Introduction

Retailing is one of the world's largest industries. It is in a permanent state of change, and the pace of this change has been accelerating over the past decade. From a marketing perspective, retailers are closer to the consumer than manufacturing companies. Retailers represent the culmination of the marketing process and the contact point between consumers and manufactured products. While retailing has long set buying decisions as its highest priority and was very focussed on the product assortment, it now follows a more holistic approach to management and marketing and is seizing the opportunity to be consumer-oriented, engage in personal contact with customers, gather information on consumer behaviour and exploit insights into consumer behaviour and preferences. What was once a simple way of doing business has been transformed into a highly sophisticated form of management and marketing. Retail marketing consistently features more efficient, more meaningful and more profitable marketing practices (Mulhern 1997, p. 103).

Retailing involves those companies that are engaged primarily in the activity of purchasing products from other organisations with the intent to resell those goods to private households, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise.

A number of developments are responsible for the dynamic change in modern retail management. In most developed countries, retailing has experienced a dramatic increase in the scale of operations and in market concentration. **Large-scale retail chains** have appeared and have taken market share from independently owned small shops. These retail chains first developed into regional groups and then into nationally and even internationally active retail operations. In the past decade, mergers and acquisitions between already large players have intensified this development. Many retailers now have massive turnovers, very large numbers of employees and extensive store networks. The world's largest retailer, *Walmart*, achieves an annual turnover of almost 300 billion EUR, which exceeds the gross domestic product of many smaller countries, and employs about 2 million people. *Carrefour*, the largest European retailer and the no. 2 in the world, operates more than 10,000 stores worldwide.

At the same time, many retailers have developed into international multichannel retailers, that is, they operate in many countries and offer different retail formats for their customers. For example, the French retailer *Carrefour* is now a multi-format group that uses hypermarkets, supermarkets, convenience stores, hard discounters and other formats to sell its assortment to customers in over 30 countries. More than half of its turnover is earned outside its home market. The German *Metro Group* employs food superstores (*Real*), food supermarkets (*extra*), consumer electronics category killers (*Media Markt and Saturn*), cash & carry wholesale stores (*Metro C&C*) and other formats and earns about two thirds of its turnover in markets outside Germany. *Tesco* is expanding rapidly into Eastern European and Asian markets and, in addition to several store-based formats, very successfully operates an e-commerce channel, *Tesco.com*. While the rise of e-commerce in retailing was initially over-

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estimated in the days of Internet hype, it has nonetheless developed slowly but surely and *Tesco* now achieves sales of almost 2 billion EUR with its online-channel.

In most country markets, retailing is also a very concentrated industry. According to the market research company *Planet Retail*, the top five food retailers account for more than 55 % of the market in the UK; in Germany and France, it is even above 70 %. Consequently, a **shift in power** within the distribution channel is one of the most influential developments over recent decades. The power of individual retail organisations is growing; they are now comparable to and, in many cases, even larger than many manufacturers, even for global brand manufacturers such as *Procter & Gamble*, *Sony* or *Nestlé*. Thus, manufacturers now often depend on a few large retailers for a substantial share of their global turnovers. Hand in hand with this increasing size, retail marketing budgets, IT budgets and budgets for top managers have also been increasing. Furthermore, not only the growing size and concentration, but also the increased sophistication of retail management, combined with the better availability of customer data, has contributed to the power shift. Retailing is currently one of the leading industries in the application of new technologies. Retailer **PoS data** has become more valuable as IT systems have facilitated the collection of data at the checkout. Furthermore, as retailers have grown from regional to national chains, they have been able to accumulate knowledge about consumer trends and the development of product sales, etc., which has enhanced their relevance as gatekeepers for products on their routes to the customer. Customer-specific data that is now increasingly being gathered via **loyalty cards** adds to this knowledge. Where manufacturer brands once used to be all important, the past few years have witnessed the power of **retail brands** challenging the positions of suppliers. Retailers have started to embrace the concept of **strategic marketing**; they use strategic planning and position themselves relative to their competitors. Thus, the enormous buying volume of a retailer is only one source of its power base – albeit certainly the most important – with other developments adding to its power.

Retailers are **intermediaries** in the distribution channel. However, while retailing has long been considered a somewhat passive link in the value chain between manufacturer and consumer, retailers now use their positions to become the **dominant player in the distribution channel**. They develop their own marketing concepts and assume **marketing leadership** in their vertical relationships with manufacturers. Retailers have also developed their own logistics concepts and created central warehouses. Accordingly, while it was the manufacturers who traditionally fulfilled large parts of the logistics function, retailers today also strive towards **logistics leadership** in the distribution channel.

With this book, our objective is to cover the most important aspects of retail management with a comprehensive, yet brief, and innovative approach. We discuss 18 different topics in retail management by first giving a thematic overview of the topic that covers the key issues and explains the most important concepts and then illustrating them with the help of extended case studies. For the case studies, internationally known companies were chosen that can be considered best practice cases in the respective strategy fields.

In Part I, the functions of retailers are first introduced (Chapter 1). Then, formats and players in retailing are discussed. A **retail format** represents a specific configuration of the retail marketing mix (e.g. store size, typical location, merchandise, price and service offered) and it often forms the core of the retail strategy. Different formats are described and there is a discussion of those that are currently gaining market share and those formats that are on the decline. For example, category killers such as *IKEA, Media Markt* and *Leroy Merlin* have been growing tremendously over the past few decades. Hard discounters, such as *Aldi*, are certainly one of the most aggressively growing retail formats in food retailing worldwide (Chapters 2 and 3). **E-commerce** has grown into a substantial business in general merchandise retailing. Many pure Internet players, such as *Amazon* and *Ebay*, have reached a considerable scale. At the same time, more and more stationary retailers embrace online-shopping, so Internet shopping is offered more and more often as part of a **multichannel** approach (Chapter 4). At the same time, not only new formats, but also new players are competing with existing retailers. The most important trend explained in this book is the emergence of manufacturers as competitors. To an increasing extent, manufacturers operate in vertical marketing systems, trying to control the distribution of their products to the consumer, either through contractual or even by means of equity-based vertical strategies (Chapter 5). But also, vertically integrated players like *IKEA*, *Zara* or *H&M*, that are simultaneously retailers and manufacturers, have captured major market shares in many retail sectors (Chapter 6).

In Part II, the most important aspects of strategic retail marketing are discussed. Dynamic growth is one of the most important developments in retailing over recent decades and forms the foundation for many other subsequent changes. This growth is being achieved through various different **growth strategies**, such as outlet multiplication, acquisitions and franchising (Chapter 7). In addition, since many industrial countries are characterised by stagnating retail markets, this growth is more and more often achieved by entering foreign markets. The process of **internationalisation** poses a complex task, since the local environments in host countries often differ considerably from the home market (Chapter 8). Growth, whether nationally or internationally, can only be achieved with a sustainable competitive advantage, and retailers are now increasingly trying to develop a clear **positioning** for their companies relative to those of their competitors. One important component of this marketing strategy is to create a strong **retail brand**, with clear and distinct associations in the consumer's mind that support the development of customer loyalty to the company (Chapter 9).

Within the framework of strategic retail marketing, retailers have more options available in their **marketing mix** than do manufacturers, because they are in direct contact with the final consumers, who visit their stores and interact directly with them. Part III of the book examines the marketing mix and takes an in-depth look at a number of retail marketing mix instruments. The **location of the store** is considered a dominant determinant of retailing success, because in store-based retailing, good locations are key elements for attracting customers to the outlets. Also, because of its intrinsically fixed nature, location cannot be changed in the short-term (Chapter 10). Within the store, the retailer offers a **merchandise** assortment to its customers, and one of the primary functions of the retailer is to select the appropriate breadth and depth of the assortment and the specific products (e.g. manufacturer brands or **store brands**) and to tailor the offer to the target customers. A new concept is **category management**, which aims at implementing a more strategic and holistic approach to merchandising (Chapter 11). Closely related to the assortment is the **pricing policy**. Since consumers spend a large share of their incomes on retailing, pricing is considered highly relevant for retail patronage decisions and, within pricing processes, retailers have many strategic and tactical options available to influence purchasing behaviour (Chapter 12). As already mentioned, the customer is also influenced by the store environment. Many buying decisions are made at the point-of-sale, so professional **instore marketing** can increase sales substantially. Store layout and store design can support customer orientation in the store and create a positive store atmosphere (Chapter 13). **Customer relationship management** (CRM) is a relatively new element in the retail marketing mix. A key objective of CRM is to establish enduring relationships with customers, and loyalty programmes are manifestations of CRM in retailing. However, behind the loyalty cards that most consumers now carry are very different methods and concepts with which retailers intend to collect data and tailor their marketing to individual customers (Chapter 14).

While Parts I to III focus on the aspects of retailing that are at least partly visible to the customer, Part IV deals with back-end and internal processes that are necessary to create the offer to the consumer. Retailers need to buy the merchandise they offer to their customers, and they use various, heterogeneous supply sources, ranging from global manufacturers of branded goods to external buying organisations in foreign markets and store brand manufacturers. Relationships with suppliers and new concepts such as **efficient consumer response** have emerged, but the **buying concepts** employed must be closely adapted to the specific supply situation (Chapter 15). The products must be transported along the supply chain – from the factory to the store shelf. More and more frequently, **physical logistics** is considered a core competency of retailers who need to establish the necessary infrastructure and coordinate **product flows** (Chapter 16). Those product flows within the **supply chain** are dependent on **information flows**. It is necessary to establish when a product is sold in a certain store, so as to trigger an order to a warehouse, and subsequently to a supplier. The exact process depends on knowing the available products in stock at the various stages of the supply chain and forecasting consumer demand, etc. To enhance the efficiency of the supply chain, different **collaborative concepts** for achieving efficient replenishment have been developed, and these are based on new enabling technologies (Chapter 17). Finally, the intensive competition in retailing, combined with the price pressure to which most retailers are exposed, make it necessary both to perform well and constantly improve the effectiveness and efficiency of all applied strategies and processes. Adequate **monitoring** of financial and operational performance is, thus, necessary, and retailers have developed sophisticated systems for evaluating the profitability of their store networks, supply chain efficiency and financial performance. New concepts, such as value-based management, have also been quickly embraced by retailers (Chapter 18).

This short overview of the different fields of strategic management in retailing shows that the world of retailing has become complex and challenging. In the following 18 Chapters, we cover the most important aspects and give the reader an insight into the main developments and concepts. Based on the case studies, the reader will also gain an understanding of how the concepts are implemented by successful retail companies around the world.