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# Managing Retailing, Wholesaling, and Logistics

## Marketing Management:

An Asian Perspective  
(5<sup>th</sup> edition)

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## Managing Retailing, Wholesaling, and Logistic

# 16

In the previous chapter, we examined marketing intermediaries from the viewpoint of manufacturers who wanted to build and manage marketing channels. In this chapter, we view these intermediaries—retailers, wholesalers, and logistical organizations—as requiring and forging their own marketing strategies. Intermediaries must strive for marketing excellence like any company or suffer the consequences.



# Learning Objectives:

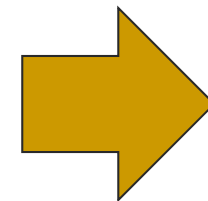
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- Understand what the major types of marketing intermediaries that occupy this sector
- Understand what marketing decisions these marketing intermediaries make
- Understand what are the major trends with marketing intermediaries

## The **essence** of Chapter Sixteen:

In the previous chapter, we examined marketing intermediaries from the viewpoint of manufacturers who wanted to build and manage marketing channels. In this chapter, we view these intermediaries—retailers, wholesalers, and logistical organizations—as requiring and forging their own marketing strategies.

Intermediaries also strive for marketing excellence and can reap the benefits like any other company.





## The **essence** of Chapter Sixteen:

Many of the more successful intermediaries use strategic planning, advance information systems, and sophisticated marketing tools.

They measure performance more on a return-on-investment basis than on a profit-margin basis. They segment their markets, improve their market targeting and positioning, and aggressively pursue market expansion and diversification strategies.

# Retailing

- ⊕ **Retailing:** activities involved in selling goods/services directly to final consumers for personal, non-business use
- ⊕ A **retailer** or **retail store** is any business enterprise whose sales volume comes primarily from retailing



## Table 16.1 Major Retailer Types

<b>Specialty store:</b> Narrow product line. E.g., The Body Shop.
<b>Department store:</b> Several product lines. E.g., Isetan.
<b>Supermarket:</b> Large, low-cost, low-margin, high-volume, self-service store designed to meet total needs for food and household products. E.g., Wellcome.
<b>Convenience store:</b> Small store in residential area, often open 24/7, limited line of high-turnover convenience products plus takeout. E.g., 7-Eleven.
<b>Discount store:</b> Standard or specialty merchandise; low-price, low-margin, high-volume stores. E.g., Wal-Mart
<b>Off-price retailer:</b> Leftover goods, overruns, irregular merchandise sold at less than retail. E.g., Reject Shop.
<b>Superstore:</b> Huge selling space, routinely purchased food and household items, plus services (laundry, shoe repair, dry cleaning, and check cashing). Category killer (deep assortment in one category) such as Toys “R” Us; hypermarket (huge stores that combine supermarket, discount, and warehouse retailing) such as Carrefour.
<b>Catalog showroom:</b> Broad selection of high-markup, fast-moving, brand-name goods sold by catalog at discount. Customers pick up merchandise at the store.

# Retailing - *Types of Retailers*

- ✦ Store retailers, non-store retailers & retail organizations
- ✦ Best-known: department store
- ✦ Retail-store types pass through stages of growth & decline - the ***retail life cycle***

# Retailing - *Types of Retailers*

## **LEVELS OF SERVICE**

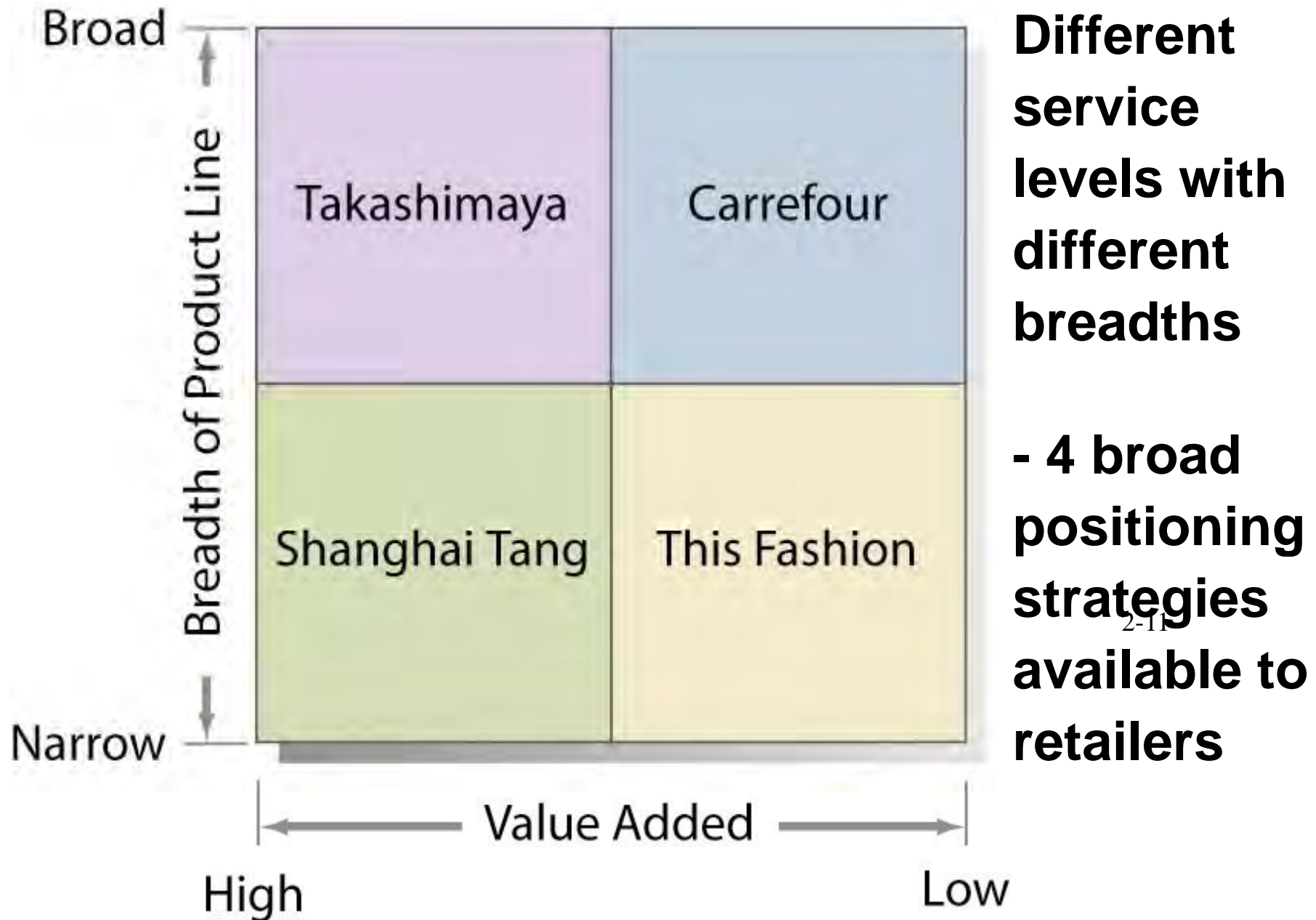
- ⊕ The *wheel-of-retailing* hypothesis:
- ⊕ Normal retailers increase services & prices to cover costs
- ⊕ Higher costs - opportunity for new stores to offer lower price & less service

# Retailing - *Types of Retailers*

⊕ Retailers can position themselves as offering one of four levels of service:

1. ***Self-service***
2. ***Self-selection***
3. ***Limited service***
4. ***Full service***

Figure 16.1 Retail Positioning Map



# Retailing - *Types of Retailers*

- ✦ Non-store retailing grow faster than store retailing
- ✦ **Falls into 4 major categories:**
  1. Direct Selling  
*multilevel selling, network marketing*
  2. Direct Marketing
  3. Automatic Vending
  4. Buying Service

## Retailing - *Types of Retailers*



***Coca-Cola***

**vending machine**

Shinjuku, Japan

Vending machines -  
effective distribution  
system in Japan

Products sold through  
vending machines -  
soft drinks, beers &  
cigarettes to instant  
noodles



# Retailing - *Types of Retailers*

## CORPORATE RETAILING

- ⊕ Increasing number of retail stores form corporate retailing
- ⊕ Achieve economies of scale
- ⊕ Greater purchasing power
- ⊕ Wider brand recognition
- ⊕ Better-trained employees

# Retailing - *Types of Retailers*

## Major types of corporate retailing:

1. Corporate chain stores
2. Voluntary chains
3. Retailer cooperatives
4. Franchises
5. Merchandising conglomerates

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## Table 16.2 Major Types of Corporate Retail Organizations

**Corporate chain store:** Two or more outlets owned and controlled, employing central buying and merchandising, and selling similar lines of merchandise. E.g., Giordano.

**Voluntary chain:** A wholesaler-sponsored group of independent retailers engaged in bulk buying and common merchandising. E.g., Independent Grocers Alliance.

**Retailer cooperative:** Independent retailers using a central buying organization and joint promotion efforts. E.g., Associated Grocers.

**Consumer cooperative:** A retail firm owned by its customers. Members contribute money to open their own store, vote on its policies, elect a group to manage it, and receive dividends. E.g. Singapore's NTUC offers child care, dental care, taxi service, supermarket, and pharmaceutical and insurance services.

**Franchise organization:** Contractual association between a franchiser and franchisees, popular in a number of product and service areas. E.g., Jollibee.

**Merchandising conglomerate:** A corporation that combines several diversified retailing lines and forms under central ownership, with some integration of distribution and management. E.g., Dairy Farm operates the Wellcome supermarket chain in Hong Kong and Taiwan, Mannings and 7-Eleven stores in Hong Kong and Shenzhen, and Giant hypermarkets in India, Indonesia, Malaysia, and Singapore. It also has interests in the Maxim's food outlets and cake shops in Hong Kong; the Cold Storage chain in Malaysia and Singapore; and Health and Glow drug stores and Foodworld Supermarkets in India; among others.

# Retailing - *New Models for Success*

- ✦ Retail store assortments similar
- ✦ **To compete:** Frequent merchandise update, store remodeling, own brand etc
- ✦ **2 models emerging:**
  1. ***Strong retail brand approach***
    - ✦ In-house brands feature strongly
  2. ***The showcase store***
    - ✦ Sells other brands & vendors responsible for stock, staff & selling space

# Retailing - *Trends in Retailing*

1. New retail forms & combinations
2. Growth of intertype competition
3. Competition between store-based & non- store-based retailing
4. Growth of giant retailers
5. Traditional trade - alive & well
6. Growing investment in technology
7. Global presence of major retailers
8. Upgrading of Asian retailers

# Retailing - *Trends in Retailing*



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## **Floating markets in Thailand**

**typical of how mobile traditional retailers are in location  
sells products like fruits, handbags & cooked food**

# Retailing - *Trends in Retailing*



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**Wet markets in Vietnam sell fresh vegetables & meat**



# Retailing - *Marketing Decisions*

- ⊕ **TARGET MARKET:**
- ⊕ Until defined & profiled,
- ⊕ retailer cannot make consistent decisions on product assortment, store decor, advertising messages & media, price & service levels

## Retailing - *Marketing Decisions*



**GIORDANO Junior targets couples with children**

# Retailing - *Marketing Decisions*

- ⊕ **PRODUCT ASSORTMENT:**
- ⊕ Must match target market's shopping expectations
- ⊕ Product-assortment *breadth & depth*
- ⊕ The real challenge?
- ⊕ Develop product-differentiation strategy

## Table 16.3 Retail Category Management

Step	What It Means	How Borders Applied It
1. Define the category.	Decide where you draw the line between product categories. For example, do your customers view alcohol and soft drinks as one beverage category, or should you manage them separately?	Named the cookbook section Food and Cooking because consumers expected to see books on nutrition there as well.
2. Figure out its role.	Determine how the category fits into the whole store. For example, "destination" categories lure folks in, so they get maximum marketing push, whereas "fill-ins" carry a minimal assortment.	Decided to make Food and Cooking a destination category.
3. Assess performance.	Analyze sales data from A.C. Nielsen, Information Resources Inc., and others. Identify opportunities.	Learned that cookbooks sell faster than expected during holiday. Responded by creating gift promotions.
4. Set goals.	Agree on the category's objectives, including sales, profit, and average-transaction targets, as well as customer satisfaction levels.	Aimed to grow cookbook sales faster than the store average and to grab market share from competition.
5. Choose the audience.	Sharpen your focus within the category for maximum effect.	Decided to go after repeat buyers. "Since 30 percent of shoppers buy 70 percent of the cookbooks sold, we are aiming at the enthusiast," says Borders' chief marketing officer Mike Spinozzi.
6. Figure out tactics.	Decide the best product selection, promotion merchandising, and pricing to achieve the category's goals.	Gave more prominent displays to books by celebrity chefs like Mario Batali. Created a more approachable product selection by reducing the number of titles on certain subjects.
7. Implement the plan.	Set the timetable and execute the tactics.	Introduced changes to its cooking sections as of November 2002.

# Retailing - *Marketing Decisions*



## **Product Differentiation possibilities:**

- I. Exclusive national brands - not available at competing retailers*
- II. Mostly private branded merchandise*
- III. Blockbuster distinctive merchandise events*
- IV. Surprise or ever-changing merchandise*
- V. Latest or newest merchandise first*
- VI. Offer merchandise customizing services*
- VII. Offer highly targeted assortment*

## Retailing - *Marketing Decisions*



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**Stores selling cell phones & cameras  
along Tokyo's Electronic Street,  
*a specialized location for electronic products***

## Retailing - *Marketing Decisions*



**Reject Shop** from Malaysia's Metrojaya has surprise assortments of overstocks at discounted prices



# Retailing - *Marketing Decisions*

- ⊕ **PROCUREMENT:** establish merchandise sources, policies & practices
- ⊕ Know acceptance criteria buyers used
- ⊕ Retailers - demand forecasting, merchandise selection, stock control, space allocation & display

# Retailing - *Marketing Decisions*

- ⊕ **Direct product profitability (DPP):**
  - Product's handling costs
  - From time at warehouse until purchased in retail store
- ⊕ From DPP- product gross margin bears little relation to direct product profit

# Retailing - *Marketing Decisions*

- ⊕ **SERVICES & STORE ATMOSPHERE**
- ⊕ **Services mix** - key tool to differentiate one store from another
- ⊕ Retailers - *services mix* to customers:
  1. **Prepurchase services**
  2. **Postpurchase services**
  3. **Ancillary services**

# Retailing - *Marketing Decisions*

- ⊕ Differentiation through reliable service
- ⊕ Keep women in mind
  - As they enter workforce
  - More demanding of service
- ⊕ Atmosphere - suits target market & draws them to purchase
  - *Eg: The Mall of Emirates in Dubai features ski slopes even though Dubai is snowfree*

# Retailing - *Marketing Decisions*

- ✚ **STORE ACTIVITIES & EXPERIENCES**
- ✚ Growth of e-commerce - brick-and-mortar retailers to respond
- ✚ Entice Internet-savvy consumers to visit stores - real-life retailers develop new services & promotions

- ✦ *Attract shoppers & keep them in store*
- ✦ *Honor “transition zone”*
- ✦ *Don’t make them hunt*
- ✦ *Make merchandise easy to reach & touch*
- ✦ *Men do not ask questions*
- ✦ *Women need space*
- ✦ *Make checkout easy*

## Retailing - *Marketing Decisions*



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Berjaya Times Square, *retailtainment*

- **Cosmos World, a theme park,**

**provides shoppers entertainment in retail setting**



# Retailing - *Marketing Decisions*

- ✦ **PRICE DECISION:** key positioning factor
  - Target market
  - Product-and-service assortment mix
  - Competition
  
- ✦ Like high *Turns* x *Earns*, but usually fall
  - *High-markup, lower-volume* group or
  - *Low-markup, higher-volume* group

## Retailing - *Marketing Decisions*



**A Japanese  
restaurant**

**Display case  
showing  
plastic  
models of  
dishes**

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***Communicate  
price & look***

# Retailing - *Marketing Decisions*

## ✦ **COMMUNICATION DECISION:**

✦ Communication tools to generate traffic & purchases

✦ *Eg: Ads, sales, money-saving coupons & frequent shopper-reward programs, in-store food sampling*

# Retailing - *Marketing Decisions*

## ✦ **LOCATION DECISION:**

1. *Central business district*
2. *Regional shopping center*
3. *Community shopping center*
4. *A shopping strip*
5. *Within a larger store*

✦ Consider provincial cities - capitalize on potential growth

Tokyo's Shinjuku district - full of shops & offices. Rents are high due to high traffic



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Retailing - *Marketing Decisions*

# Retailing - *Marketing Decisions*

## ✚ **Methods to assess locations:**

1. Traffic count
2. Surveys of consumer shopping habits
3. Analysis of competitive locations

# Retailing - *Marketing Decisions*

## **Assess store's sales effectiveness:**

- ⊕ Number of people pass by, average day
- ⊕ % who enter store
- ⊕ % entering who buy
- ⊕ Average amount spent per sale

## Retailing - *Marketing Decisions*



Suntec City  
major retail &  
office complex  
in Singapore  
has

***Fountain of  
Wealth***

Signifies<sup>142</sup>  
***good luck***  
to tenants &  
shoppers



# Private Labels

- ✦ **Private label brand** - what retailers & wholesalers develop
- ✦ 50 % limit to carry private brands WHY?
  1. *Prefer certain national brands &*
  2. *Many categories not attractive on a private-brand basis*
- ✦ 3 Asian markets - most rapid growth: Thailand, Korea & Singapore

# Private Labels - *House Brands*

- ⊕ **Why sponsor own brands?**
  1. *More profitable*
  2. *Differentiate selves from competitors*
- ⊕ “No branding” - certain staple consumer goods & pharmaceuticals
- ⊕ **Generics:** unbranded, plainly packaged, cheaper versions of common products

# Private Labels - *The Private Label Threat*

## ⊕ **Retailers:**

- ⊕ *Many advantages & increasing market power*
- ⊕ Charge *slotting fee* - scarce shelf space
- ⊕ Charge - special display space
- ⊕ Build better quality store brands
- ⊕ Consumers - more price sensitive

# Private Labels - *The Private Label Threat*

- ⊕ Manufacturer- higher prices – costs - ensure strong brand preference
- ⊕ Spend less on promotion - brand leadership spirals down
- ⊕ *National brand manufacturers' dilemma*
- ⊕ Invest in R&D: new brands, line extensions, features & quality improvements

# Wholesaling - *an overview*

⊕ **Wholesaling:** selling goods/services to those who buy for resale or business use

***Wholesalers differ from retailers HOW?***

1. Less attention to promotion, location & atmosphere
2. Larger transactions & trade area
3. Government deals differ, legal regulations & taxes

# Wholesaling

## - overview

- ⊕ Wholesaler if efficient in  $\geq$  one function:
  - Selling & promoting
  - Buying & assortment building
  - Bulk breaking
  - Warehousing
  - Transportation
  - Financing
  - Risk bearing
  - Market information
  - Management services & counseling

# Wholesaling

## *- The Growth & Types of Wholesaling*

### **Wholesaling - major distribution feature in Asia**

#### **WHY?**

- ⊕ Growth of factories - far from buyers
- ⊕ Advanced production orders - not to specific ones
- ⊕ Increase - intermediate producers & users
- ⊕ Adapt products - needs – intermediate, final users

# Wholesaling

## - *Wholesaler Marketing Decisions*

- ✦ Wholesaler-distributors pressures:
  1. New sources of competition
  2. Demanding customers
  3. New technologies
  4. More direct-buying programs by large industrial, institutional & retail buyers



# Wholesaling - *Trends in Wholesaling*

- ⊕ Successful wholesaler-distributors
  - Adapt services
  - Meet suppliers' & targets' changing needs
- ⊕ Reduce operating costs by investing in
  - Advanced materials-handling technology
  - Information systems &
  - The Internet

# Wholesaling - *Trends in Wholesaling*

- ✦ Major complaints against wholesalers:
  1. No active product promotion
  2. Low inventory - struggle to meet orders
  3. No current market, customer data
  4. No capable managers - lower own costs
  5. Charge too much for their services

# Wholesaling - *Trends in Wholesaling*

Strong relationship – manufacturers **4 ways**

1. Clear agreement on expected functions
2. Visit plant, trade show- insight to needs
3. Fulfill commitment - meet targets, feedback
4. Value-added services to help their suppliers

# Market Logistics

## **Supply chain management (SCM):**

- ✦ Procure the right inputs  
(raw materials, components & equipment)
- ✦ Convert to finished products &
- ✦ Dispatch to final destinations

# Market Logistics

## **Market logistics:**

- ✦ Plan infrastructure - meet demand
- ✦ Implement & control flow of materials & final goods from origin to use
- ✦ Meet customer requirements at a profit

# Market Logistics

## Market logistics

- ⊕ Challenges for distributors in Asia:
  - Geographic distances
  - Population density &
  - Supporting infrastructure
- ⊕ Impact market access & logistics efficiency

# Market Logistics

## ***4 Steps to Market Logistics planning:***

1. Value proposition
2. Best channel design & network strategy
3. Excellent sales forecasts & warehouse, transportation & materials management
4. Best information systems, equipment, policies & procedures

# Market Logistics

## *- Integrated Logistics Systems*

- ⊕ Market logistics task - **integrated logistics systems (ILS)**
  - Materials management
  - Material flow systems &
  - Physical distribution
- ⊕ Abetted by information technology (IT)



# Market Logistics

## *- Market-Logistics Objectives*

- ⊕ Strong trade-offs - total system basis
- 1. What customers want, competitors offer
- 2. Competitors' service standards
- 3. Establish promise to market
- 4. Design system - minimize cost, achieve objectives

# Market Logistics

## - *Market-Logistics Objectives*

- ⊕ Each possible market-logistics system lead to following cost:

$$M = T + FW + VW + S$$

where  $M$  = total market-logistics cost of proposed system

$T$  = total freight cost of proposed system

$FW$  = total fixed warehouse cost of proposed system

$VW$  = total variable warehouse costs (including inventory) of proposed system

$S$  = total cost of lost sales due to average delivery delay under proposed system

# Market Logistics

## *- Market-Logistics Decisions*

- ⊕ How should orders be handled?
- ⊕ Where should stocks be located?
- ⊕ How much stock should be held?
- ⊕ How should goods be shipped?

# Market Logistics

## *- Market-Logistics Decisions*

### **ORDER PROCESSING**

- ✦ Try to shorten *order-to-payment cycle*
  - Elapsed time between an order's receipt, delivery & payment
- ✦ Prepare criteria for the Perfect Order

# Market Logistics

## *- Market-Logistics Decisions*

### **WAREHOUSING**

- ⊕ Decide on type, number & location of warehouses
- ⊕ To reduce warehousing costs
  - Centralize inventory in one place &
  - Deliver orders from there

# Market Logistics

## *- Market-Logistics Decisions*

### **INVENTORY:**

- ⊕ *Inventory cost increases accelerates as customer service level nears 100%*
- ⊕ Inventory decision making:
  - When to order (order point)
  - How much to order

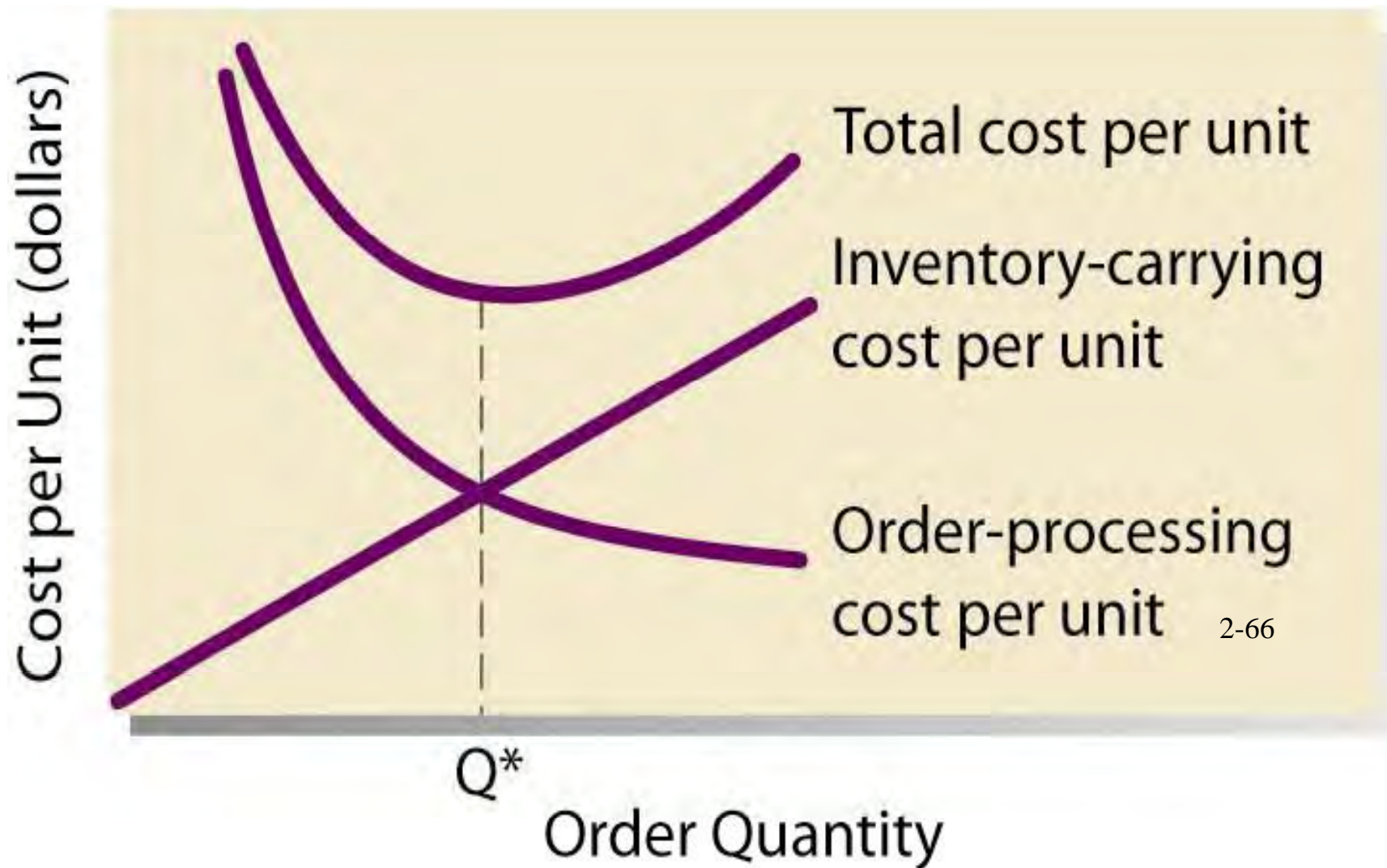
# Market Logistics

## *- Market-Logistics Decisions*

### **INVENTORY:**

- ⊕ Optimum quantity: balance at different levels
  - Order-processing costs:
    - Setup
    - Running
  - Inventory-carrying costs

Figure 16.2  
Determining Optimal Order Quantity





# Market Logistics

## - *Market-Logistics Decisions*

- ⊕ Reduce costs: position inventory to risk & opportunity:
  - *Bottleneck item* - high risk, low opportunity
  - *Critical item* - high risk, high opportunity
  - *Commodities* - low risk, high opportunity
  - *Nuisance item* - low risk, low opportunity

# Market Logistics

## *- Market-Logistics Decisions*

### **TRANSPORTATION:**

- ✦ Affect price, delivery performance & condition of goods when they reach customer
- ✦ **5 transportation modes:** rail, air, truck, waterway & pipeline

# Market Logistics

## *- Market-Logistics Decisions*

### *Criteria:*

- ⊕ Speed
- ⊕ Frequency
- ⊕ Dependability
- ⊕ Capability
- ⊕ Availability
- ⊕ Traceability
- ⊕ Cost

### *Transportation mode:*

- ⊕ Private
- ⊕ Contract
- ⊕ Common carrier

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# Market Logistics

## - *Market-Logistics Decisions*

- ⊕ **Containerization** - goods in containers, easy transfer - 2 transportation modes
  - *Piggyback*: rail & trucks
  - *Fishyback*: water & trucks
  - *Trainship*: water & rail
  - *Airtruck*: air & trucks

# Market Logistics

## *- Organizational Lessons*

1. Senior VP of logistics - single point of contact - all logistical elements
2. Periodic meetings - sales & operations - review inventory, costs, customer, market, production
3. New software & systems - key to superior logistics performance

# Market Logistics

## *- Organizational Lessons*

- ⊕ Strategies - business view, not just costs
- ⊕ Information-intensive system
  - Electronic links to all parties
- ⊕ Set logistics goals
  - Match/exceed competitors' &
  - Involve all relevant people

## **Marketing Debate - Should National Brand Manufacturers Also Supply Private Label Brands?**

One controversial move by some marketers of major brands is to supply private label makers. For example, Ralston-Purina & Heinz have admitted to supplying products - sometimes lower in quality - to be used for private labels. However, other marketers criticize this “if you can’t beat them, join them” strategy, maintaining that these actions, if revealed, may create confusion or even reinforce a perception by consumers that all brands in a category are essentially the same.

**Take a position:** Manufacturers should feel free to sell private labels as a source of revenue versus National manufacturers should never get involved with private labels.

## **Marketing Discussion**

Think of your favorite stores. What is that they do that encourages your loyalty? What do you like about the in-store experience?