

Strategies in the Changing Retail Landscape

Vishal Singh
Stern School of Business
New York University

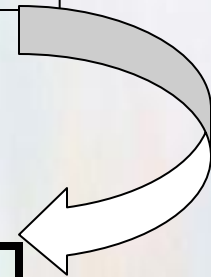
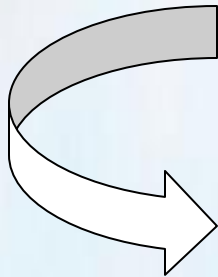
Retailing World Today: Art & Science



Gut Feel & Intuition

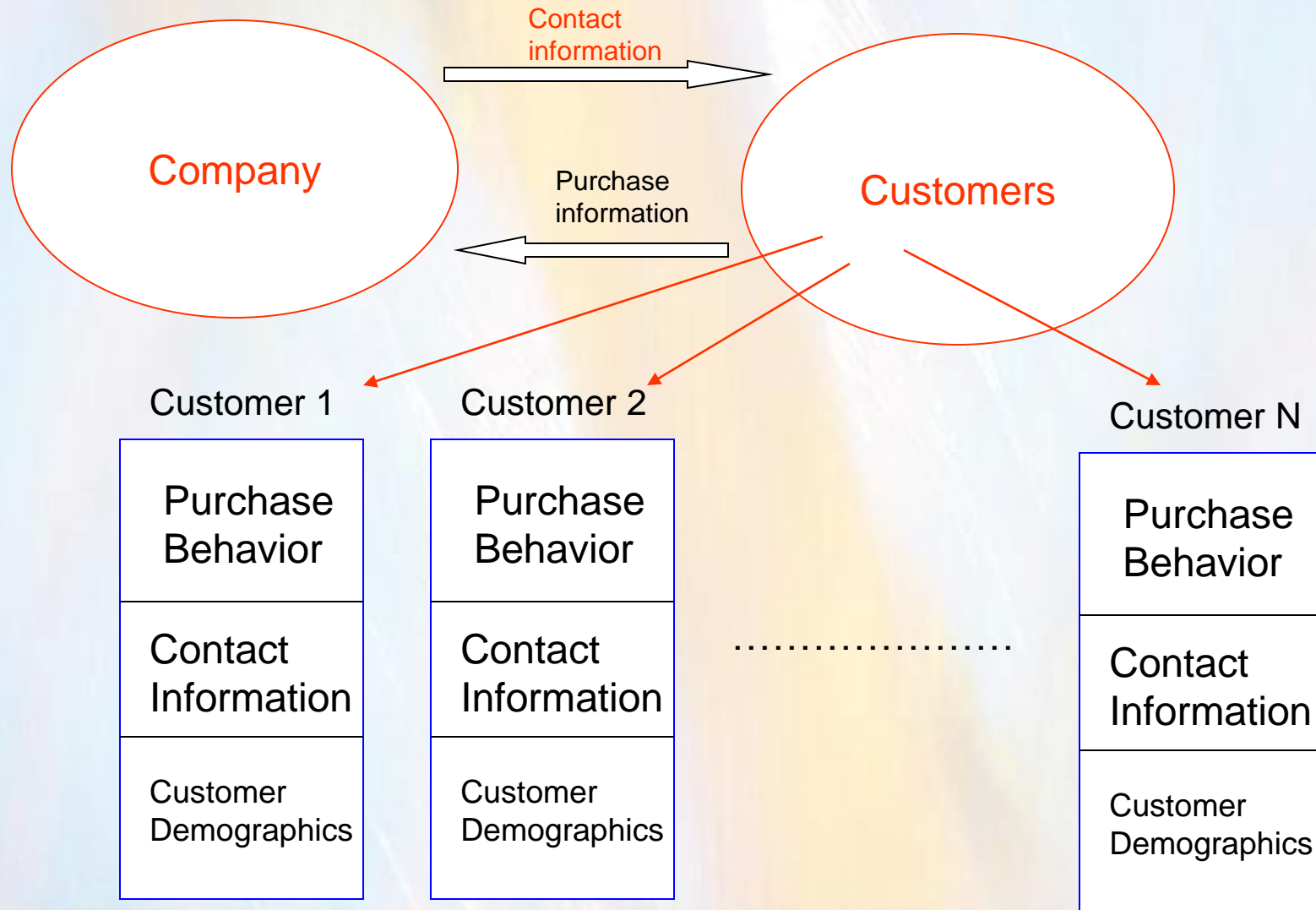


Fact/Data Based



Good Decision Making

What & How is it Collected? Depends on the Industry/Technology

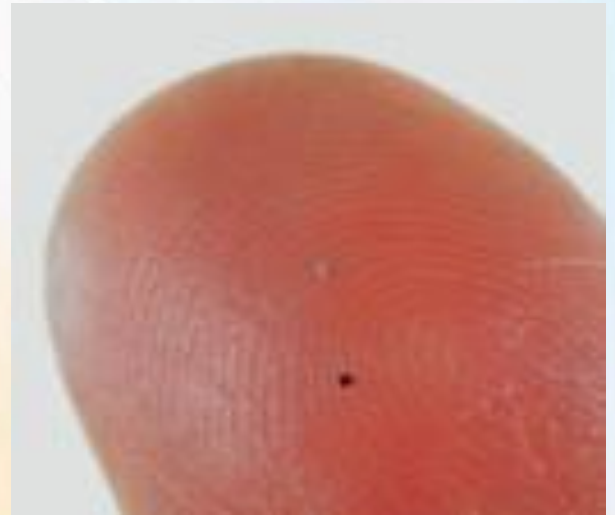


Loyalty Cards in Retailing

- Does it create loyalty?
 - In US, most consumers have multiple cards
- Started with the idea of creating loyalty ...then became promotion tool. But can it really price discriminate?
 - Everyone is using it. In my work, over 90% of sales on cards.
- Prisoner's dilemma?
- **Real Value: INFORMATION**
 - But need to use it in decision making...

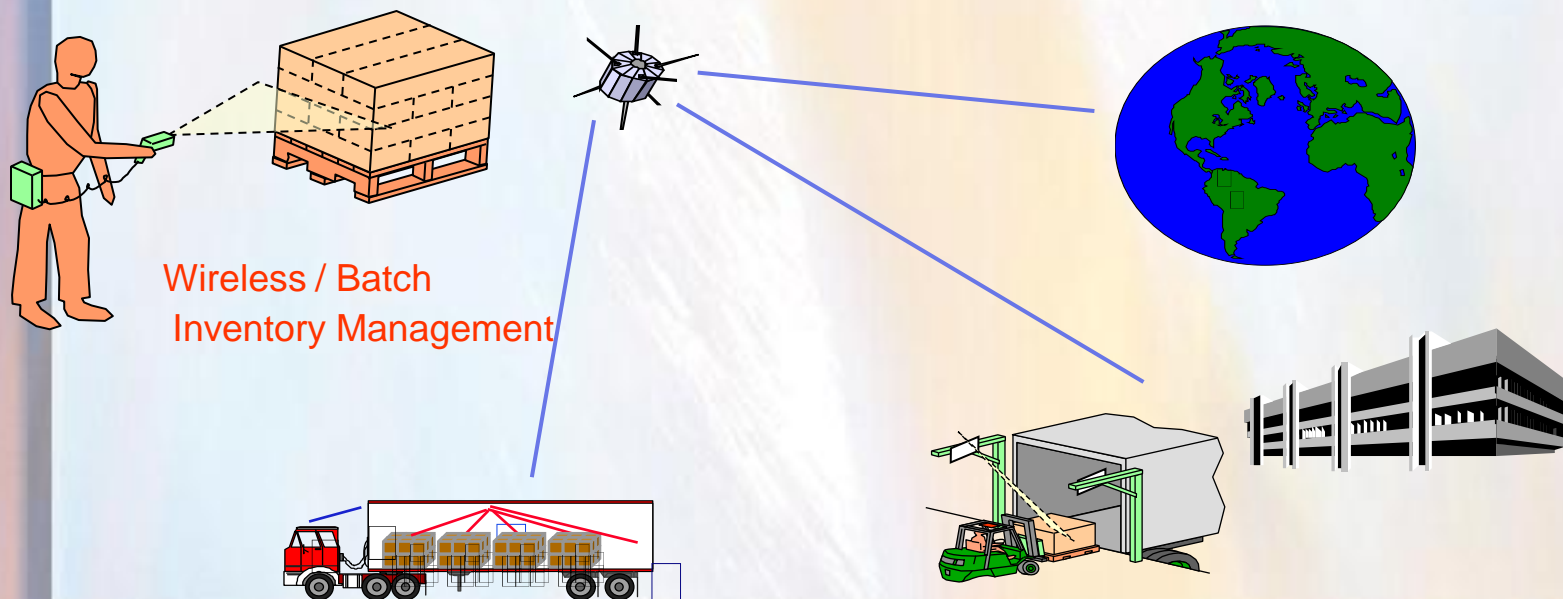
RFID

- Stands for Radio Frequency Identification
- Uses radio waves for identification
- Provides unique identification or serial number of an object
- Small
 - As small as 0.4mm x 0.4mm
- Fast
 - Data retrieval in milliseconds
 - No contact
- Cheap
 - 0.05\$/unit

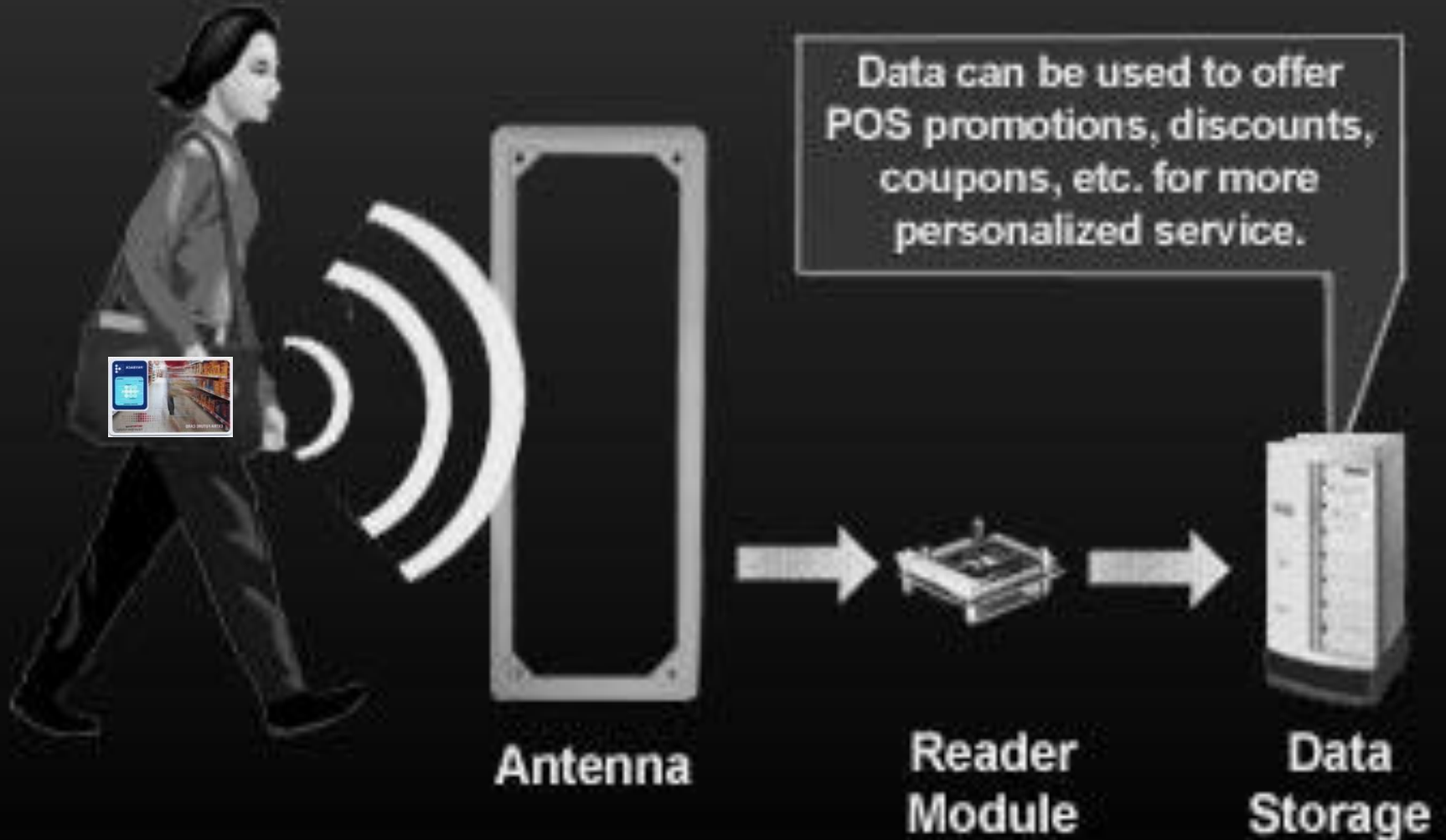


Supply Chain Management

- RFID adds visibility as the items flow through the supply chain from the manufacturer, shippers, distributors, and retailers.
- Wal-Mart currently has 300 suppliers sending products to 500 RFID-enabled Wal-Mart and Sam's Club stores.



Customer Loyalty Mechanism with TI*RFID



Texas Instruments advises retailers to scan customers' loyalty cards right through their purse or wallet

Source: <http://www.ti.com/tiris/docs/solutions/pos/loyalty.shtml>

...and silent scanning for marketing purposes



The tracking information can be used in any application where it is useful. For example, if the person is carrying a baby bottle, a store advertisement system may be configured to advertise diapers.

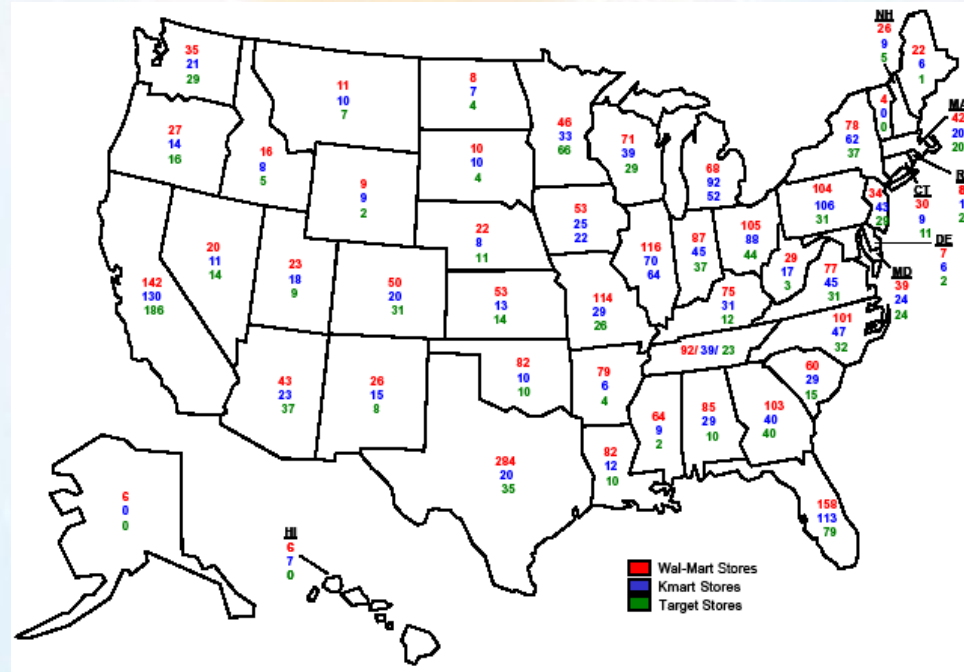
-IBM patent application 20020165758



Art & Science of Retailing: Approach

- Mini-Case Studies
 1. Discount Store Competition
 2. Entry and Customer Retention
 3. Aisle Captain
 4. Micro Marketing: Pricing Strategies

Mini-case 1: Evolution of the Discount Store Industry in the US



Discount Store Industry

- Discount Stores: Wal-Mart, Target, K-mart
 - Wal-Mart: First store by Sam Walton in 1962 in Rogers, Arkansas
 - Target: First store in 1962 in Roseville, Minnesota. Part of Dayton Company
 - Kmart: First store in Michigan in 1962, Part of S. S. Kresge Corporation
- 1962: Rite-Aid, Crate & Barrel, Kohl's, Peer 1
- Distinct Expansion Strategy
 - **ANIMATION**: of WM, KM, Target expansion

Kmart Stores

- Rapid Expansion, primarily in Urban markets
 - Largest discounter till late 80's (second biggest retailer after Sears)
 - 1972: Kmart 486 store, WM 51 store
 - 1980: Kmart close to 1700, WM 276
- Resistance to Modernizing Supply Chain
 - Problems of old stores, Inventory, IT
 - 70's managers filled orders by hand mailed to HQ, At HQ orders were sorted and sent to vendors
 - One of last big retailer to adopt scanners
- No Distinct Positioning Strategy
 - Went head-to-head with WM on prices

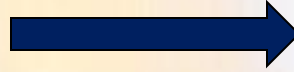
Wal-Mart Strategies

- Location and Expansion
 - Small towns, small population entry threshold
- Positioning
 - Well defined EDLP, Price checks and authority to store managers
- Procurement
 - Direct from manufacturers / China
- Distribution Center
 - Hub-and-spoke strategy
- Heavy Investment in IT from the beginning

Target Stores

- Slow Expansion
 - Currently have the same number of stores what Kmart had in 1980
- Distinctive Demographics
 - Customer base:
 - Females & Young
- Positioned as an Upscale Discounter
 - **“Expect More/Pay Less”**
 - Non-price differentiation – Through captive brands, designer exclusives, trendy P.L. merchandise, celebrity endorsements and “Buzz Marketing”
 - But aggressive pricing on select undifferentiated products
 - In between Discount store and Department store
 - Trendy & Value





*“Stuck in the middle”
(with empty parking lots)*



“Tarzay” 

Mini-Case 2:
Using Loyalty Card Database:
Case Study of Competitor Entry

Competing with WM

- Supercenter
 - Combination of general merchandise and grocery
 - Approx. 180,000 square-feet (30% devoted to food)
 - One Stop Shopping
- First Wal-Mart supercenter in 1988
 - Only 10 till 1993, Currently about 2,500
- Why go into a business of extremely low margins?
 - Discount store industry—relatively stagnant and concentrated
 - Grocery Industry: Highly fragmented
 - Shopping frequency
- Extensive Experimentation
 - Currently Neighborhood Markets

Strategic Use of Customer Database to Compete with the Giants

- Context: How can supermarkets compete with Wal-Mart?
 - There were 33 bankruptcies of supermarkets in the US in the past decade and 27 attributed to WM
- Problems with Wal-Mart Entry in your Market
 - Cost Advantages
 - Better run company—supply chain
 - Bargaining Power
 - Labor
- Is the business model same as supermarkets?

How to Compete with WM?

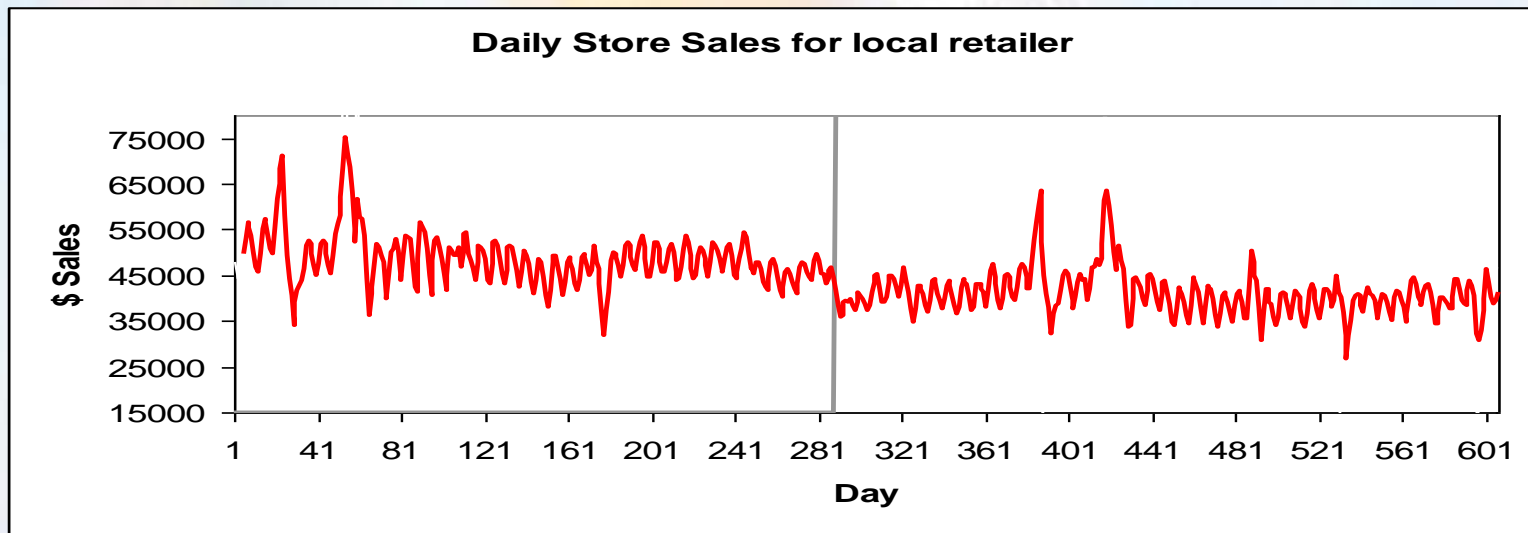
- "Competition from Wal-Mart supercenters may be inevitable, but it is not a death sentence .." Thomas Zaucha, president and CEO of the NGA

Recommended Solutions???

1. Shut down the store
 2. Become more like Wal-Mart
 3. Differentiate
- *Using Loyalty Card Database to devise strategies*

Effect of Wal-Mart on a Regional Chain

- Frequent shopper data from a retail chain covering about 2 years
- [Wal-Mart Supercenter](#) entered the market about half way through the period

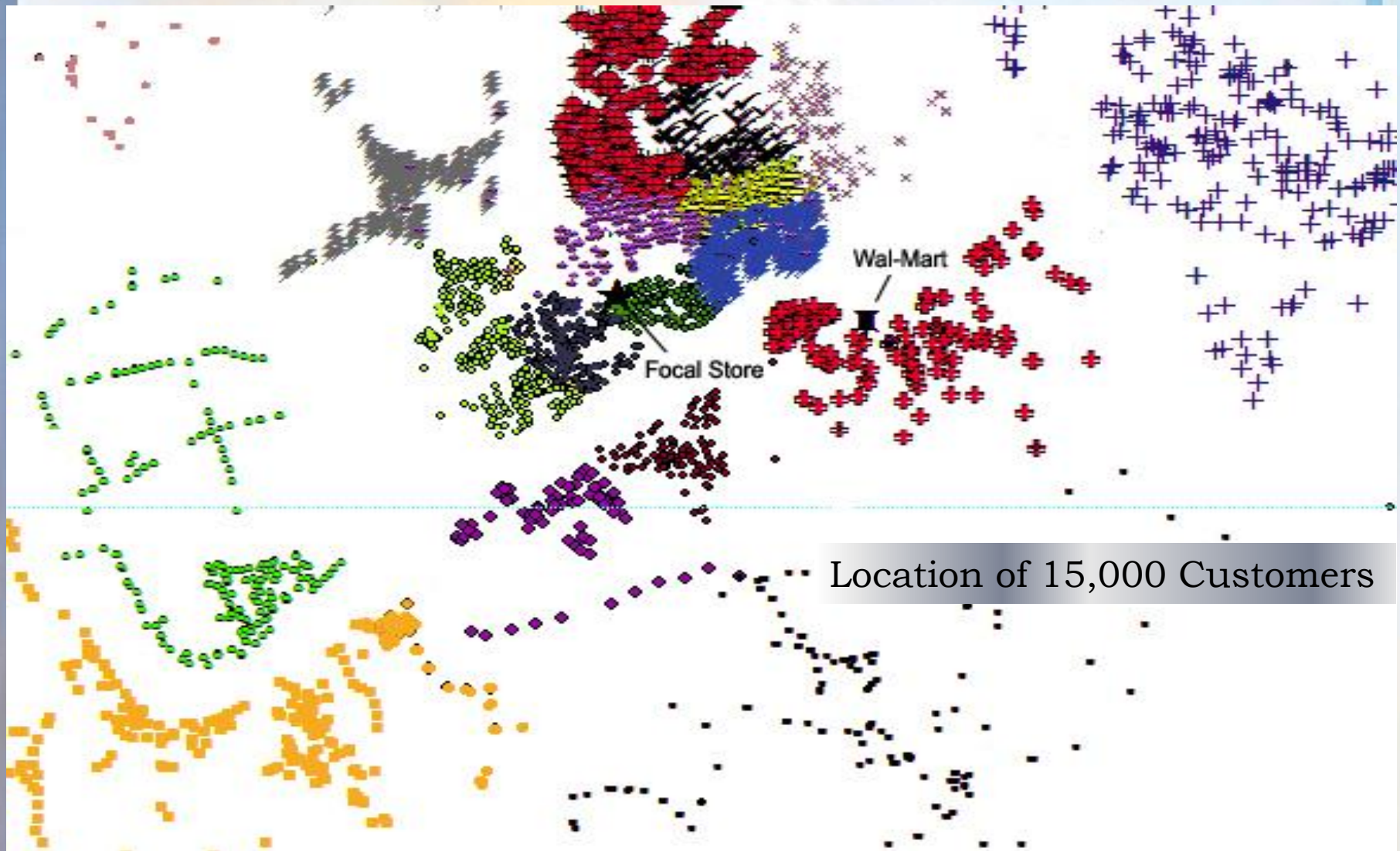


What [happened](#)? 17% drop in Volume: Death Sentence
What is the business model? High volume/Low margins

Singh, Vishal, K. Hansen, R. Blattberg (2006)

“Market Entry and Consumer Behavior: Case of Wal-Mart Supercenter”, *Marketing Science*, 25(5), 457-476

With FS Data You can identify Impact on Individual Basis



Objectives & Approach

Use detailed FS data on customer purchase behavior pre- and post competitor entry

- Analyze overall store sales and store traffic
- Impact on individual products & categories
- Characteristics of the customers that defect
- Change in Purchase Behavior:
 - Store visit frequency and basket size
 - Analysis of the Basket content

Main Findings

- 17% drop in Volume
- Mainly due to Store visits not Basket size
- Heterogeneity Across Households
 - Big basket, Large Households, Weekend shoppers, PL buyers more likely to defect
 - These are some of the best customers
 - Households with high expenditure on fresh food, deli, bakery more loyal
- **Retention of 5% of best customers mitigates losses by 67%**

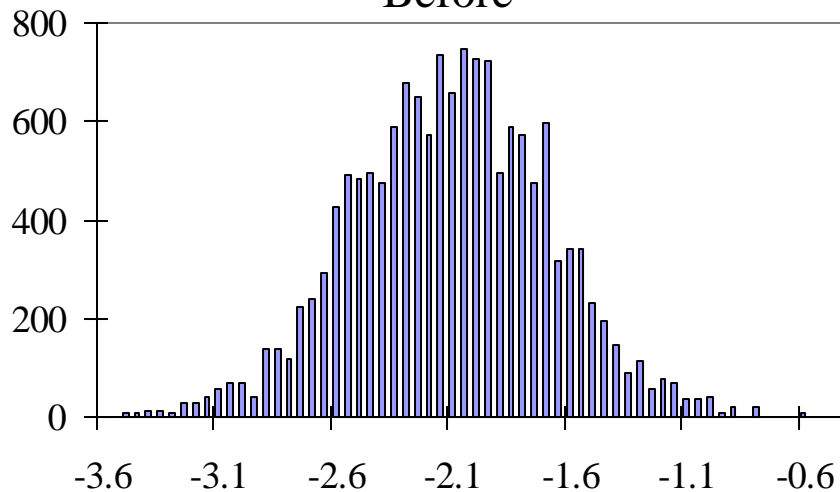
Pricing Implications of WM Entry

Paper Towels			
	Before	Entry	After
Mean Price Sensitivity	-2.34	-3.83	-1.44
Std. Price	0.42	0.61	0.13

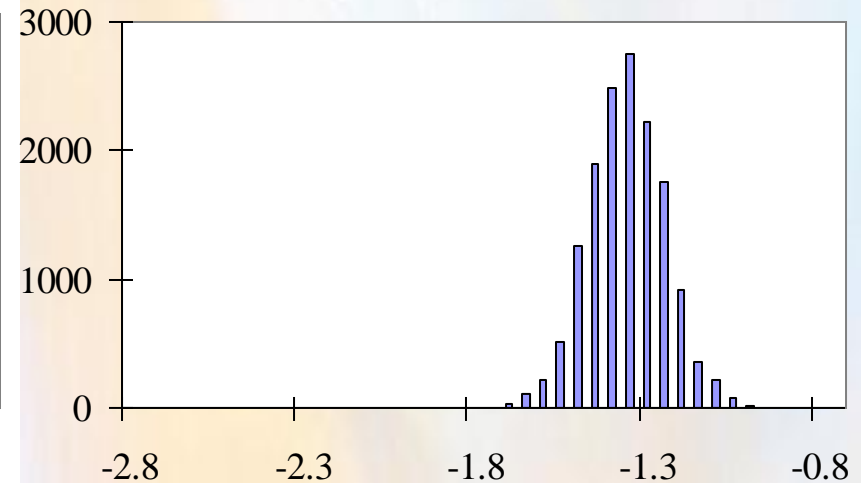
Note: Demand for the product goes down but the customer base left is not as price sensitive as before. **What does this imply in terms of pricing?**

Distribution of Price Sensitivity for Paper Towels

Before



After





Mini Case 3: “Aisle Captain” and Store Layout

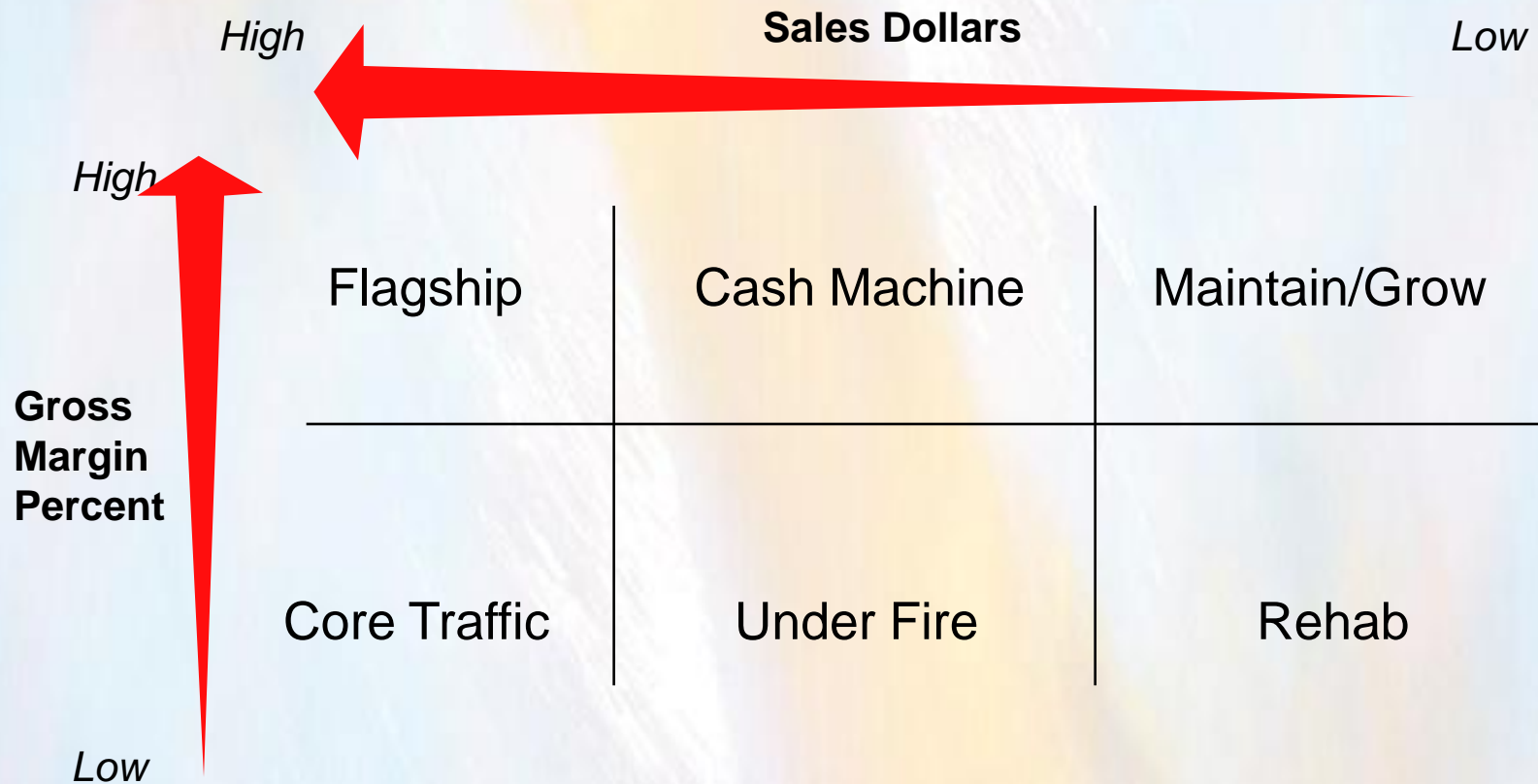


General Idea

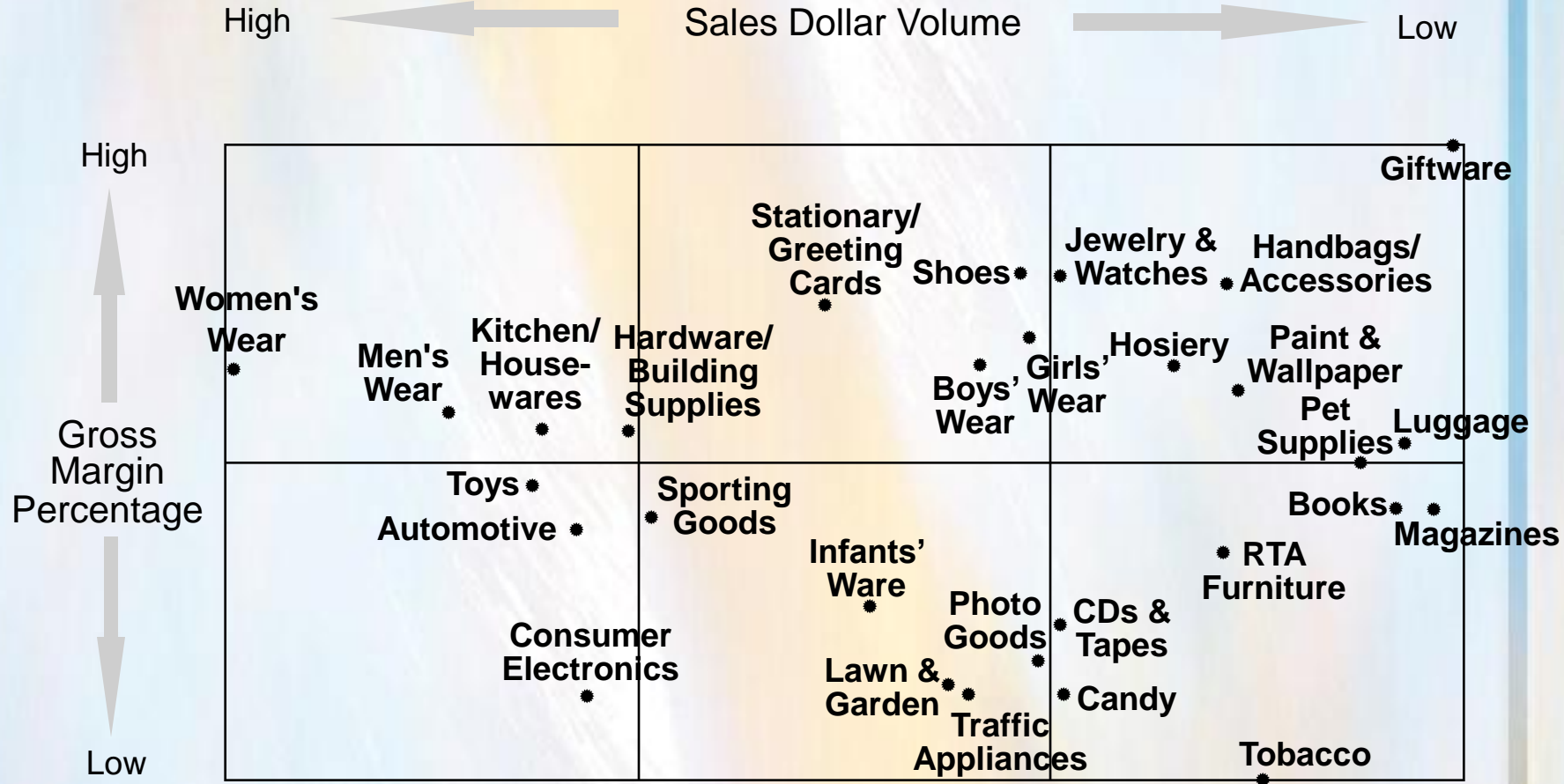
- Traditionally pricing was fairly simple
 - Cost + Fixed Markup
- Notion of Category Management
 - Joint profit maximization
 - Role of a category (eg. Traffic vs. margin)
 - Category captain
- Loss leader pricing
 - Generate store traffic
 - Difficult to quantify
 - Cherry picking behavior



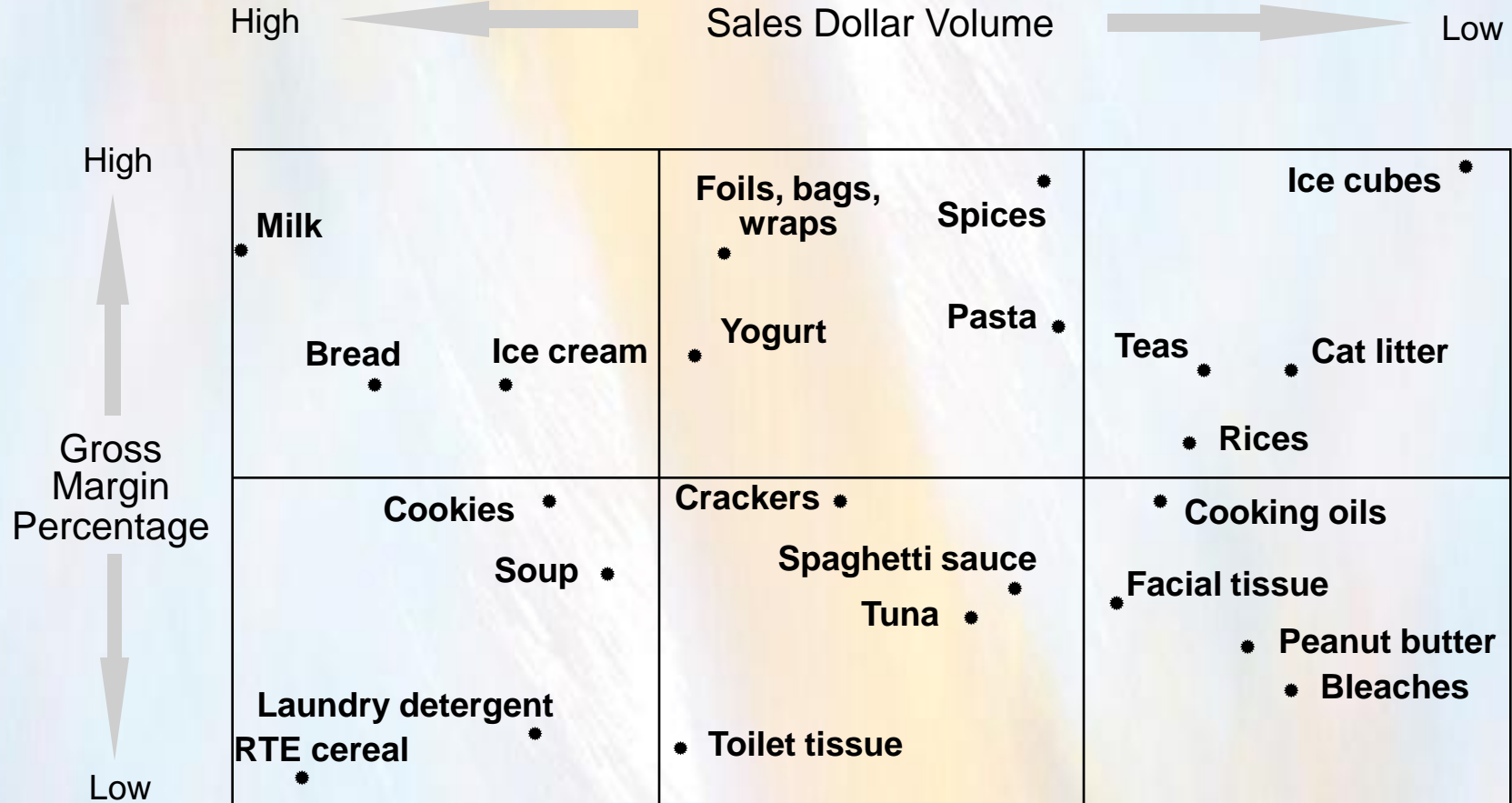
Strategic Use of Categories



Revenue / Margin % Portfolio GENERAL MERCH. STORES



Revenue / Margin % Portfolio GROCERY STORES



Loss Leader Pricing: Black Friday



- Cherry Picking
- Bait & Switch

2009 Holiday Season To Date vs. Corresponding Days* in 2008

Non-Travel (Retail) Spending
Excludes Auctions and Large Corporate Purchases
Total U.S. – Home/Work/University Locations
Source: comScore, Inc.

	Millions (\$)		
	2008	2009	Percent Change
November 1 – 27	\$10,254	\$10,570	3%
Thanksgiving Day (Nov. 26)	\$288	\$318	10%
Black Friday (Nov. 27)	\$534	\$595	11%

Walmart Christmas costs less at Walmart.

\$788
Panasonic® Plasma HDTV 48" diagonal screen, TC-P46U1

\$298
HP® 250GB PC, 15.6" diagonal display, HPG60-519WM (minimum 10 per store)

\$148
Sony® Blu-Ray Disc™ Player, S08268 (minimum 10 per store)

\$199
Xbox 360™ Arcade Console with \$100 gift card, (minimum 10 per store)

\$29
Magnavox® DVD player with 1080p upconverter, 545538

\$498
Sharp® LCD HDTV 42" diagonal screen, LC42S845UT (not available in all stores)

One Day In-Store Specials

LEARN MORE ▶

Saturday
Nov. 7th
8:00 am



Print 92708 Find a Store

Quantities of all items are limited. No rainchecks. Prices and availability may vary in AK, HI, OK and WI. Not valid in Puerto Rico or on Walmart.com.

Sample Aisles



What items can you promote (put on sale and advertise) to **generate traffic in the Aisles** of the promoted items?

Loyalty card database along with store planogram. Analyze the impact of **featured promoted** items on:

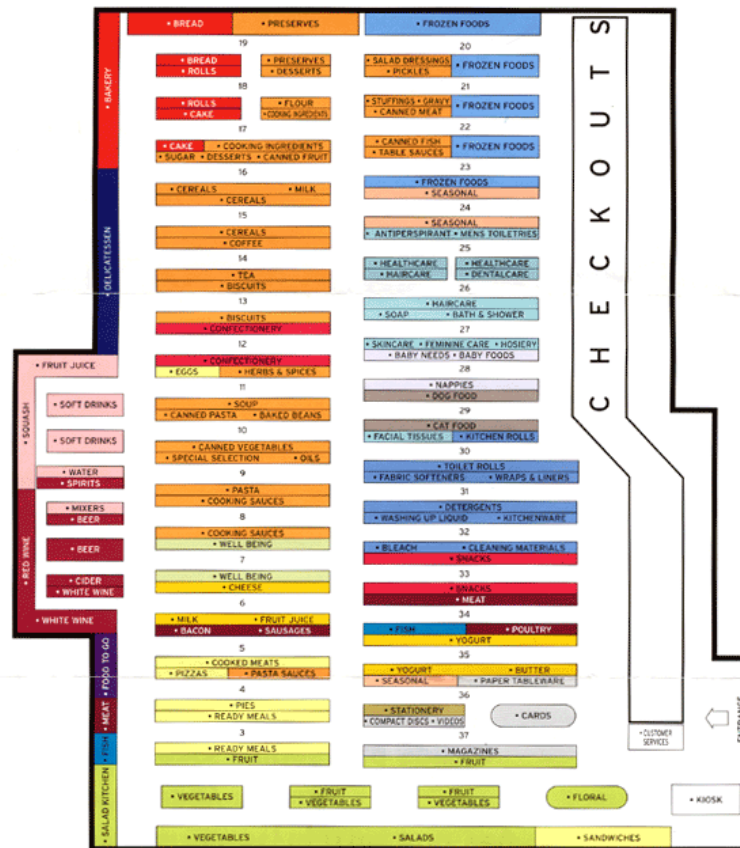
Overall Store Traffic + Traffic in Individual Aisles (sections)

What is the impact on sales of other items in the Aisle?

Identify traffic generators for each Aisle/section/floors

Store Maps and Planogram

Sainsbury's, Ladbroke Grove



Shopping cards with GPS Akin to E-retailing where now You can observe the “browsing” Behavior of your customers

Important Considerations

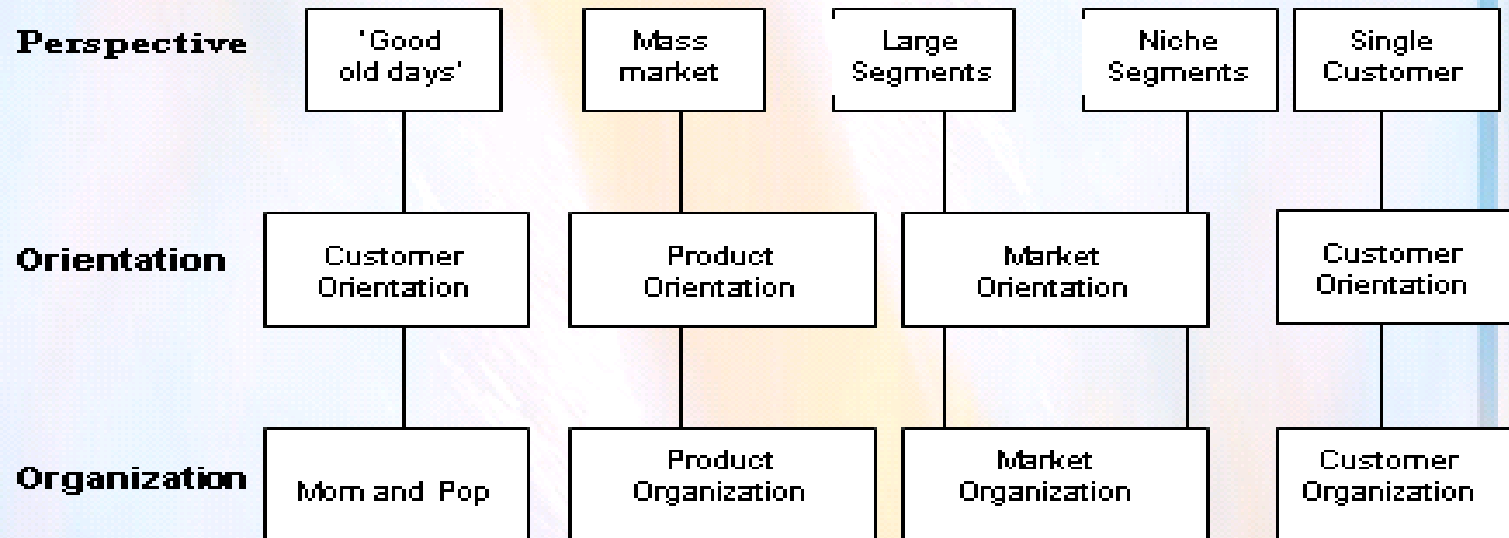
Measurement of Promotional Effects Requires consideration to the following additional factors:

- Baseline Sales of the promoted item, other products in the category, other products in the Aisle/Floor/Store
- Lift: Incremental sales of the promoted item, other products in the category, other products in the Aisle/Floor/Store
- Tough: The dip in sales (compared to the baseline) in periods following the promotion period
- Reference Price Effects: The psychological impact of purchasing an item on promotion. Consumers may get reluctant to buy an item at regular price once they have paid discounted prices.
- Model needs to take into account all these factors

Mini-case 4: Micro Marketing

General Idea

Getting to know your customers:
A new idea or return to the past?



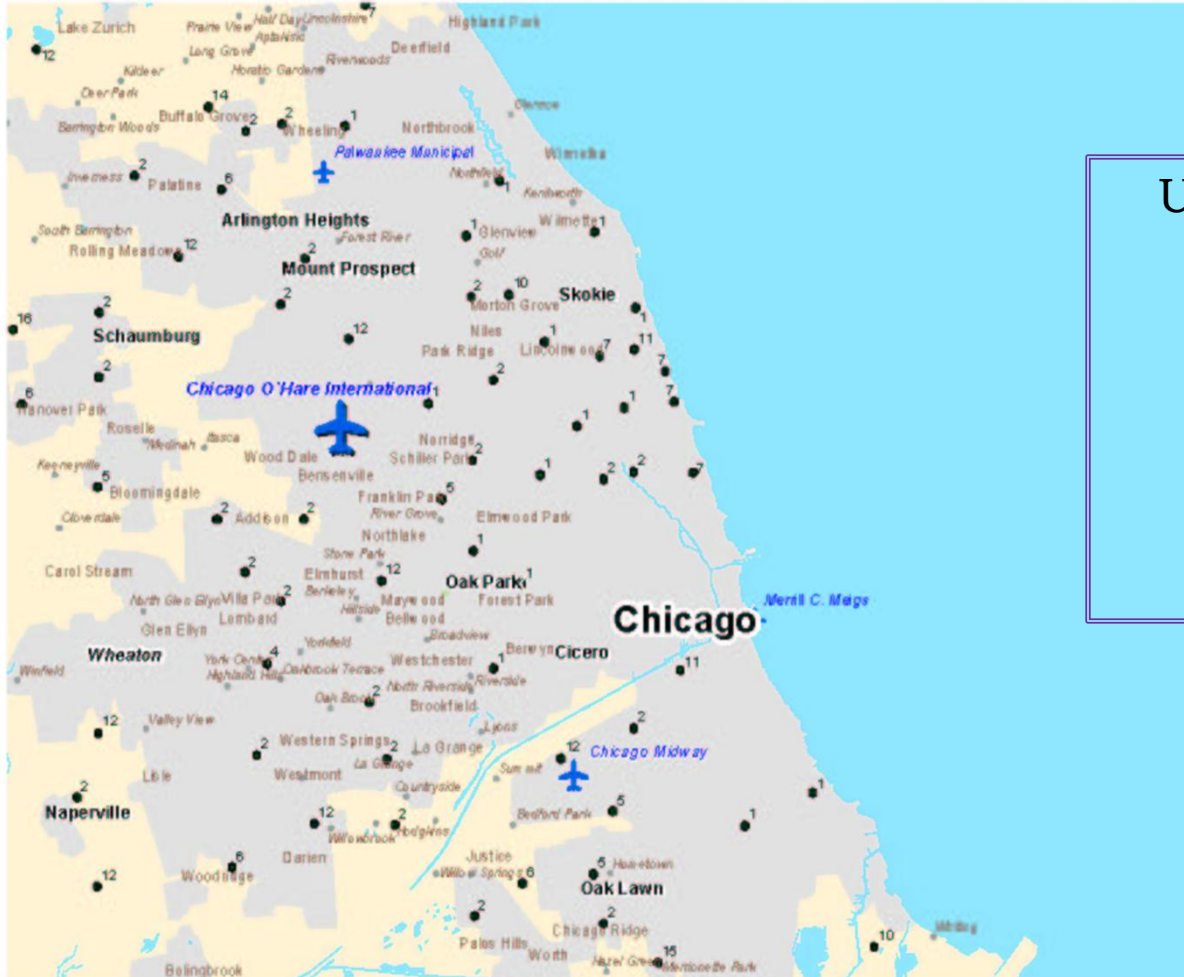
Micro-Marketing

- Context
 - Regional Supermarket chain in Chicago
 - Approximately 150 stores in the area
- Current Practice
 - Homogenous price/assortments at all locations
- Question
 - Can profitability be increased by customizing price/assortment to specific location?

What information does the firm has?

- Weekly store level scanner data
 - Observe Unit sold, price, promotion for every UPC at each of our stores
 - Detailed demographics for each location
- What about competition?
 - No information on competitor sales, price, promotion, assortment
 - Know the location and number/type of stores in the trading area

Location of the Stores



US census collects very detailed demographics at various aggregation levels. For example, you could get average demographics for a block.

Approach

- Estimate demand for each product at each location
- Relate demand parameters (for example, price sensitivity) to local demographics and competition
 - Consumer preferences differ
 - Different level and types of competition at each location

Outcome

- Customization leads to a 17% increase in profits
- Category performance critically depends on the type of competition
 - Drug store, Whole foods, Wal-Mart
 - Implications for shelf space/assortment
- Long-term strategy is to have different Brands/Formats
 - Eg. Manufacturing, Auto, Retail