting personalities in retailing in central Europe. Within 25 years, Leopold Stiefel has developed Media Markt and Saturn from a single store in Munich to one of the largest electronic goods retailers in the world, generating 19 billion USD in revenues from about 770 stores in 16 European countries. In this chapter, Murali K. Mantrala and Manfred Krafft describe Media Markt and Saturn’s history, the biography of Leopold Stiefel, and his “big idea” and insights into modern retailing expressed in an extended personal interview. The authors identify key elements of Stiefel’s marketing strategy driving the growth and shaping the current and future outlook for Media Markt and Saturn.

Global, Environmental, and Market Trends

Part II of this book consists of a total of eleven chapters: four chapters on Global Trends; four chapters on Environmental Trends; and three chapters on Market Trends.

Global Trends

Retail Trends in Europe

The rapid restructuring of European retailing is described in this chapter by John Dawson. In this process, retailing is changing from a reactive to a proactive sector in the European economy. The author considers four characteristics of this restructuring: fast growth of large firms, a more strategic approach to managerial decision taking, more complex organisational structures, and more retailer co-ordinated value chains. He examines why these changes are taking place and the implications for retailers. Dawson identifies ‘experience innovation’ playing a central role in how European retailers are changing the sector. He foresees future developments in European retailing being driven by continued innovation, greater retail control of branding, development of the experience innovation and customer experience management approach, and a steady exploitation of economies of scale and scope. However, the big unknown factor is the role that government will play in shaping and regulating retailing in Europe in the coming years.
**Trends in U.S. Retailing**

In this chapter, Barton A. Weitz and Mary Brett Whitfield, identify three important consumer trends affecting retailers in the highly competitive U.S. retail industry: (1) the size and importance of two age cohorts—baby boomers and generation Y; (2) the growing ethnic diversity; and (3) the increasing sophistication of shoppers. In response to these trends, retailers are using the classic competitive strategies of low cost and differentiation. Retailers are either developing approaches for lowering their costs (scale economies, supply chain management and technology) to provide lower prices, or tailoring and personalizing their offer to better satisfy the needs of specific market segments by providing unique merchandise and services. Within this context, Weitz and Whitfield explore specific trends in the various retail sectors: food, general merchandise, and non-store retailing. The chapter concludes with a visionary look at how technology will be used to provide customers a more intimate shopping experience in the future.

**Trends in Retailing in East Asia**

The author of this chapter, Roy Larke, describes the rapid development of retailing in East Asia in recent years. Despite a wide diversity in cultures, languages, and incomes, this region has become a magnet for international retailers due to a high population base and relatively low levels of existing competition. Some markets, notably Malaysia, Thailand, Singapore and Hong Kong, are already host to numerous international retail firms, but the largest markets of China and Japan are now just beginning to receive the attention of overseas retailers. Larke emphasizes that it is not just Western firms with Western ideas who are spreading in East Asian distribution. Japanese retailers are also highly active across the region and represent the largest presence in terms of company numbers of any single nationality currently operating in China and other parts of East Asia. Together, Western and Japanese retailers are playing a major role in changing and modernizing distribution structures and understanding their impact on local economies and consumer cultures is an important issue for future research.

**Insights into the Growth of New Retail Formats in India**

A revolution in modern retailing has taken place in the vast, emerging market of India over the last five years. This development has become a subject of worldwide interest. The authors of this chapter, Piyush Kumar Sinha and Sanjay Kumar Kar, describe this transformation in the Indian retail sector, and its growth and investment patterns. They provide insights into the variety of existing and new players in the field, and the experimentation characterizing their choices of modern retail formats. Currently, hypermarkets and supermarkets are growing very fast. Consumer dynamics in India are changing and retailers need to formulate their strategies and tactics to deliver value to the consumer. Sinha and Kar outline
and offer directions for dealing with the challenges and opportunities facing retailers in India today.

Environmental Trends

*Future Store Technologies and Their Impact on Grocery Retailing*

Co-authored by Kirthi Kalyanam, Rajiv Lal, and Gerd Wolfram, this chapter provides an overview of the innovative technologies that were deployed in METRO Group’s pilot ‘Future Store’ in Rheinberg, Germany including: personal selling assistants, digital advertising displays, electronic price tags, and radio frequency identification (RFID) technologies. The authors describe consumer and retailer use case scenarios supported by these technologies. They assess the deployment of these technologies and describe the rollout decisions taken by METRO Group. The chapter closes with an assessment of the expected impact on the future of grocery retailing. The authors predict that retailers who have the ability to integrate these technologies to launch new strategies that enhance the customer experience will be the biggest beneficiaries.

*The Third Wave of Marketing Intelligence*

In this chapter, Raymond R. Burke identifies three waves of change that have transformed marketing research in retail settings over the past 25 years. The first wave that started at the beginning of the ‘80s was the wide diffusion of UPC barcode scanning. The second wave that began ten years later was customer relationship management or CRM based on retailer introduction of customer loyalty cards. This chapter focuses on the third wave of marketing intelligence, called *customer experience management*, which is just getting underway. Recent innovations in the real-time tracking of customer behavior in retail stores allow marketers to measure consumer response to the in-store environment and manage the shopping process. Burke reviews the genesis of customer experience management, describes available tools for tracking shopper behavior and measuring store performance, and discusses two case studies which illustrate the use of tracking research in retail settings. The chapter concludes with a discussion of the challenges in conducting computer-based observational research and future directions.

*Applications of Intelligent Technologies in Retail Marketing*

Most large retailers today have made efforts to create data warehouses that combine the massive databases formed by barcode and/or RFID systems together with the data coming from typically disparate on-line transaction processing (OLTP) systems (e.g., finance, inventory, and sales) at a single location. Smart and powerful data analyses technologies are now needed to extract knowledge from these data warehouses as well as support decision-making in today’s increasingly complex retailing operations environments. Such data analyses tools are termed ‘intel-
ligent’ if they are adaptive, i.e., react to and learn from changes in inputs from their environment. This chapter by Vadlamani Ravi, Kalyan Raman, and Murali K. Mantrala describes several intelligent technologies such as fuzzy logic systems, neural networks analyses and soft computing, their advantages relative to traditional statistical methods, and their recent and potential applications in retail marketing.

**New Automated Checkout Systems**

In this chapter, Thorsten Litfin and Gerd Wolfram describe new automated self checkout systems that enable shoppers to scan, bag and pay for their purchases with very little or no help from store personnel. Although this technology has existed for more than a decade, it is still in the early stage of the diffusion process. The authors discuss the potential benefits of automated self check out systems for retailers, e.g., lower costs and greater flexibility, as well as for customers such as shorter queues, a faster checkout process, more privacy and greater control of their purchasing. However, customer’s acceptance of such systems is crucial for their success. The authors describe primary research based on a conceptual model of customer acceptance that was conducted at METRO Group’s Future Store to learn more about the prospects for self checkout systems and differences between users and non-users of such systems. Based on the findings of this study and other empirical research, the authors offer directions on how vendors of these systems and retailers can encourage greater customer acceptance of these systems in the future.

**Market Trends**

*Understanding Retail Customers*

Retail customer behavior is the focus of this chapter by Mark Uncles. The chapter begins with a retrospective assessment of our understanding of retail customers, paying particular attention to patterns of consumer choice. Based on this assessment, the author concludes that considerable advances have been made in the analysis and understanding of what customers buy, how much they buy, at what price, and so forth. Nonetheless, there remain many unresolved issues and understanding these is becoming harder because the customer landscape is changing, indeed a buyer-centric revolution is taking place in retailing, under the influence of four forces of change: the rise of technologically-savvy customers, the spreading fad and fashion-consciousness of retail customers, the growing importance of experiential shopping, and increasing consumer assertiveness. Uncles discusses how these forces of change are having an impact on consumer choices and presenting new challenges for retail analysts.
Future Trends of Multi-channel Retailing

Retailers find themselves in an increasingly complex environment shaped by the rise of new competing channels and store formats on the one hand, and, on the other hand, consumers who demonstrate multi-channel shopping behavior and needs structure. In this chapter, Peter Sonneck and Sören Ott describe these two trends and the challenges they pose for individual retailers endeavouring to interpret consumers’ multi-channel shopping process and satisfy their individual needs and requirements. The authors propose a framework to perform such analyses and offer guidelines for how retailers can react to multi-channel shopping behaviour and develop their related strategies. The authors conclude that the future belongs to multi-channel rather than single-channel retail organizations, particularly those that offer a network of channels, rather than a ‘parallel configuration,’ and store formats that are transparent to consumers.

Retail Competition

This chapter by Edward J. Fox and Raj Sethuraman focuses on key trends and evolving issues in the two types of prevailing competition — within- and between-format—among packaged goods retailers, e.g., grocery stores and mass merchandisers. The authors organize their discussion around four key dimensions of retail competition: price, variety, assortment, and store location. They note that there is a trend of increasing between-format competition as all retailers extend their product offerings to provide one-stop shopping convenience for their customers. On the other hand, since consumers want more locational convenience with limited assortments, retailers respond with smaller store formats (e.g., dollar stores, Wal-Mart Neighborhood Markets). International expansion, consolidation within formats, and multi-channel retailing are discussed as the major within-format competition trends. Finally, both between- and within-type competition are affected by the trend of retailers moving off the mall to standalone or strip center locations.

Trends in Retail Management

Part III of this book consists of a total of eleven chapters that cover People, Product Assortments, Pricing, Distribution, Promotions, Marketing Communications, and Supply Chain Management.
**People**

*New Challenges in Retail Human Resource Management*

This chapter, written by Julia Merkel, Paul Jackson and Doreén Pick, describes the critical role of Human Resource Management (HRM) in the formulation and execution of business strategies of international retailers. Rapid changes in retailing business necessitate new concepts and solutions in HRM. The authors give an overview of these changes, which include both external developments, e.g., changes in consumer behavior, selling formats and the competitive landscape, and internal changes such as those related to corporate governance and information technologies, and the new challenges they pose for HR managers of international retailers. The authors emphasize that it is HR managers’ responsibility to ensure that the organization’s business strategy adapts to cultural differences of diverse countries as well prepare a diverse workforce for the future world of retailing business. The chapters outline a series of steps to be taken by HRM of retailers to meet these goals.

**Product**

*Retail Assortment: More ≠ Better*

Retailers have assumed that larger product assortments better meet consumer needs. Thus, the number of products offered within retail categories has escalated in recent years despite higher inventory costs and greater risk of out-of-stocks. In this chapter, Susan M. Broniarczyk and Wayne D. Hoyer review recent research that questions this conventional wisdom and show that more product assortment does not necessarily lead to a better shopping experience for the consumer. The authors focus on four questions: 1) How do consumers perceive assortment?; 2) How should assortments be organized?; 3) How do marketing mix variables interact with assortment?; and 4) How does assortment affect consumer choice? The authors’ review of research indicates that through selective reduction and proper organization, retailers can shrink the number of products offered without lowering consumer perceptions of assortment. Moreover, shoppers seem more satisfied with their shopping experience and more likely to make a purchase from smaller product assortments. Thus, having an *optimal* rather than simply large assortment is critical for retailers. New technology such as RFID tags is expected to facilitate such assortment management.

*Out-of-Stock Situations: Reactions, Antecedents, Management Solutions, and a Future Perspective*

Out-of-stocks (OOS) remain an issue of concern for many retailers as they can have strong negative consequences for them, including lost sales opportunities and
consumer complaints. In this chapter, Peter C. Verhoef and Laurens M. Sloot review findings from empirical studies of consumer reactions towards OOS situations, the antecedents of these reactions and management solutions to reduce OOS. Surveys indicate that the most prevalent consumer reactions to OOS are brand switching and postponement of the purchase. Important antecedents of these reactions relate mainly to the brand and the product, such as brand equity. The authors also discuss new developments such as the adoption of RFID technology and automated store ordering systems and their likely impact on OOS in the future. They predict that the use of these new technologies will substantially reduce OOS in the coming years.

Pricing

Recent Trends and Emerging Practices in Retailer Pricing

Ruth N. Bolton, Venkatesh Shankar and Detra Y. Montoya identify and examine the impact of four major retailing trends, namely, retail consolidation, changing manufacturer practices, advances in technology, and the emergence of e-tailing, on retailer pricing practices. In this new retailing environment, there is a renewed emphasis on profitable pricing strategies. Specifically, the authors’ analysis of successful pricing strategies suggests a movement toward customized pricing which they examine in depth utilizing a six-step pricing architecture. The authors anticipate that in the future, there will be movement away from heavy trade allowances, increased customization to local conditions, greater pricing flexibility, and more multi-channel consistency of retailer pricing.

Retail Pricing – Higher Profits Through Improved Pricing Processes

In this chapter, Hermann Simon, Andreas von der Gathen and Philip W. Daus identify three major drivers of profit: price, volume and costs. Despite the enormous impact of price on profits, and the huge potential for improvement in the area of pricing, retailers have paid very little attention so far to the optimization of pricing processes. Prices are still set on the basis of intuition and subjective judgment rather than being developed in a systematic manner, leading to reduced margins and lower profitability. To tap new profit potential, retailers should establish superior pricing processes. This article gives an overview of key elements of pricing processes and develops a five-step scheme for implementing improved pricing processes, beginning with the formulation of strategic guidelines and ending with how to establish a control and monitoring system for pricing.
Distribution (Place)

Current Status and Future Evolution of Retail Formats

In this chapter, Dieter Ahlert, Markus Blut and Heiner Evanschitzky survey the current retail landscape of G8 countries. The authors observe that each national economy has its own retail structure and there is variation in the development and significance of retail formats across countries. Further, retailers who dominate selected formats in their domestic market have been quite successful in transferring these same formats to other countries. The authors also note that there is potential in specific underdeveloped retail markets for the introduction of particular retail formats by national or international retailers. Thus, this comparative analysis of the current status of the retail landscape in various G8 countries offers insights into how retailing in these countries will evolve in the future.

Electronic Retailing

It has frequently been emphasized that there are several unique benefits and limitations offered by an electronic channel as compared to store and catalog channels. In his chapter on electronic retailing, Barton A. Weitz discusses the classes of merchandise and services being sold through the electronic channel today and likely to be sold in the future, the retailers who are best positioned to successfully sell merchandise and services through an electronic channel, the growth of multi-channel retailers and the issues they face, and specific opportunities and problems involved in selling through an electronic channel, such as personalization, privacy, pricing, and fulfillment. The chapter also offers some projections of the worldwide growth of electronic retail sales in the future.

Operations, Promotion, and Marketing Communications

Supply Chain Management in a Promotional Environment

Grocery retailer supply chains in Europe are characterized by high promotion intensity. For example, promotions of selected items such as diapers from Procter & Gamble are frequently used to drive store traffic to gain market share and visibility. This chapter by Arnd Huchzermeier and Ananth V. Iyer focuses on supply chain management issues associated with products frequently on promotion. The authors emphasize the need for an accurate forecast of the demand impact of such promotions and its role in affecting orders and inventories. Their approach accounts for demand forecasting, coordination issues with suppliers and the management of logistics to the store. This problem is complicated by the consumer choice of package size and purchase quantity in a competitive environment. The chapter includes a state-of-the-art review of the relevant literature and a discussion of current research insights on the benefit of manufacturer-retailer collaboration in such an environment.
Sales Promotions

The chapter by Karen Gedenk, Scott A. Neslin and Kusum L. Ailawadi aims at two objectives. First, the authors take a look at what is known about the effectiveness of retailer promotions so far. Retailers have been using sales promotions like temporary price reductions, coupons, displays, and feature advertising for a long time and a lot of research has been done on their effects. Gedenk, Neslin and Ailawadi review which promotion instruments retailers may use, which effects these promotions may have on sales and profits, and what is known about the strength of these effects. Second, the authors look at the opportunities for sales promotions that arise from new technologies like loyalty cards, personal shopping assistants, electronic shelf labels, and electronic advertising displays. First, these technologies allow retailers to give consumers more targeted information on promotions at the point-of-purchase. For example, consumers may be alerted to a promotion for detergent, when their shopping cart is close to the detergent aisle. Second, retailers may use the technologies to target not information, but the promotion itself. For example, loyalty card data can be used to target coupons at specific consumers. Third, the new technologies may be used to enhance cross-selling. The authors review the new technologies available, as well as the opportunities arising from them for more effective retail promotions in the future.

Understanding Customer Loyalty Programs

Loyalty programs (LPs) have become an extremely prevalent marketing tool across a large number of industries. In particular in retailing, LPs are in many cases a critical part of the entire offering. Despite the prevalence of LPs, there are still many open questions regarding their efficiency and effectiveness. Werner J. Reinartz addresses this aspect in his chapter by generating structured insights around the strategic management of LPs. First, his chapter gives a descriptive overview with respect to the different types and design characteristics of LPs. Following this overview, the chapter discusses the specific possible roles that LPs play as a marketing instrument, that is, “What are the various managerial objectives of introducing a LP?” Finally, the chapter summarizes the findings from recent academic research around LPs, addressing the question of why different LPs have been more or less successful in reaching their objective. The chapter concludes with a summary and an outlook on future LP issues.

Integrated Marketing Communications in Retailing

The key challenge for retailers in the near future is to build strong brands by orchestrating new in-store technologies that facilitate real-time communication (e.g., RFID, wireless sensors, ubiquitous and mobile computing, personal shopping assistant or “smart carts”) with the usual out-of-store branding communications to customers (e.g., print advertisement). To accomplish this goal, retailers will find the concept of Integrated Marketing Communications (IMC) relevant for designing
profitable marketing strategies. In this chapter Kalyan Raman and Prasad A. Naik review the genesis and definition of IMC, present the standard multimedia model of communications, and elucidate the emerging results from the IMC model that reveal how retailers should act differently when determining the communications budget amount and its allocation in the presence of synergies. In addition, the authors discuss the effects of uncertainty on the profitability of IMC programs. Finally, the authors extend the IMC framework to futuristic retailing and identify new research avenues.
PART I: 

Introduction
Retail Success and Key Drivers

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Retail Success and Key Drivers

The global retail landscape is changing in some dramatic ways. Retail sales are currently improving. At the same time, competitiveness of both the U.S. retail and global marketplace is escalating. Whereas category dominant retailers were once the store of choice for a variety of products, chains like Wal-Mart, Carrefour, METRO Group, Tesco and Target have taken over in most categories ranging from toys to jewelry. As the world’s leading retailer, Wal-Mart has a formidable history of providing greater value to consumers than its competitors, in part due to its innovative supply chain management. French-based Carrefour, the world’s second largest retailer, operates five different formats in 30 countries (but not in the United States).\textsuperscript{1} Based in Germany, METRO Group is ranked fourth in global sales after Wal-Mart, Carrefour, and Tesco, and it operates four different types of retail formats in 32 countries (Table 1).

Costco is the sixth largest retailer in the U.S. and the ninth largest in the world.\textsuperscript{2} It has developed a unique retailing strategy that has allowed it to outperform other warehouse club stores such as Sam’s Club. A critical component of their strategy is value-based pricing. They generally do not markup merchandise more than 14\%, compared to most supermarkets and department stores who markup products 25 and 50\%, respectively. They also create a lot of excitement by offering limited assortments of prestigious merchandise, such as Waterford Crystal, Polo/Ralph Lauren apparel, and fine diamonds. Their total assortment is about 4,000 stock keeping units (SKU), compared to about 150,000 SKU in a typical Wal-Mart store.

\textsuperscript{1} “2006 Global Powers of Retailing,” \textit{Stores}, January 2006, pg. 16.
Table 1. Top 10 Global Retailers

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<tbody>
<tr>
<td>Wal-Mart Stores, Inc</td>
<td>US</td>
<td>270.88</td>
<td>2,000,000</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Carrefour SA*</td>
<td>France</td>
<td>82.15</td>
<td>490,042</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Tesco plc</td>
<td>UK</td>
<td>67.98</td>
<td>440,000</td>
<td>3</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>METRO Group</td>
<td>Germany</td>
<td>64.34</td>
<td>280,000</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Home Depot, Inc.</td>
<td>US</td>
<td>55.94</td>
<td>300,000</td>
<td>5</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td>CVS Caremark Corp.</td>
<td>US</td>
<td>55.81</td>
<td>190,000</td>
<td>6</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>The Kroger co.</td>
<td>US</td>
<td>50.75</td>
<td>323,000</td>
<td>7</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Schwarz Group</td>
<td>Germany</td>
<td>49.60</td>
<td>260,000</td>
<td>8</td>
<td>10</td>
<td>33</td>
</tr>
<tr>
<td>Costco Wholesale Corp.</td>
<td>US</td>
<td>47.78</td>
<td>127,000</td>
<td>9</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Target Corp.</td>
<td>US</td>
<td>45.79</td>
<td>366,000</td>
<td>10</td>
<td>–</td>
<td>–</td>
</tr>
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* inclusive Joint Venture
(Source: METRO Group)

This highly edited assortment creates a sense of urgency for their customers – buy it now or it will be gone tomorrow. While a typical grocery store might carry ten brands of ketchup in three different sizes, Costco will carry only one SKU. It has also taken a very proactive orientation towards its employees, and compensates them generously. Although Costco’s innovative approach has proved to be successful, they continue to look for new ways to offer exciting products, prices, and retailing experiences.³

Significant consolidation by big players such as the acquisition of May Department Stores by Federated Department Stores, expansion of existing retailers into new geographic areas and into new channels, forward integration by manufacturers, and dramatic improvements in productivity are all shaping this increasingly competitive industry. This leads to more over storing – a disproportional increase in the number of retailers in relation to the growth in the population – in more and more markets. In this environment, customer retention is becoming difficult as shoppers become savvier, willing to shop at a wide variety of stores and across a broad range of retailing formats (see, e.g., Weitz, Whitfield, Ott in this book). Indeed, a number of market pressures are forcing retailers to consider how to provide customers with greater perceived value than competitors.

The global business environment has not been kind to retailers since 9/11. The confluence of a number of factors adds to their challenges: deflation, high unemployment, lower consumer confidence, accounting irregularities, terrorism, terrorism,

war in Iraq, ethnic violence in many parts of the world, higher oil prices, and a drop in tourism. Retailers are responding to these challenges in a variety of ways. Some are rising to the challenges and entrepreneurially launching new formats, while others are remaining competitive by driving down costs using sophisticated communication and information systems to manage their businesses. For example, at the 12,105 Seven Eleven stores in Japan, each customer’s market basket is scanned. These data are sent via satellite and the Internet to corporate headquarters. Headquarters then aggregates the data by region, product, and time, and make that information available to all stores and suppliers by the following morning. Orders for fast food and fresh food items are placed three times a day, magazines once a day, and processed food items three times a week. Because of the stores’ limited size, deliveries are made 10 times a day. Those retailers who do not respond quickly in appropriate ways find themselves floundering and being forced to take a deep hard look at their businesses, at times taking refuge behind bankruptcy protection.

Fig. 1. Retail Landscape
(Source: Levy, Grewal, Peterson and Connolly (2005))

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Retailers facing these challenges must understand the key drivers of retail success in order to remain viable. Building on our research and review of the various characteristics of the retail industry, we present an overview of the retail landscape framework and describe strategic levers that retailers must consider as they deliver value to their customers.

Retailing is indeed a dynamic enterprise, and we propose a model to describe some of the more successful retail strategies that have emerged in the last few decades (See Figure 1). This model describes the evolution of retail strategy based on two dimensions: relative price, which is depicted on the horizontal axis, and relative offerings, depicted on the vertical axis. Retailers typically fall in one of four segments: Innovative, Big-Middle, Low-Price and In-Trouble. Retailers occupying the Innovative segment direct their strategies toward quality-conscious markets seeking premium offerings; Low-Price retailers appeal to price-conscious segments; the Big Middle retailers thrive because of their value offerings, and the In-Trouble retailers are those who are unable to deliver high levels of value relative to their competitors. We will now briefly examine each of these.

**Innovative Segment**

Driven by intense competition and choosy consumers, retailers like Trader Joe’s have adopted innovative retail formats to increase the value of the shopping experience. Trader Joe’s, the specialty grocery chain, goes beyond offering quality and variety. It carefully manages the customer experience so customers have fun—with a friendly and helpful staff, unique product selection, a sense of discovery from finding something new on the shelf, and tasty samples. Customers who enjoy the experience will inevitably buy something they hadn’t originally intended to. The intent is to design a unique shopping experience that integrates the consumer into the process to create a lasting, pleasant memory, and ultimately a loyal customer. Providing consumers with a stimulating experience and a sense of trial before the purchase, and leaving a strong positive impression is the primary goal of these retailers.

Other retailers, such as Neiman Marcus, Nordstrom, Saks Fifth Avenue and many small designer boutiques are also enjoying robust sales. They have a loyal following where customers enjoy the experience of shopping. This also appeals to foreign tourists who are taking advantage of the weak U.S. dollar. High-end stores in particular are the direct beneficiaries of this trend.

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Low-Price Segment

So called “extreme value” retailers like Dollar General, Family Dollar, and 99 Cents Only Stores are typical examples of retailers in this segment. Extreme value retailers are general merchandise discount stores that are found in either lower-income urban or rural areas and are much smaller than traditional discount stores. They compete by offering good value primarily through their low prices. Whereas the “extreme value” retailers are adding stylish private brand collections and some luxury goods like frozen shrimp to their assortment, low prices remain the centerpiece of their strategy. Double-digit growth of “extreme value” retailers shows that stocking fast-turnaround items in 8,000 to 10,000 square foot stores is a good business model. Moreover, they appeal to today’s time-starved consumers because they are easy to shop, being small stores primarily located in easy-access strip shopping centers. Even though the average dollar store transaction is only $9, the average margin of 32% outpaces convenience stores (29%), drug stores (27%) supermarkets (31%), discounters (24%) and warehouse clubs (11%) by keeping prices in check and offering brand and product mixes valued by customers. Lower operating costs contribute to higher dollar store profitability. The double-digit growth of dollar store-type operations has certainly been an eye opener for major players, like Target, Albertsons, and Kroger who are opening dollar aisles in their stores to compete with dollar stores.

Save-A-Lot, a wholly owned subsidiary of the grocery retailer SUPERVALU, is an extreme value retailer that offers food at prices as much as 40 percent lower than those of conventional supermarkets. Although Save-A-Lot, which has increased its selling space by about 10 percent per year, operates more than 1,200 stores across the U.S., analysts believe that number could easily double or triple in just a few more years. Behind Wal-Mart Supercenters, it is the fastest growing retail chain in the United States. Save-A-Lot also is starting to roll out “combo” stores that sell both groceries and fixed-price general merchandise. Save-A-Lot combines the pricing power and efficiency of a Wal-Mart Supercenter with the small-store environment of a convenience store. Save-A-Lot carries about 1,250 items, but only the best selling brands in each category. Its limited assortment strategy allows the company to sell products quickly and avoid getting stuck with excess inventory that eats into its profit margins.

The Big Middle Segment

Wal-Mart, Kohl’s, Lowe’s, and Best Buy are typical examples of retailers in the Big Middle. Since the Big Middle is the source of the largest potential base of customers, it is where most successful retailers want to compete in the long-term,

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although it is possible to be successful in the short-term using a different approach. In fact, many of the retailers now in the Big Middle have gotten there by way of initially providing either an innovative offering or low price or both, thus providing superior value to customers. For example, Ann Taylor began by offering innovative products that provided customers with high levels of value through superior benefits, whereas Target had its start by providing customers with high levels of value through low prices for good quality goods by means of its operational excellence. Others, like Lowe’s home improvement stores, were innovative in terms of their assortment and category dominant format, while also offering value through its ability to build partnerships with suppliers.

Big Middle retailers have succeeded in leveraging their innovative or low-price position to transform their niche appeal to the mass market. They own an entirely different position in the marketplace by offering innovative merchandise assortments in terms of depth and breadth at reasonable prices. Clearly, they have successfully transformed themselves from being perceived as the innovative leaders or the low-price leaders into a hybrid of the two that appeals to a much larger customer base. They reposition themselves by transforming their image as either offering simply innovative merchandise or low price to being retailers that provide great value in a broader array of merchandise.

Wal-Mart has recently faltered in their expansion strategy. They have, for instance, underestimated the power of labor to influence local municipalities to enact “store size” laws, minimum wage laws, and health care benefits. They are also facing a number of lawsuits. Wal-Mart has responded in part by modifying their assortment, such as offering low price prescription drugs, and expanded banking services. It has also finally realized its “one size fits all” mentality doesn’t actually fit all. As a result, they are customizing assortments to cater to urban areas, and geographical and ethnic idiosyncrasies.

Once retailers move into the Big Middle, they cannot expect to rest on their laurels, or they will get “in trouble” and potentially be forced to exit retailing altogether. The Big Middle is a very competitive and profitable space. Other retailers are constantly vying for consumers’ attention and a place in the Big Middle. Simply being in the Big Middle is not sufficient for long-term viability. A case in point is conventional department stores. Once the darlings of Wall Street, they are now considered among the dinosaurs of retailing because they have not been able to sustain superior value through innovative offerings and high levels of service for the mass market.

**Strategic Levers for Retail Success Through Value**

Retailers who successfully compete in The Big Middle provide a compelling value proposition to the customer and are able to quickly respond to market changes. The successful ones maintain a nimble and flexible mindset and constantly monitor changes in the marketing environment. They realize that being