folio of products (see GLOSSARY entry A.20). Brands that are designated as growth opportunities must resist competitive price moves that could slow growth in market share. Brands assigned the role of providing cash flow for other products must resist destabilizing competitive price moves that could result in lower cash flow.

- *What Resources Are Available?* Matching competitive price reductions or, even more so, retaliatory price reductions can result in a prolonged reduction in profit margins and, often, losses. Firms must have adequate financial resources before establishing such a price response policy.

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C.33 Retailer Selection

CHARACTERISTICS OF RETAILERS

A **retailer** is a firm that sells goods or services primarily to end consumers. Selection of retailers through which to distribute products calls for matching the characteristics of available retailers with the distribution requirements of the product. The more important characteristics of retailers are described in this section.

Classes of Retailers. The traditional classification of retailers is based primarily on their product line. Although distinction between types of retailers is increasingly blurred, the classification terminology is still useful. The **consumer goods classification system** can be used to describe the products normally carried by each of these classes of retailers (see GLOSSARY entry A.3). Retailers can first be divided into food, nonfood, and nonstore classifications.

- *Food Retailers.* There are three classes of foodstores: convenience stores, supermarkets, and superstores. **Convenience stores** (like 7-Eleven stores) sell a limited line of "fill-in" or emergency goods like milk, bread, beer, cigarettes, and, increasingly, gasoline. Food prices tend to be high, but hours are long and locations convenient.

  Supermarkets (like Kroger, Winn-Dixie) are large, self-service food stores carrying extensive lines of convenience goods, primarily staples. Under **scrambled merchandising** policies, supermarkets have added many nonfood staples to their product lines. Supermarkets stress low prices to encourage fast turnover. They sponsor and carry **store brands** in numerous high volume categories.

  Superstores are very large supermarkets with the usual long lines of food products plus more extensive nonfood product lines than supermarkets. Superstores often include specialty departments such as cheese, wine, and diet food shops. Superstores offer greater opportunity for one-stop shopping than do supermarkets. **Combination stores** (Super X) are combinations of a superstore for food with a large self-service drug store. **Hypermarches,** primarily a European phenomenon, are larger than combination stores, offer a longer product line that includes shopping goods, and display merchandise like warehouses.

- *Nonfood Retailers.* Nonfood retailers include specialty stores, department stores, mass merchandisers, and discount stores. **Specialty stores,** a fast-growth area of retailing, offer great depth of merchandise, but only in a few product lines. Examples include clothing stores, hardware stores, and appliance stores. Specialty stores carry shopping goods and offer service from salespeople with specialized cialize in products needing little service, usually selling them through self-service. More traditional high-price, low-turnover retailers can afford to provide customer services. They tend to sell shopping goods that require greater customer assistance.

- *Product Assortment.* Retailer assortments vary in breadth (number of lines carried) and depth (number of different items carried in each line). In most cases, there is a tradeoff between breadth and depth. Stores with a broad assortment of products, like mass merchandisers, have less depth in each line than specialty stores that have fewer lines, but greater depth in the lines carried. Retailers build their assortments to meet the needs of their target customers.
- *Retailer Product Needs.* Product requirements vary by type of retailer. Retailers with narrow but deep product lines will seek products that fit existing lines and they will be more attracted to product lines than to individual specialty items. Discount-oriented retailers will be more concerned with turnover than unit profit. Department and specialty stores will prefer products requiring service or sales assistance because that is their strength. All retailers are concerned with their assortment of goods rather than individual items, so the fit of an item with the existing assortment is important. Smaller independent retailers, especially, are more attracted to products with good current sales prospects rather than ones with future growth possibilities.[1]
- *Shopping Behavior.* Retail stores can be differentiated in terms of consumer shopping behavior toward those stores. Some retailers, department stores would be an example, can be classified as **destination stores.** These stores are the subject of a shopping expedition. A close location is not essential, but grouping with other destination stores is important. Other stores, like supermarkets, are **convenience outlets** and must be located near their clientele since they are patronized frequently, more as a necessity than as recreation.
- *Retailer Control.* Retail organizations vary in the control exercised over individual stores. Many retail stores are independent businesses, although they may be influenced to varying degrees by the marketers of products that the store stocks and sells, the amount of influence varying with the importance of the product to the retailer. At the other extreme are other retail stores that are members of retail chains (7-Eleven) or conglomerate firms (Federated Department Stores) that may exercise central control over merchandise selection and marketing. Between these two extremes are franchise retailers (McDonald's) and cooperative buying groups (ACE Hardware). Retail chains and merchandising conglomerates have increased greatly in power, controlling a dominant share of retail sales in many fields. These retail organizations are very demanding in their relationships with manufacturers (see GLOSSARY entries C.6 and C.7).

CRITERIA FOR THE SELECTION OF RETAILERS

Deciding on the type of retailers to be used and setting the criteria for selecting individual retailers are parts of the distribution or channel design decision made during development of the **marketing mix.**

The Retailer Selection Process. Selection of retailers for the channel of distribution requires matching the distribution requirements of the product with the characteristics of available retailers. The process is best carried out in two stages, first deciding on the class of retailers to be used and then selecting specific retailers within that class. A five-step process for retailer selection is suggested below.

- *Step 1: Determine Distribution Requirements for This Product.* The retailers selected for the channel must meet the distribution needs of the product. These can be defined by examining the **situation analysis** and prior marketing planning decisions. What is the target market to be reached? What benefit is to be offered to the target market? What positioning is to be projected to consumers? What is the shopping behavior of the target consumers for this product? What shopping assistance do target consumers need? Is distribution to be intensive or selective? Is distribution to be direct or indirect?

[1]See Warren J. Wittreich, "Misunderstanding the Retailer," *Harvard Business Review* (May–June 1962), pp. 147–59.

- *Step 2: Define Retailer Selection Criteria.* Using the distribution requirements of the product, criteria are defined that describe the characteristics desired in retailers. These criteria must be tailored to the unique distribution requirements of each company and product. In the next section, types of criteria that should be included are suggested.
- *Step 3: Select Class of Retailer to Be Used.* Retailer choice is narrowed by determining the class of retailer from which individual retail stores will be selected. The selection is made by comparing the retailer selection criteria to the characteristics of alternative classes of retailers to determine which class of retailer best matches the selection criteria. Retailer characteristics were described in the first part of this entry and are summarized by class of retailer in Figure C.33-1.
- *Step 4: Select Retailers within Class.* Once the class of retailer has been determined, the individual retailers must be selected. The process is similar to that in step 3. A list of available retailers in each geographic area is developed, the characteristics of those retailers determined, and a comparison made to the selection criteria to determine which best meet the marketer's needs. This step, individual retailer selection, and the one that follows are implementation rather than planning functions, and are usually done in the field by the sales organization. The number of retailers to be selected depends upon the decision made on **distribution intensity** (see GLOSSARY entry C.12). If the decision has been made to sell to retailers through wholesalers or agents (indirect distribution), then the selection of individual retailers to handle the product will be made by the wholesaler or agent. (See GLOSSARY entry C.10 on **direct versus indirect distribution.**)
- *Step 5: Approach Retailer with Marketing Program.* The selection of a retailer does not automatically mean that the store will agree to carry the product or to merchandise it as desired by the manufacturer. The retailer must be approached by the sales force with a planned program that procures agreement to stock the product and gains cooperation in implementing the marketing program for the product. (See GLOSSARY entry C.6 on **channel cooperation.**)

Retailer Selection Criteria. Although retailer selection criteria must be adapted to the needs of each individual product and its marketing strategy, there are a number of areas in which criteria should normally be defined. Some of these relate to the marketing requirements of the product while others are concerned with the strength and stability of the retailer. These criteria are presented below in the form of questions to be addressed to classes of retailers (step 3) or individual retailers (step 4).

- *Does the Retailer Reach the Target Consumer?* The primary asset of retailers is their clientele. It is of primary importance in selecting a retailer that this clientele match the target market for the product.
- *Would the Target Consumer Look for the Product in This Store?* The **marketing concept** suggests that products should be distributed where consumers expect to find them so that they are not frustrated in their search. Consumers expect lettuce to be found in supermarkets; it would not meet their needs to distribute it through appliance stores.

  Other than these expectations of availability, how do consumers decide where to shop? Although the importance varies by product, the consumer's **store choice decision** is determined by the product lines carried, the availability of the desired service, and the convenience of the location (see GLOSSARY entry A.18). These suggest the next three criteria.
- *Does the Product Fit with the Retailer's Assortment?* The marketer's product must fit with the existing product lines carried by the retailer. Product fit includes the appropriateness of the type of product, the level of quality, and the price. If a product is inappropriate to a retailer, consumers will sense it and not buy the product at that location. In addition, the retailer will sense the inconsistency of the product and probably refuse to stock it.
- *Does the Retailer Offer the Required Level of Services?* The service levels required by products vary greatly as do the service levels offered by different retailers. In selecting a retailer, the two must match. Distributing through a high service retailer, like a specialty store, is more expensive. It is an uneconomic choice for a product that requires little service or attention from the retailer. Such products are better distributed through self-service outlets like mass merchandisers or supermarkets where service is less, but distribution costs are less and

prices to consumers are lower. (See GLOSSARY entry C.9 on **customer service.**)

- *Does the Retailer Offer the Required Level of Location Convenience?* The level of convenience required varies by product classification. Convenience goods, as the name implies, must be available in conveniently located retail stores because consumers will not shop from store to store to find a particular brand. By contrast, consumers will seek out and try alternative stores in purchasing shopping goods. Retail stores for shopping goods are less dependent on a close location, but do benefit by being grouped with other stores selling similar shopping goods. (See GLOSSARY entry A.3 on the **consumer goods classification system.**)
- *Does the Store Image Match the Product Image?* In developing a brand, marketers attempt to establish its positioning in the consumer's mind and reinforce the product's reputation or image with all elements of the marketing mix. In the same way, retailers develop store images. The retail image is the result of the store clientele, the merchandise carried, the store decor, the store location, and similar elements. In selecting a retailer, the marketer should strive for consistency between the brand's image and the store's image. (See GLOSSARY entry C.5 on **branding of products.**)
- *Is the Desired Retailer Available?* In selecting retailers, the marketer is frequently forced to reach a compromise between the retailer that is desired and the retailer that is available. Frequently, despite the incentives offered, a retailer will decline to carry an offered product. This is particularly likely for new products or products with a poor track record. Retailers frequently decline to take on a product or product line competitive with one already carried. This may be due to an exclusive dealing agreement with another firm or simply an unwillingness of the store to compete with itself. Retailers will also refuse to carry a product that does not meet their goals. Above all, the retailer must perceive that the product meets the needs of its target clientele and complements the existing product assortment. (See GLOSSARY entry C.6 **channel cooperation.**)
- *Is Use of the Selected Retailer Cost Efficient?* Distribution through retailers entails costs that are paid in the form of discounts and allowances. Distribution costs vary considerably by class of retailer. The greater the services required from the retailer, the greater the costs. The trade discounts required by a department store will frequently be twice or more those required by a mass merchandiser, but the services rendered by the department store are also far greater. The marketer must carefully evaluate the required level of service against the resulting cost. (See GLOSSARY entry C.10 on **discount structure determination.**)
- *Does the Retailer Have Adequate Financial Strength?* The financial strength of retailers is a matter of concern because of credit extended by manufacturers for product purchases. Further, financially weak retailers will be unable to carry out marketing programs for their stores and product sales will likely suffer.
- *Is the Retailer a Market Leader?* Given the choice, a marketer should prefer to have distribution through retailers that are leaders in their markets. Market leaders merchandise their products more aggressively, are more innovative, and, as a result, generate greater product sales.

SUGGESTIONS FOR FURTHER READING

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Prentice-Hall, Inc. A Division of Simon & Schuster
Englewood Cliffs, New Jersey 07632