MM ENG

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BLAB

HANDOUTS

CHANNEL MARKETING

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This handout is written by students with no intention of replacing university materials.

It is a useful tool for studying the subject, but does not guarantee preparation as exhaustive and complete as the material recommended by the University.

CHANNEL MARKETING

HYSTORY SESSION

MODULE OVERVIEW

This history model deals with the historical evolution of the key elements off distribution channels:

- Partecipants
- Flows
- Supplier – retailer relationships

The central topic are so the changing relationships between actors in the distribution channel and the effect of changes in the macro-environment on firms' behavior.

Why history in marketing?

According to Quy Nguyen Huy and Henry Mintzberg:
"We are all familiar with the modern-day manager's mantra that we live in times of great and constant change. Because the world is turbulent, it is said, and the competition is hyperturbulent, managers must take seriously the job of continually initiating and adjusting to change.
Sure, important changes have been taking place recently, but the truth is that stability and continuity also form the basis of our experience. In fact, change has no meaning unless it is juxtaposed against continuity.
Because many things remain stable, change has to be managed with a profound appreciation of stability."

The importance of the context

According to Ronald Savitt:
"Marketing history can show meaningful interconnections and parallels among different events.
Its role will be to isolate and illustrate the changes that marketing and its respective institutions have made, the factors which have been influential in effecting change, and the consequences of change.
Great value will come from studying marketing's role in the broader economic and social context.
Thus, marketing history might provide one avenue for preparing for the future"

Actors in the distribution channel

Studying marketing in broader perspective means to understand the shifts in the equilibrium between the actors of the distribution channel: which actor controls the channel and imposes his will on the others?
In this respect, traditional interpretation is strongly industry oriented: firms producing goods are seen as channel leaders. In fact the situation is much more complex: not only commercial and industrial specificities, but also more general economic conditions must be taken into consideration

EX: In a series of papers Franck Cochoy examine a US periodical, *Progressive Grocer*, from the late 1920s until the 1950s: Progressive Grocer was distributed free to small retailers and funded wholly by advertising revenues
The activities of retailers were shaped by Progressive Grocer via:

a. pictures of cutting-edge retail stores
b. scale models
c. and the testimony of grocers themselves

The shift from counter service to self-service did not occur overnight: it was a staggered change -> Shopkeepers were reticent because of their concern that self-service would lead to greater theft

- It was a paper that was focused on trying to convince the grocery shop to adopt a modern way of distribution -> in particular it tries to convince that introducing self-service was not a risk; shopkeepers were afraind that self-service leads to higher possibility for people to stole the goods due to less control.

The importance of low-price institutional innovation

Cochoy, F. (2010b). *Reconnecting marketing to 'market-things': How grocery equipment drove modern consumption (Progressive Grocer, 1929–1959). In L. Araujo, J. Finch, & H. Kjellberg (Eds.), Reconnecting marketing to markets (pp. 29– 49). Oxford: Oxford University Press*:

On the one hand, the progressive arrangement of self-service performs the liberal utopia of a fluid and free action of economic agents on the market... On the other hand... marketing professionals know well that such a utopia can only succeed through very tight framing and control operations... by means of fluxing tools (conveyor belts), channelling components (rails, gondolas), and control agents (cashiers), or even by means of some interlocked devices that combine these three operations like the turnstiles, magic doors, and checkout counters.

THE EMERGENCE OF BIG BUSINESS IN RETAILING

1. *Marketing and the thory of the firm*

a. *Strategies of profit maximisation*

- Firms can pursue three different strategies in order to maximise their profits:
  - sell at low price to secure high volumes
  - produce distinctive goods in smaller volumes, but with large margins
  - adopt a niche strategy, according grater attention to the quality of service and loyalty schemes
- In each case marketing is a strategic issue which involves much more than just selling goods:
  - branding, packaging, distribution, price and promotion, ecc.

b. *The "marketing mix"*

- Classical view: the 4Ps
  - Product, Price, Place and Promotion
- During the 1980s scholars introduced more Ps:
  - Public relations, People and Politics
- McKenna, 1991 & Church, 1999:
  - marketing is not just a function of the enterprise
  - it is an aspect of corporate strategy that allow to provide a customer focus to overall company policy

c. *Relationships and the nature of the firm*

- Ronald Coase:
  - *The nature of the firm*, 1937
    - the starting point of Coase's analysis was a trip to the USA (he was British) that allowed him to notice the wide diffusion of the public company -> public company, not because they was state-owned company, but because there was a large number of shareholders that owned the comany
    - in his view the traditional neoclassical theory proved unsuitable to explain the functioning of these complex entities
- If prices are the mechanism to coordinate economic activities, why does firms exist, that is:
  - *why are there these "islands of conscious power"?* -> why the firm exist?
    According to Coase the existence of the firm was some sort of challenge of the neoclassical vision of the economy -> according to the neoclassical vision, which started with Marshall, the market tends to equilibrium in which there competition based on prices by the actors that work in the market.
    For istance, at the end of the 19th century, Coase was mainly focused on the typical firm of the first industrial revolution, which was very small, generally family-onwed firm. The technology was very simple, and so it means that the knowledge was given and available for everyone.
    The firm were compete with the same technology, and finally the competition was on prices -> the first industrial revolution was trying to reduce prices and to be more competitive than the other competitors, meaning by this that according to this vision, the large corporation was something that was not really rational, because it was not needed.
    In this landscape the main problem was linked to the the transition costs.

d. *Transition costs*

- According to Coase there are two alternative methods to coordinate, through market, the production:
  - outside the company -> understand the cost on the market, and use prices for coordination
    - price movements lead the production, that is coordinated by market exchanges
  - within the company -> this option is suggested when transaction costs are high
    - market transactions are eliminated: instead of markets there is the entrepreneur (or the manager) who manage the production -> we need to rember that we have to balance between the cost of market transaction and internalization
- How to explain the choice between the two alternatives?
  - Evaluating the cost of "organizing" production through the price mechanism, a concept then entered familiarly in use with the denomination of **transaction cost** (costs that are related to the need to have a contract, to translate the contract, to transfer the product and so on)

e. *Market VS. Firm*

- Since the market mechanism implies certain costs:
  - forming an organization and allowing an authority (the entrepreneur) to manage the resources make these costs to be avoided at a greater extent
- Why then is not the whole production carried out by a single large-sized enterprise?
  - At least for three reasons:
    - as the scale of the enterprise grows the law of diminishing returns kicks in
    - as the number of internalised transactions increases the company become no longer able to realize the optimal allocation of resources
    - small-sized enterprises could obtain "other advantages", superior to those of large-sized enterprises

f. *Firms and agents behavior*

- Oliver E. Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (1975) Williamson builds on Coase's transaction costs but offers a more in-depth analysis of how the transactions take place and therefore causes the relative costs
- The starting point is the behaviour of the contractual man:
  - limited rationality (Herbert Simon) -> the actors are not completely rational, their rationality is limited by the amount of information that are available.
  - opportunism
- Transactions require specialized governance structures (firms) due to agents behaviour, especially under certain conditions, that guide the decisions linked to transaction costs:
  - specificity of resources (investments) -> if the investment is very huge the internalization is better, since the firm has the capability to acquire more capital and invest this capital and control the investment than the market mechanism
  - uncertainty (incomplete contracts) -> since the incoplete contract has a very high cost, it is better the internationalization
  - frequency and repetition of transactions

The contracting paradigm

The agency therory was first discussed in 1976 after the publication of Jensen and Meckling. The idea was to explain the activity inside an enterprise like a network of contracts. So, the focuse was on contracts between the people that work inside the enterprise, such as the managers, the workers, the ownership that establish conditions for their relationship, and at the same time the relationship with the external market, so the suppliers, the vendor label market, the competitors, the customer, public institution and so on.
So if we consider the firm as some sort of contractual relationship, what is important is to understand which is the shape of this contractual relationship, and considering the fact that this contractual relationship depends on the development of the society in which you are active -> the contractual relationship depends on the social norms, the structure of the market, level of income and so on.

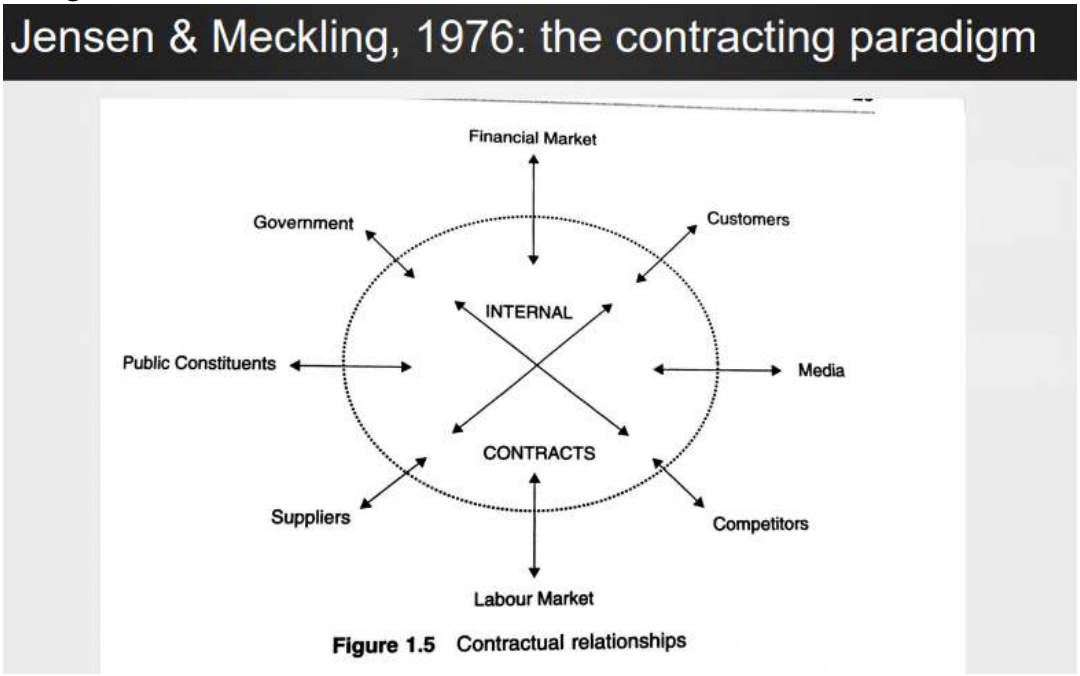


Figure 1.5 Contractual relationships

g. *Contractual relationships and development*

- The form of contractual relationships is strictly linked with the economic structure of the society
- Economic development produces: shifts in output and structural changes -> new patterns of demand; urbanisation processes -> increased market concentration and new buying attitudes; transport improvements -> wider markets and a more efficient distribution system; population growth -> greater demand and specialisation; technological development -> greater productive variety and lower prices.

h. *Growth and demand*

- Economic growth has a direct influence on demand:
  - extensive growth (the rise of GDP) -> influence the level of overall demand
  - intensive growth (the rise of per capita GDP) -> reflect changes in the living standards
- The income distribution affect the size of different market sectors: the market can be **segmented** according to income levels -> this occupy a very important position in the strategy of a firm, since some actions can not be developed without a certain level of income

i. *Industrial structure*

Michael Eugene Porter, 1986, *Competition in global industries: a conceptual framework*:

- marketing strategies are deeply influenced by the structure of the industry in which they operate
- as a consequence of this:
  - enterprises active in highly competitive sectors are **price-takers** -> they focus on the control of cost levels
  - enterprises active in oligopolistic sectors could be **price leaders** -> they focus on goods differentiation -> it allows the possibility to control the technology, to guarantee entry barriers against competitors in order to control the prices and so on, but as we said before, it depends on the structure of the market

j. Tedlow, 1993, *The rise and fall of mass marketign*

According to Richard S. Tedlow it is possible to design a threephase model of the relationships between industrial structure and marketing strategy:

- a **fragmentation** phase, that prevailed before the construction of railroads
  - characterised by isolated markets, due to a lack in the transportation system, in which firms charged high prices in order to obtain high margins
- a **unification** phase, marked by the rise of national markets

- during which oligopolistic competition led firms to pursue high volumes of sales and small profit margin

- a **segmentation** phase, characterised by complex patterns of demand
  - in which firms adopted value-pricing strategies combined with high volumes of sales

These three strategies depend on the type of market and the type of environment in which the firm operates

k. Firm strategies

- Finally we have to take into consideration deliberate firms' strategies:
  - firms develop marketing in order to achieve economy of scale and scope (Alfred D. Chandler, 1990, *Scale and scope. The dynamics of industrial capitalism*)
- Transaction costs are a very important variable to be taken into consideration when assessing decisions in the field of:
  - distribution methods
  - distribution channel design

2. Trade before the fisrt industrial revolution

Commerce before the industrial revolution, and particularly before 1500, was once seen as dominated by great merchants:

- the traded goods would be for the benefit of the wealthy elite -> trade of luxury goods for the aristocracy

Recent research finds that most trade was regional and local, but not narrowly confined to close neighbours:

EX: Cologne in Germany's Rhine valley had a vital relationship with its surrounding district extending as far as 40km to 70km from the city. The city's 40,000 inhabitants (in the period 1340–1750) bought foodstuffs, firewood and timber that had been produced or collected in nearby farms and villages, and in return sold to country people leather goods, textiles and metal utensils made in the city. Cologne's wider hinterland kept its specialised industry in metal utensils supplied with raw materials, such as iron bars for the city's forges. The citizens' demands for sea fish, wine and large quantities of livestock were satisfied by traders operating at a considerable distance.

It is important to highligt that some element of the behavior of some of the actors in working trading were not very different from what happened today.

Venice, during the 15th century, was at the center of Italian development during the so-called "Renascimento", and it was at the center of a very important network of trading contacts.

This is a traditional map of the relationship between merchant in Europe, the relationship between the north of Italy, and especially the area of Belgium and Netherlands, which were the two main area of manufacturing production during the medieval times.

At those times Venice was able to control these routes because of the colonies, and so it was a very important system of communication that linked Italy with the Netherlands.

The idea is trying to coordinate the trade more efficient -> this system put Venice in communication with other countries, such as Romania, with the goal to organize all the trade using creating convoys that at a certain moment in time communicate with the colonies with several advantages.

a. ***Fine tuning trade***

In Lower Romania and Beyond-the-Sea, cogs loaded not only heavy cargo such as grain, salt, hides, alum, and soda or potash but also **much cotton** and other merchandise classified as "**light goods**". In regard to such "light goods" the government tried to impose **a rough timetable of loading periods**, called **Mude**, somewhat as it did more rigorously on the merchant galleys. It set dates within which cogs must load "light goods" in the Levantine ports if they were to clear the Venetian customs in the same season. The loading periods varied by regions and were adjusted to changing circumstances.

- The idea was to create convoys in order to guarantee from piracy, from the possibility of losing ship and so on, trying to make safer the communication system.

b. ***The Mude and Romania***

The following was the general plan laid down in 1328 for ships from Romania:

- from Constantinople and Upper Romania:
  - March 15 — April 15 and September 15 — October 31
- from Lower Romania (including Crete and Negroponte):
  - April 15 — April 30 and September 15 — October 31

c. ***A trade policy***

One purpose served by these loading periods was to make the cogs move sufficiently on the same schedule so that they could be **organized into convoys** if the political situation justified it.

Another result was to define predictable periods of arrival and departure in the eastern ports so that **merchandise would be concentrated** there at those seasons and ships would not have to wait long to secure return cargoes. At Venice, arrivals and departures were concentrated so as to **intensify trade and turnover in two seasons**, roughly at Christmas and in July.

The rhythm of Venetian voyages in both galleys and cogs was thus adjusted **to take advantage of the new nautical techniques and to meet the demands of the Venetian market**, especially the desire of Venetian merchants for a rapid turnover of their capital -> this organization guaranteed the efficiency of the system.

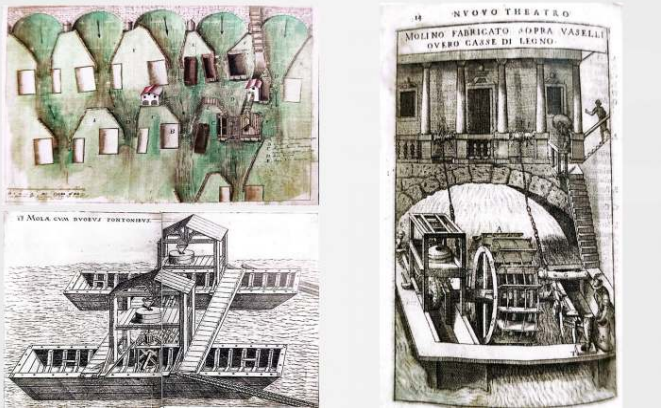
d. A changing commercial business

A couple of centuries earlier, the Venetian ships had carried out a swarm of travelling merchants who stayed two or three months in the Levant, selling the wares they had brought with them and finding new merchandise in which to invest. At that time, venetians had been using their **military power, political privileges, and cheap shipping to cut into a system of commercial exchanges** which had been organized around the capitals of the Byzantine and Moslem worlds.

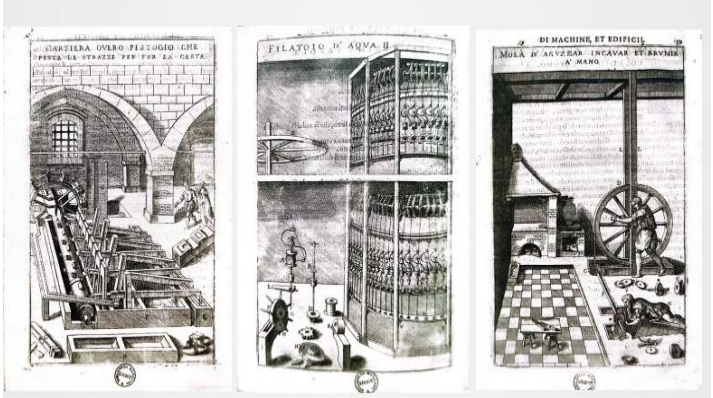
In the fourteenth and later centuries, **the trade of the Venetians centred in Venice**, and their profits were based on a system of voyages appropriately timed and protected.

The preconditions: capabilities in shipbuilding…

…but also: water management and…



…technological development in manufacturing



Which are the preconditions and the elements that guarantees the possibilty that we have seen through this example?

Apart from the political organization of Venice that was a republic, and so was ruled by merchants, there were three preconditions:

1. The **capability of shipbuilding** -> the capability is creating an infrastructure for trading; in Venice there was the arsenal that still exists here today
2. The **evolution of the economy context** in two areas: one is agriculture and the other one is related to the economic development, which guarantees the possibility to have another structure of trade and another distribution channel
3. The **technological development** in terms of manufacturing

The problems that were faced by merchants were not very different from the problems of the traiding activity today -> if we look at the structure, so the fragmentation and the implication, the idea is that all this is influenced by transaction costs

The "industrious revolution"

According to some historians it was in north-west of Europe, in the Netherlands and Britain, that a more dynamic, innovative culture of consumption came to take hold in the seventeenth and eighteenth centuries
The industrious revolution was an intensification of the allocation of household time to the production and consumption of market-mediated goods and services:

- members of households together maximised their earnings, not in order to survive, but to enable them to buy goods which they desired
- women's work made an important contribution, and that of children, and longer hours were worked so that while daily rates of pay to individuals sometimes declined, annual household earnings rose
    - this women's behavior increased the income of the families as a whole, leading to a larger amount of consumption, as well as the time dedicated to consumption.

Other scholars argue that product changes and productivity gains account for a relative fall in the price of industrial products and a consequent increase in the consumption of consumer durables:

- even in countries where income and wages lagged behind
    - the increasing consumption was very realted to the fact that technological change led to a reduction in the cost of production and so reduction in prices.

A new luxury model

The industrious revolution would have also implied the transition from an "old luxury" to a "new luxury" model
In the early eighteenth century, Bernard Mandeville, a Dutchman who migrated to England, wrote his provocative Fable of the Bees in which he argued that:

- the pursuit of luxury, obviously a private vice, was highly beneficial to public welfare

Later David Hume, among others, refined Mandeville's framework by connecting luxury to refinement and civilisation -> it is a measure of the level of civilization of a society (an aristocratic society)

Early sixteenth-century permanent shop, Suffolk

Bernardo Bellotto, Neumarkt in Dresden, 1747

Berlin Christmarkt, 1796

Starting with the 16th century, there were an increased in the opening of fixed shop, which became ome sort of typical environment of every marketplace in Europe. Markets were still the centre of commerce, but them were surrounded by fixed shops -> the relationship between the consumer started to became more continuous, so the fact that they increase the consumption and increase also the timing that they spend in this activity.

The creation of fashion cycle

Not only did the retail sector grow as a result of the inclusion of new products:

- the changing material culture also impacted enormously

The eighteenth century was characterised by the gradual replacement of expensive, durable products possessing a high secondary market value and a potential for resale and reuse, by cheaper, less durable and more fashion sensitive products:

- cheaper textiles (such as printed cottons) came to replace more expensive woollens -> printed coton became some sort of fashionable good during 18th century
- tapestries and gilt leather wall hangings made way for textile and paper wall hangings
- silver and pewter lost in importance relative to porcelain
    - people with lower income start to buy a larger quantity of goods on the market.

On the daily scene, these transitions fundamentally altered the relationship between people's material culture stock and the flow of their consumption:

- they also necessitated more frequent shop contacts, a result of the declining durability of goods and a growing fashion sensitivity

3. The industrial revolution

The rise of modern distribution

The pre-industrial distribution system was characterised by:

- community markets, travelling traders and local shops
    - shopkeepers bough goods in bulk, then packaged them and sold them to the final customers
    - they also provided credit on local basis

The transformation induced by the industrial revolution:

- paved the way for accelerating growth in trade and wider consumption

The increases in incomes, population growth and urbanisation:

- helped to create larger markets in which specialisation could occur within the distribution sector

The dynamic of growth

TABLE 5.1. Sectoral growth of real industrial output in Britain, 1700–1760 to 1811–1821 (% per year)

Years	Cotton	Iron	Building	Industrial output (weighted average)[a]
1700–1760	1.37	0.60	0.74	0.71
1770–1780	6.20	4.47	4.24	1.79
1780–1790	12.76	3.79	3.22	1.60
1790–1801	6.73	6.48	2.01	2.49
1801–1811	4.49	7.45	2.05	2.70
1811–1821	5.59	−0.28	3.61	2.42

[a] Including other industries: 1700–90 based on 1770 weights; 1790–1821 based on 1801 weights.
Source: Crafts (1994).

Intensive growth

TABLE 5.2(*a*). Labour productivity in cotton: operative hours to process (OHP) 100 pounds of cotton

	OHP
Indian hand spinners (18th century)	50,000
Crompton's mule (1780)	2,000
100-spindle mule (*c*.1790)	1,000
Power-assisted mules (*c*.1795)	300
Roberts's automatic mule (*c*.1825)	135
Most efficient machines today (1990)	40

Source: Jenkins (1994: xix).

A technological watershed

The classic historical accounts of British industrialization emphasize:

- epochal technological breakthroughs in steam power and textile technologies (e.g. Mantoux 1961)

The British Industrial Revolution 169

TABLE 5.5. Structural changes in the first Kondratiev (annual % growth rates)

Sector	Pre-industrial	Industrial Revolution	
	1700–60	1770–1801	1801–31
Cotton	1.4	9.0	6.0
Iron	0.6	5.0	4.5
Construction	0.7	3.2	2.9
of which, canals	1.0	6.0	3.0
Total, all industries	1.0	2.0	2.8

Source: Crafts (1994), except canals (authors' estimates).

But in Britain and Northwestern Europe from around 1760 innovation is best conceptualized as:

- an economy-wide process that involved technological, organizational, and institutional change, spanning many sectors and product groups

The industrial revolution started in Britain because of historical and institutional characteristics, but it can be considered as some sort of european transformationduring the 18th century.

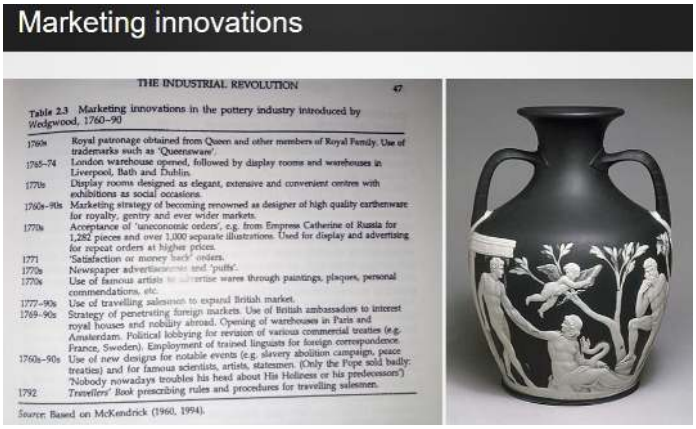
It is a very traditional region of production of pottery in Great Britain, where still today they produce pottery. In this region, the factory established by Josiah Wedgewood had a specific characteristic: it was the first large size corporation in that sector -> Wedgewood start to increase the dimension of the enterprise and start to create the precondition for developing a lobbying activity, increasing the possibility of communication and so trading output in the national market -> marketing became some sort of a strategic aspect of he enterprise; if we want to create a large-sized corporation we have to create the network for selling this good.

Firm re-engineering

The production of pottery was concentrated in Staffordshire and was dominated by small enterprises operated by craftsmen.

Josiah Wedgwood transformed the industry by developing factory-based production techniques that supported the creation of an enterprise of unprecedented scale

- he successfully lobbied the British government to improve regional transportation infrastructure
- he introduced radical organizational innovations
    - he adopted a layout that separated and sequentially organized the various operations
    - consistent with this organization, Wedgwood assigned workers to specific tasks, relying on specialization to enhance skill and consistency in the performance of these tasks
    - he developed techniques to encourage and/or force workers to adapt to this new system
    - he invested heavily in the codification of technical guidelines for the performance of the various tasks in his factory and development of extremely detailed, written rules for worker behaviour



People started to advertise their products on newspaper.

The creation of national markets

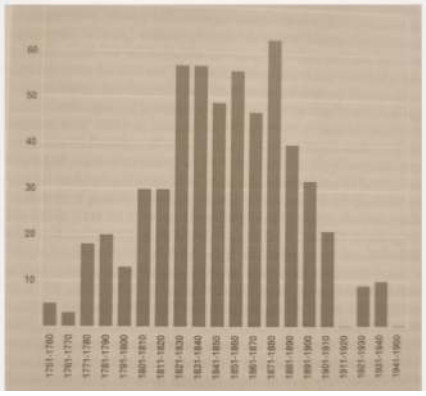
Urbanisation radically changed the patterns of consumption. But it was the creation of national markets, during the 19th centrury, that

- lowered the cost of goods and brought new products before consumers
    - that was possible thanks to the railroad communication system, that gave the possibility to transfer goods very quickly with cost not so high and also to have information abouut the prices, which led to the integration of abritrage at a national level.

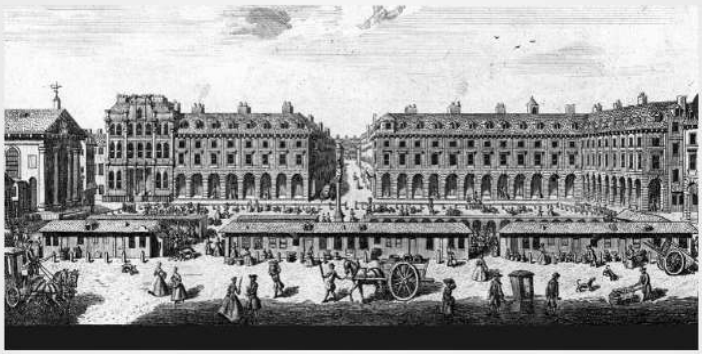
In the USA, for example railroads stimulated merchants to:

- buy products on their own account and not on commission
- the result was the rise of powerful regional wholesalers that financed extensive distribution chains -> the distribution system was crucial especially for food industries

The construction of markets in the UK, 1751-1950

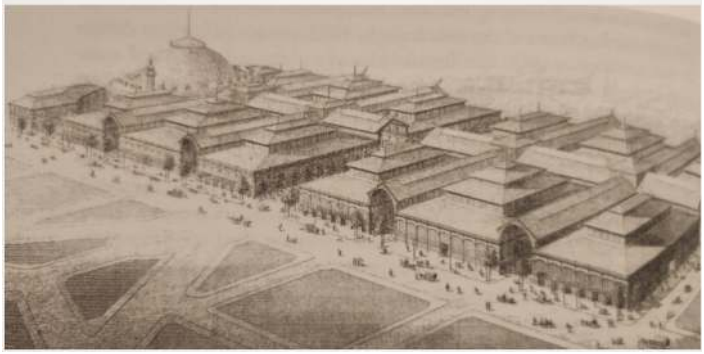


Covent Garden, London, 1753



Washington market, 1850s

Les Halles Centrales, Paris, 1863



The huge transformation of the 20th century was then the substitution of this institution with the supermarket, which was the new way of distributing food -> it started in the U.S. more or less at the end of the 19th century. Supermarkets substitutes this type of centralized market not only in terms of distribution but also in terms of urbanization.

THE EMERGENCE OF BIG BUSINESS IN RETAILING

1. ***Department stores***

Marshall Field department store, Chicago 1909

Milinery deparments: Paris, 1822 – Toronto, 1908

Department stores compared to traditional shops

The main characteristics of department stores were:

- variety of merchandise -> maily focus on the trade of durable goods, in general fashionable goods so mainly textiles wearing apparel, product for personal use or furnitures for the houses
- methods of selling
- styles of management -> in terms of customer experience, the department store in Paris offered a very strong personalisation of the final products -> it is some sort of adaptation for each customer of the final product. On the other hand the one in Toronto was more into demonstarting the characteristics of the goods that are traded in the department store

To some extent, any of these innovations could be found in earlier shops, but gathering them together constituted a major stage in the evolution of retailing.

When, where and why

Department stores appeared in Europe around the middle of the 19th century. There where complex socio-economic reasons explaining why department stores were born in mid-19th century Europe:

- they were mainly related with the spreading of the so-called industrial revolution
- industrial revolution encompassed deep changes in term of consumption behaviour

Where in Europe?

Department store's origins can be traced to France and, more specifically, to Paris:

- in the 1820s a new kind of store made its appearance, the magasin de nouveautés. The **magasin de nouveautés** can be seen as the ancestors of modern department stores.

Why Paris?

In 1852 the **restoration** imposed by Napoleon III moved to Paris at the centre of the stage for political and cultural events -> the restoration led to increasing cosumption and so an increase in income especially of the new bourgeoisie, so the new large entrepreneurs ot the representative of the trading classes.
Together with the process of urbanization, this created a new need among the middle-classes:

- the need to distinguish themselves from both the growing group of the members of the lower classes and the aristocracy

Au Bon Marché, Paris, 1852: Aristide Boucicaut, the son of a hatmaker, realised that there was a demand for a new type of store that offered consumers a wider choice:

- in 1852, he transformed a simple stall into a department store, selling a vast range of items

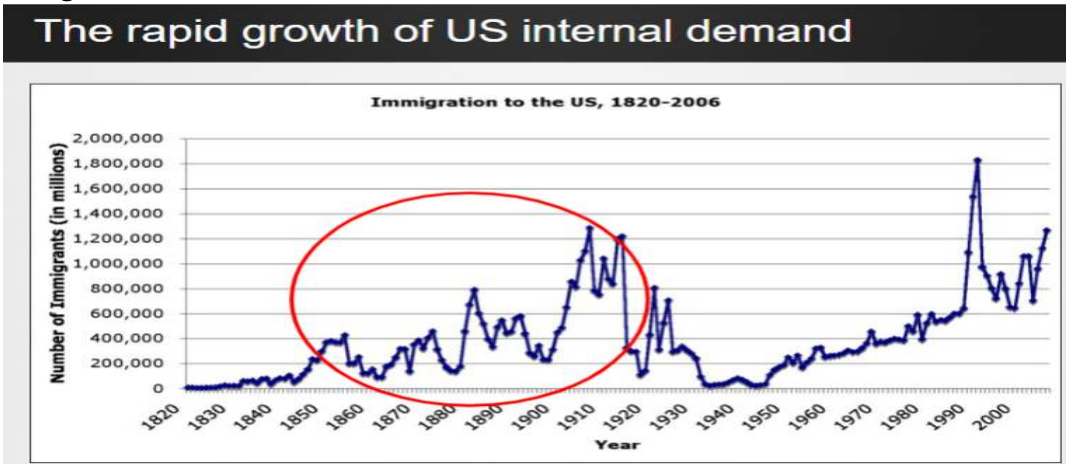
In and outside Europe

Boucicat come up with a commercial model that would soon be imitated around the globe:

- in the most important European countries department stores appeared in the 1870s
- the first department stores in Japan were founded during the early 1900s

and especially in the US, because first of all the population was growing very quickly both for the fertility rate, which was larger than in Europe, and for the large migration from Europe, which transfer not only the people but also the culture and the consumption culture of those people that was more advanced that the one in U.S..
Moreover the growth of the national markets in U.S. increased a lot during that period, leveraged by the colonization.
The main examples were:

- 1850s: Marshall Field started its operations in Chicago
- 1865: Benjamin Altman founded B. Altman & Co., a big department store in New York
- 1877: John Wanamaker founded in Philadelphia The Grand Depo



2. *The Great Society*

Towards the Great society

Walter Lippman, *Public Opinion*, 1922:

The **Great Society** *had grown furiously and to colossal dimensions by the application of technical knowledge. It was made by engineers who had learned to use exact measurements and quantitative analysis. It could not be governed, men began to discover, by men who thought deductively about rights and wrongs. It could be brought under human control only by the technicians which had created it. Gradually, then, the more enlightened directing minds have called in experts who were trained, or had trained themselves, to make parts of this Great Society intelligible to those who manage it. These men are known by all kinds of names, as statisticians, accountants, auditors, industrial counsellors, engineers of many species, scientific managers, personnel administrators, research men, "scientists", and sometimes just as plain private secretaries*

The Great society is the society dominated by the technology and in which a technician can dominate the technology, translating it for common people and force politician to follow what the public opinion want.

At the origin of the Great Society

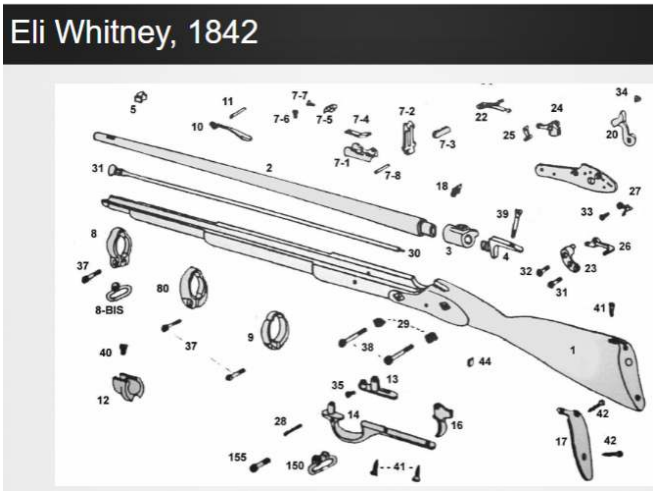
The Great Society was the result of:

a. technological progress
b. organisational developments

The origins of the Great Society could be traced back to the creation of the so-called: American System of Manufacturing -> the progressive spread of in-line productions, by mean of specialised machine tools and the use of interchangeable parts

It is some sort of craftsmanship in production. Apart from the decoration, which are very elaborated, it is a mix of iron wood and the pieces are not standardized -> there is a clearly adaptation of the scene of the different part in the gun.

The difference here is that the components of the gun are clearly visible and they are really standardized -> the desing is simplified



The amount of parts that are used for building the rifle help us to understand the level of standardization -> the advantage of building a rifle like this are thedecreasing costs because the pieces are always the same and we can use the same piece for several gun increasing the amount of output. Morever, in this way and from the point of view of the customer it is also possible to repair this gun.

The end of this journey is the new way of production developed byt Ford, which was characterized by the assembly line.

3. *Mass distribution*

The technological transformation of the 19th century gave the possibility to have new type of distribution channel, and for those goods that need a more broader diffusion the role of the retailer became more and more important.

…and their specialization

James B. Jeffreys, 1954, *Retail trading in Britain* 1850-1950: suggested that three shifts occurred in Britain after 1850

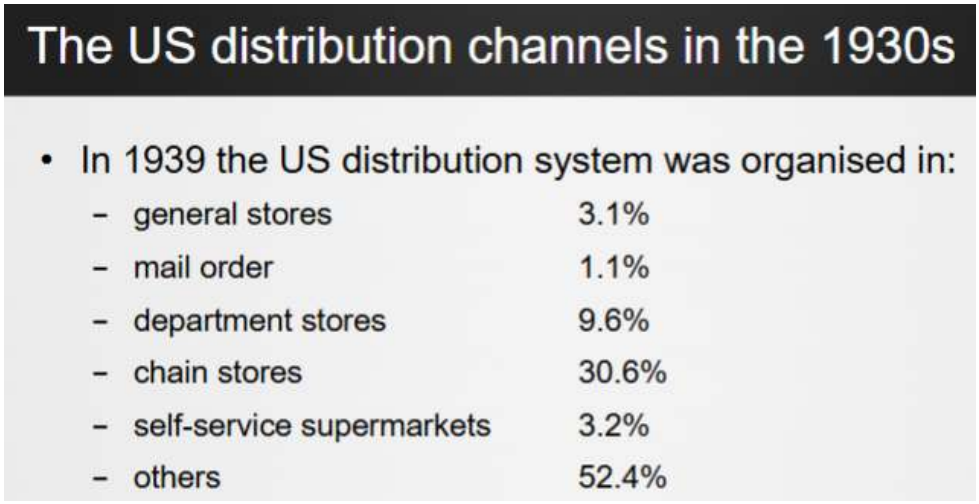
- community marked and itinerant seller where replaced by fixed shops
  - fixed prices and advertising -> before there was the possibility to have different prices depending on the different portion of the market, since the integration gave the possibility of abritrage, meaning by this a sort of convergence in prices
- the relationships between producers and retailers gradually changed
  - the former started to branding, packaging and advertising their goods -> the competition inside the sector starts to increase a lot
- mass retailing institutions, like chain stores and cooperative shops, appeared
  - lower prices and cash payments

Mass retailing

National transport infrastructures, urbanisation, rising real incomes and population growth allowed the existence of: mass retailing of non-durable and durable goods trough

a. chain stores -> leverage on economy of scale using a network
b. department stores
c. mail order houses (especially in the US)
   - the common element of these three opportunity is the large size of the market served

Mass retailers purchased in high volumes, often circumventing wholesalers, in order to: secure low prices



Notwithstanding the deep transformations of the system traditional distribution channels still survived.

Changing relationships along the value chain

Regional wholesalers:

- bought large quantitative of goods from manufacturers for cash payments
- sold smaller lots to independent retailers on credit terms

Mass retailer exploited economy of scale and speed moving backwards along the value chain:

- secured themselves a cost advantage by cutting out wholesalers
- turned over stock quickly by selling goods on cash terms at lower prices

Managerial innovations

Stock turn, the number of times the entire stock was sold, was the measure of their success. Mass retailers:

a. decentralised, creating internal department as profit centres
   - every profit centre was run by buyers who had responsibility on quantity, quality and prices for a single class of products

b. introduced cost and inventory control systems

Demand-side incentives

Alfred D. Chandler Jr., 1962, *Strategy and Structure. Chapters in the History of the American Industrial Enterprise*:

- US enterprises grew making a three pronged investment in:
  - production facilities
  - marketing and distribution network
  - management
- in his vision the rise of large-scale distribution is explained in terms of transport and technical development
- the transformation took place in three ways: 1) an investment in production; 2) an investment in marketing; 3) an investment in management.

Nancy F. Koehn, 1999, *Henry Heinz and brand creation in the late nineteenth century*

- highlighted the importance of demand side-factors, especially the need for quality assurance granted by brands

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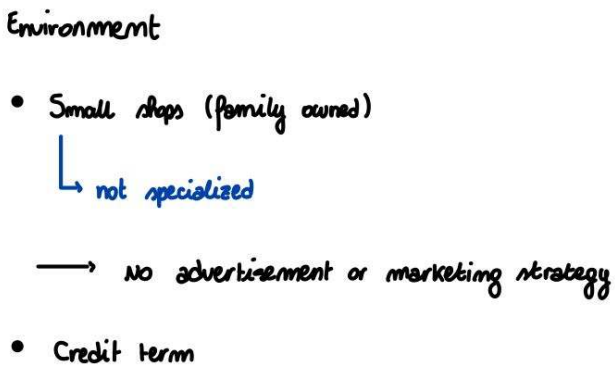
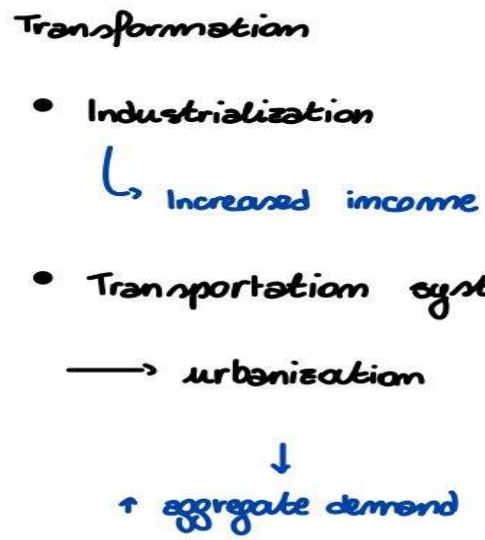
MARSHALL FIELD CASE

It was one of the major department store in the U.S.; its story started with a self-made man -> he was not coming from a trading family, hestarted like a clerk and at a certain point he was able to develop his own activity and becoming one of the major departement store.
The department store is a place for middle and top income classes all over Europe and U.S.; it is partly represented by the building used for it, which were very fashionable and decorated in order to trasmit the idea of luxury.

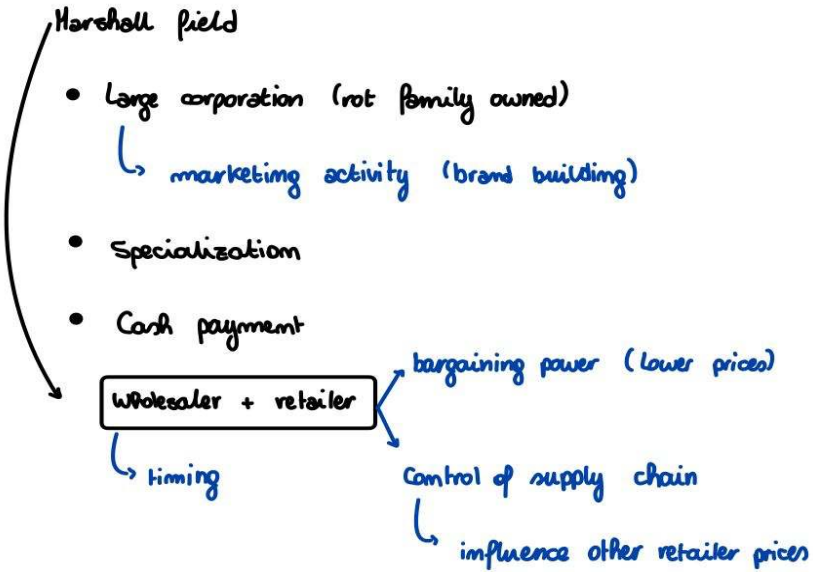


If we consider the U.S. market at the beginning of the 19th century, we can say that the first main characteristic was the fact that there were only small shops, in which there were several items: from food drugs to durable goods -> they were not specialized and form the marketing point of view there was not any type of advertisement. Moreover, this type of shop normally sold the goods on credit term for the customer, since the idea was

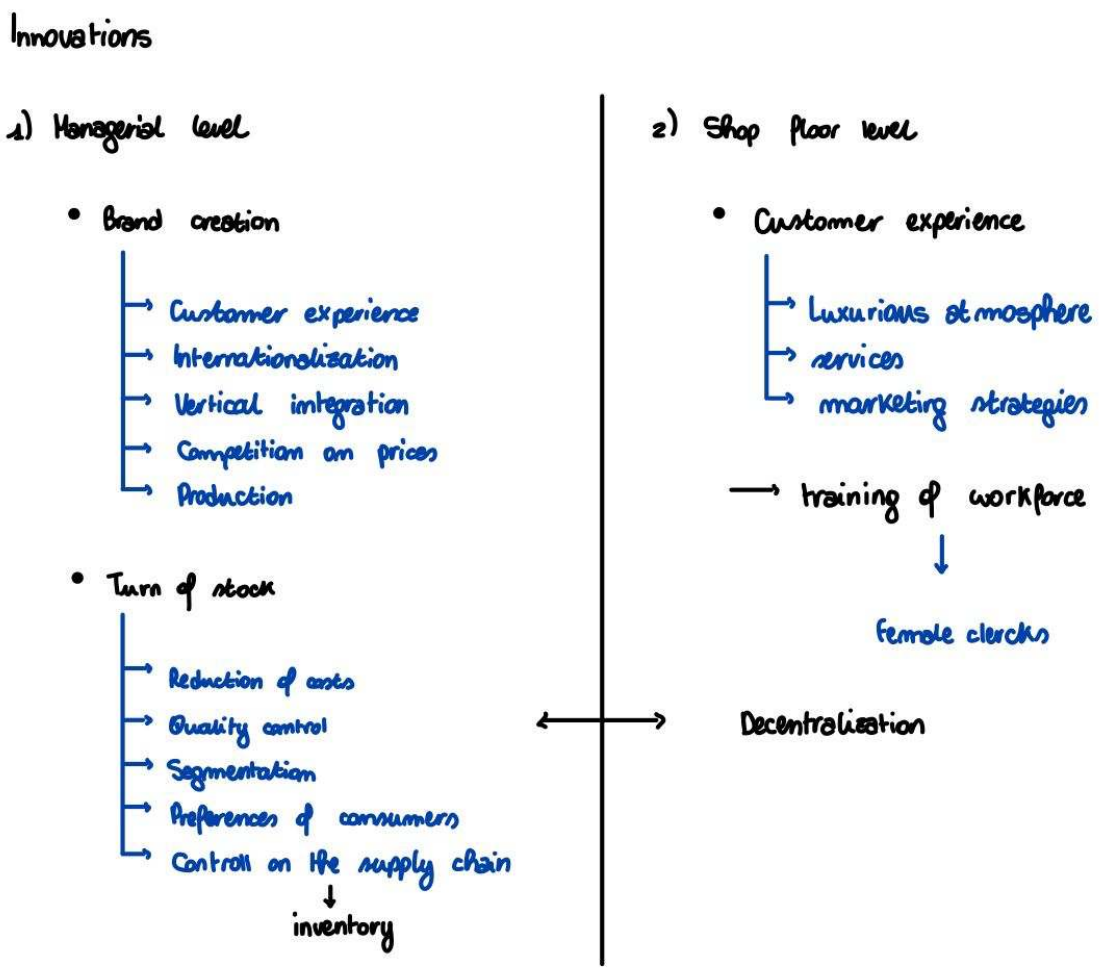
Channel Marketing
to support the customers in the buying activity, since the market was not integrated from the fincial point of view.



The transformation invested the entire society and not only the selling activity.
For sure and element of trasnformation was the industrialization, which aslo lead to the development of the transportation system.
These two factors combined together lead to the increase of the aggregate demand, which gave the possibility to have a different type of distribution system, starting with the second part of the 19th century



There were several innovations in the case of Marshall Field that can be diveded into two groups:



It was very important for Marshall field to create a brand -> the reason is not because the brand is something very smart and very fashionable, but because it is fundamental to reduce competition on prices and with products that are not differentiated the only way to reach this goal is through the brand.
Internationalization means the capability of Marshall Field to buy on the European market.
The vertical integration in the case of Marshall field was with the retailer, since the department store was a retailing activity, but it was born like a wholesaler taking advantage related to this -> if you are both a wholesaler and a retailer you can get competitive advantages linked to bargaining power and lower prices
Decentralization means that there are resposible for every sub-sector in order not only to understand customer approach, customer desire, but it's also in charge of the inventory of that specific subsector. This decentralization has two objectives:

1. Creating a better customer experience because we are able to understand the need in every specific sector
2. It has a rationalization objective

THE EVOLUTION OF SUPERMARKET INDUSTRY: FROM A&P TO WALMART

The only major sector in the field of distribution is the grocery sector, because we move a large amount of goods, both in terms of value and in terms of volume. On the other hand, it's also a sector in which the transformation is more complex for two reasons:

1. the need of some technological precondition -> such as the packaging industry, the system of refrigeration. So it was a very needsome technological advancement before the transformation.
2. the culture involved in the consumption of food.

Moreover, there is the problem linked to the relationship between income and food consumption.

The instrument that lead to the trasnfromation of this field was the **supermarket** -> the supermarket was a large size department in the grocery sector, mainly focused on selling grocery.

1. ***Chain stores***
   Supermarkets
   The origin of supermarkets can be traced to the US at the beginning of the twentieth century.
   They rapidly became:
   - a primary channel for sales for food
   - an important element of economic geography development and urban planning -> as the market, the central market in the previous century, the supermarket started to change radically the way in which the development of cities and town was planned.
   - a central player of the distribution channel, due to their:
     - market power, because of their characteristics
     - investments in logistics and information technologies

Unpacked goods, not specilized distrubution and very traditional way of distributing food, without any type of technological advancement.

The main precondition for the creation of the supermarket industry was, first of all, the capability of refrigeration, so the capability of refrigerating the transport of food.
The second precondition was the possibility of packaging food -> during the 20s (thanks to the American system of manufacturing), the standardization automation in the U.S was emblatic for the food industry. So there was the capability not only to produce food at industrial level but also to process the food, and one very important element was the packaging -> in order to have a supermarket you need a standardized product and

you need a possibility to move a very large amount of product and the standardization of packaging is very important in guaranteeing this possibility.
Another element is the advancement in the mechanical industry and the possibility for U.S. families to buy fridges on the market, so the capability of providing refrigeration in every single house.

The evolution of the supermarkets in the US

There have been five major eras in the evolution of the supermarket industry:

1. the chain store revolution -> the huge and fast diffusion of chain stores, so the fact that some stores start to create chains to centralize some and creating economies of scale.
2. the introduction of the supermarket formula -> a large store with a large amount of goods, so a large inventory that mainly focuses on grocery.
3. the international spread of the supermarket formula -> the crisis of 1929 and the huge reduction in income for the U.S. family led to the need for a new distribution channel, that was the possibility to reduce cost and so reduce prices, in order to adapt to the decreasing income for the U.S. family.
4. the diffusion of computerisation -> during the 70s and the 80s, we have a strong technological advancement in the sector, so the diffusion of computerization and the diffusion of scanners.
5. the rise of Walmart and the formation of the first truly US national chains

The Atlantic & Pacific Tea Company

The modern era of food distribution started in 1912: when A&P introduced the “economy” grocery store format -> the idea was trying to standardize the store and to increase the scale of the activity in order to reduce prices, so trying to create a new formula that could be competitive on the US market, when the mass production was starting to diffuse in many sectors, there was a huge migration and a huge increased income.
A&P started as a mail order tea business in 1859 and moved to grocery store in the late 1800s: John and George Hartford decide to introduce in food distribution both

- **standardization**
- **scale**

The investment quickly paid off: from 1914 to 1919 A&P went from operating 650 to 4.224 outlets (the number would double again in 1923). It is important to highligth that the economies of scale were not at the level of the single store, but were at the level of the chain.

A&P in Holyoke, Massachusetts, 1931

A&P in Holyoke, Massachusetts, 1931

The new food distribution

The key elements of the new business:

1. A&P operated its own network of warehouses and delivery trucks: bypassing middlemen and independent jobbers that supplied its rivals
2. A&P produced many of its products specialising in: “store brand” and “private labels”
3. A&P exploited its massive scale and buying power: signing favourable agreement with other manufacturers and input suppliers -> using the network and using the information provided by the

network, the chain store starts to make some forecasting about the market, which was something that was not possible with the centralized market.

4. A&P conduced careful traffic studies to aid in site selection
5. A&P studied efficient store design
6. A&P invested in quality control and inventory management

The main difference between the chain store and the supermarket is that the economy of scale in the first case was at the level of the chain, while in the second case was at the level of the store -> the difference between the chain store and the supermarket is the dimension of the store.

Exploiting externalities

The main economies were at the level of chain, as opposed to store: chain stores benefited from network externalities, derived mainly from information processing

The large number of stores allowed the chains to improve:

- **demand forecasts**
- **inventories planning**

They were also able to centralise some key functions as accounting and advertising: the results was that during the 1920s and 1930s chain stores prices were 4.5-14% lower than their independent counterparts

2. ***Supermarkets***

Early supermarkets were quite "crude"...

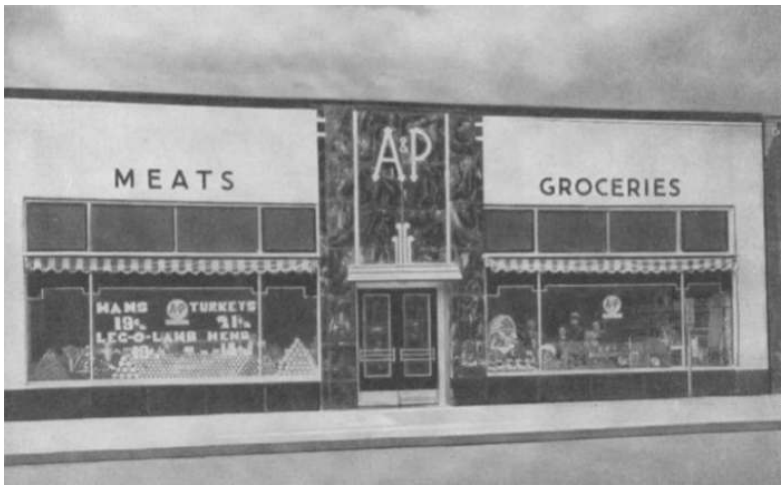
Piggly Wiggly opened in Memphis in 1916. By 1923 the Piggly Wiggly chain included 1,268 stores selling $100 million in groceries and was the third largest retail grocery business in the nation.

...but they were innovative and...

Piggly Wiggly's formula encompassed:

a. service
b. points of entrance and exit are separated
c. separate tables for cashiers with room for only one person to pass through at a time
d. baskets
e. only pre-packaged (and advertised) goods

...paved the way for a huge transformation process



In this picture, things are quite different from the A&P shown before.

The main differences are:

1. the degree of decoration, all the luxurious decoration that we have seen in some department stores disappeared

2. we have self service, so we have several shelves where people can directly pick up the goods that they put in their baskets -> the introduction of baskets that apparently is a very simple innovation, actually means a complete direct relationship between the customer and the shop
3. one cashier for everyone
4. the entrance and the exit were separated
5. non-packaged goods completely disappeared

US economic development

During the first decades of the XX century:

1. increased industrialisation was drawing people to cities
2. disposable income were rising
3. transportation costs were falling
4. refrigerators began to spread both at commercial and residential use
5. the radio increased the appeal of national brands

In 1930 Michael Cullen, a Kroger employee, decided to exploit these developments, designing a new huge, cash only, non-delivery, self-service store: the "super store".
Kroger was the second one most important chain in terms of dimensions, but he did not agree on this proposal, so it decided not to move in that direction.

Cullen' strategy

The objective of the super store were to: operate on low margins and low expenses, making up the difference in volume.
Essentially Cullen proposed to turn warehouses into stores:

- increasing their size
- introducing cart in order to help shoppers to buy in bulk

The main economies in Cullen's business model were at the level of store: Kroger, Cullen' employer, was reluctant to adopt this model and Cullen started its own business: King Kullen.
During the 30s a large part of the competition moved in favor of the supermarket and the answer of the chain store was trying to move in the same direction -> during the 50s, 40s, at the end of the second war, when we had a recovery of the US market, there was some sort of hybridization of the two worlds.

The fast hybridisation of the model

During the 1940s the chains started to adopt the supermarket model:

- the "cheapies" and the crude aspect of the supermarkets began to disappear:
  - ecorations start again to be more luxurious
  - firms moved closer to suburbs and "traded up" for less price conscious consumers
  - supermarkets started to offer services
  - shopping centre location replaced free standing units

Regional, sectional and local chains led the postwar supermarket boom: they were able to understand and exploit local trends and to expand by a mix of acquisitions and new store development.
At the end of the 70s a large share of the grocery market in the hands of supermarkets, with an increase in the number of shops.

3. *Americanization*

The international spread of supermarkets

The arrival of the supermarket in Europe is an example of the **Americanization** of the European economy and society in the postwar WWII year. Originally, the term Americanization was used to describe: the process of acculturation by immigrants to American customs and values. During the Cold War, Americanization became: a method to counter the process of Sovietization around the world.

The instruments of Americanization

Americanisation consisted mainly in: a massive transfer of technology and managerial practices from the US to Western European countries

The Americanization of organizational structures was led by:

- the European Recovery Program (the Marshall Plan -> was a financial aid program mainly focused on productivity):
  - transfer of technology
  - acquisition of managerial culture: Technical Assistance and Productivity Program and business school establishment
- the work of US consulting firms: Booz Allen and Hamilton, McKinsey, etc.
- US multinationals operating in Europe transferring organizational capabilities, knowledge, and so on: know-how and organizational models

A case study: the Italian "economic miracle"

Also in this case we need some precoditions:

1) the transformation of the European economy -> industry starts to be the major sector in terms of weight on the GDP and the agricultural sector starts to reduce its importance in the GDP of the European countries.
2) this transformation was a technological transformation

1958-1963: the per capita GDP grew at an annual average rate of 7%

Between the beginning of the 1950s and the beginning of the 1960s:

a. industrial productivity increased of 84%
b. the contribution of industry to GDP grew from 33% to 43%
c. agriculture's contribution felt to 15%
d. services accounted for 40-42% of GDP

A chanigng society

In 1948 there were 300.000 automobiles circulating on Italian streets: in 1971 they were 10 million

At the beginning of the 1950s less than 8% of houses had together electrical power, water and indoor toilets: ten years after the amount has grown to 30%

In 1958 13% of Italian households owned a refrigerator: in 1965 refrigerators were owned by more than 50%

What about retailing?

	1951	1961
Shops	917,000	1,085,000
Employees	1,788,000	2,400,000
Average number of employees per shop	1.95	2.20
Supermarkets	-	284

In retailing the major innovation of this period were supermarkets.

The arrival of supermarket in Italy

In Italy the arrival of the supermarket is an example of the **Americanization** of the Italian economy and society..

The idea of introducing the new retail format in Italy come from an American corporation: the International Basic Economy Corporation (IBEC)

A private American business corporation, IBEC had been founded by Nelson A. Rockefeller (1908-1979) in 1947, aiming at building the "basic economies" of developing countries, hoping to encourage nationals in those countries to establish competitive businesses -> the idea was trying to modernize the economy in the distribution sector in the country where they started.

Supermarkets italiani

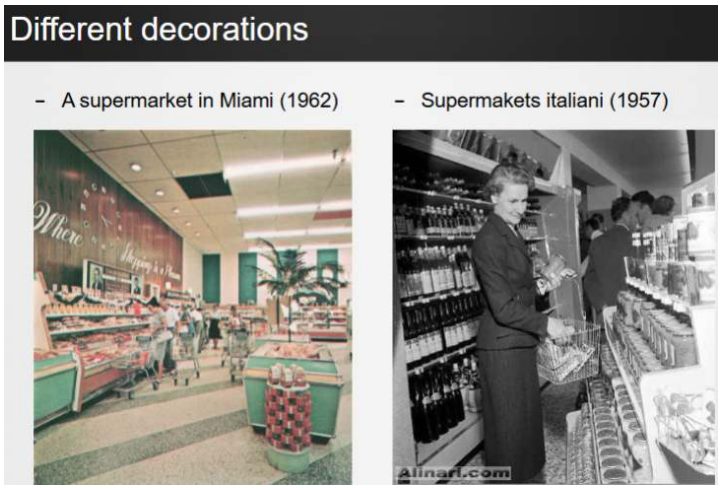
In 1956 IBEC sent Richard W. Boogart to Europe in 1956, in order to investigate opportunities for the opening of supermarkets: Boogaart concluded that Italy (actually, the city of Milan) was the perfect location for IBEC's project.
Given for granted and acknowledged that Milan was apromising city, in a country in which the economy was growing:

- what challenges does IBEC have to face?
- the original model needs to be adapted to suit the local context?
- how?

The main problem was trying to adapt the model to the new and different market and especially trying to adapt that model to a market with a lower income -> one of the major problems for them was trying not to offend the Italian consumer; so the idea was to reduce the dimension of the supermarket, because it was obviously not possible to create a supermarket with the dimensions of the U.S, ones.

Low purchasing power

"We have been approached a few times why our stores were not more decorative. We decided to follow a pretty plain pattern for two reasons. One was we saved a lot of dough. Secondly, we do not feel that we would so completely capture the masses if our stores looked like Penn Fruits or Steinberg's of Canada. I think that putting decorations would hurt us tremendously with the low income people here" R. Boogaart, 1957 (quoted by E. Scarpellini, Shopping American Style)



They were introduced baskets instead of carts that apparently could be a decision related to the dimension of the supermarket, but in fact was related to the purchasing power of the people: using baskets instead of carts means that people can fill the baskets, while if you have a cart and buy just two packs of something, the cart remains empty, so the buying experience is not very satisfying.

A different lifestyle

"Few people use their cars to go to work. They can't afford them as we do at home. Women do not drive in Italy. I do not know of a two car garage family in Milan except my own and one of our partners" R. Boogaart, 1957 (quoted by E. Scarpellini, Shopping American Style).

Another problem that we can list is linked to the transportation systems, and adapting to the Italian culture and to the Italian institutions.

A different business environment

"This is a country in which even an American can become confused. We have been waiting and working with the city hall to get the license to sell. It has been voted and then everyone seems to have disappeared. Every

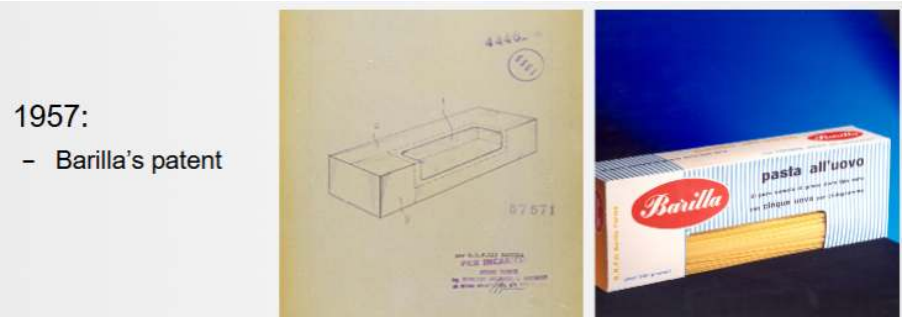
time we turn around we must buy some stamps or pay some tax. This is the most taxing place I have ever seen. Everything must be written on legal paper in which you stand in line to buy. But we all love it"

"Their idea of honesty here does not run with ours. They think that they would be considered stupid if they didn't cheat you if they had an opportunity. A man who cheats his taxes is looked up to. A person that doesn't is stupid. It is hard for me to think this way". R. Boogaart, 1957 (quoted by E. Scarpellini, Shopping American Style)

Apart from the elements of prejudice in this declaration, the real problem for Boogart and for the Rockefeller company was trying to convince local institutions of the welfare gains that could come from the new formula. Since the entrance of the supermarket meant the closure of traditional shops, and since they were family owned, there was a problem of unemployment that was rising.

Supplliers – retialers relationships

We cannot survive buying from these creedy manufacturers who have too high operation costs, who tell us what we must sell their products for, who have no quality control.
Some of the largest pasta people have a cost of distribution of 23% from the door of their plant" -> one of the major concerns of Bugart was the fact that the suppliers were not standardized enough to adapt to the supermarket.



The spillover effect on the food industry was very important -> it opens the possibility to influence also the production and the distribution channel.

4. ***Walmart***
   Further development in the US
   The last transformation was the entrance of Walmart in the distribution and in the retailing system.
   As market became saturated a process of concentration started:
   - from 1949 to 1958: 83 companies bought 415 chains, involving 2.238 stores
   - the acquisition wave slowed only during the 1960s because of the pressure of federal government -> there was an intervention of the government in order to reduce the market power of the largest labor in the retailing sector and especially in the grocery sector.

During the 1970s the economic slowdown induced supermarkets to turn to new formats in order to increase profits:

a. club stores -> the store was organized like a club, so you have to join the club and you can enter the store where they offer specific products
b. limited assortment superettes -> supermarket with a specific line of products for a specific customer
c. specialised superettes and natural food stores (e.g. Trader Joes, 1966 and Whole Foods, 1978)

Technological innovations

If the 1970s were characterised by the adoption of new formats, the 1980s were years of huge technological innovation: Universal Product Code (UPC) and scanning registers were introduced. The technological

innovation allowed stores to increase the number of carried products: they went from 9.000 to 30.000 per store. Supermarkets need to increase their size evolving in: superstore or warehouses -> with a particular focus on logistics. The comparative advantage went back again to national chains

Format evolution

	1980	1982	1984	1986	1988	1990	1992	1994
Conventional	73.1	47.9	49.7	47.4	42.9	35.3	30.3	27.4
Superstore	17.7	28.9	28.3	27.5	30.2	33.5	34.3	37.0
Food/drug combo	4.0	8.3	8.0	8.0	8.6	11.2	15.5	17.8
Warehouse or L.A.	4.2	14.9	11.9	12.3	12.2	12.6	12.2	9.5
Superwarehouse	1.0		1.7	3.2	3.9	4.8	5.1	5.6
Hypermarket			0.4	1.6	2.2	2.6	2.5	2.7

Note: L.A. is limited assortment, a store carrying a reduced set of products (for example, Aldi).

Source: Progressive Grocer Marketing Guidebook, selected issues.

During the 80s and through the 90s, conventional stores start to reduce in terms of size, from 73% to 27%, while the larger stores start to increase the relevance in the market -> this was a consequence of the US crisis This very strong recession in the US affected the dimension of the sotres, whichwas favored in the sense that the economy of scale was larger -> it was possible to offer cheaper goods to the customer.

Walmart

Walmart at the end of the 1980s has a dominant position in discount retailing. In 1988 it decided to enter the grocery retailing market exploiting its:

a. experience -> it was able to use all the instruments that were created from the very beginning, and this changed completely the general environment
b. network of stores -> very fast and intense increase in the number of stores
c. state of the art distribution system

Its entrance in the grocery market led to:

1. a decrease in prices
2. a lost of sales volumes by the incumbent supermarkets
3. a new concentration process

⇨ small chains were not able to face the competition by Walmart, so they exit the market, meaning by this that through a concentration was possible to compete with Walmart. This is the reason why the national chains start to gain power in the US market.

THE EVOLUTION AND IMPACT OF THE GENERAL MERCHANDISE SECTOR

1. ***The growing general merchandise sector***

   Walmart's history from 1962 to the 1990s in brief

   1962: on July the 2nd Sam Walton opened the first Walmart store in Rogers, Arkansas
   1969: the company officially incorporated as Wal-Mart Stores, Inc.
   1972: Walmart was listed on the New York Stock Exchange (WMT)
   1980s: three new concept implemented:
   - Sam's club, a warehouse club
   - supercenters, a shop 40% bigger than the typical Walmart that included a full line of groceries
   - hypermarkets, which sell everything including food

   ⇨ we can link these development to the relative saturation of the market

   1990: Walmart became the first retailers in the US

From the financial point of view it is an enterprise in which we can invest probably quite safely.
The other interesting aspect, is the fact that there is a significant increase in the size of the enterprise the strategy was successful in the long run.

Today Walmart's structure (beginning of 2020s)

Distribution centers in the US

- Walmart's 210+ distribution centres are hubs of activity for the business
    - it has a fleet of 10,000 tractors, 80,000 trailers and more than 11,000 drivers

The discount stores tarted to appear in the US during the 60s -> it was a large chain with stores with a large dimension that sold mainly durable goods and which was focused on low cost.
The difference among the three is the speed in the stock turn and the dimension of the stock.
Starting from the 19th century and going towards the end of the 20th century, what happened was an increase in the stock, the number of goods that this large retailer was able to trade, and the speed of the activity.
On the positive side, since the aggregate demand is increasing, we can say that the barrier to entrance is quite low -> the demand was increasing, the number of chains and stores was increasing, but it was possible to enter the market, and the specialization was not so big, and so the barriers to the entrance were not so strong.
On the negative side, the increasing competition led to a competition of price.
The other point is if we have price competition, it means that customers are just looking at the price mainly; so, if we don't have a very strong differentiation, customers can move depending on the level of price -> the second problem of this price competition is the level of substitution, that is very high; it's very difficult to create a loyal customer.
The other risk is that with the increased competition, there are also increasing barriers to the entrance of new competitors -> the problem is the possibility of saturation.

Walmart decided to invest in suburbs and in small towns where the income was lower -> in some small towns, there were no competitors; that was an instrument for avoiding competition.
Another interestingaspects is the financial strategy, which is very important in order to understand why they were able to be very profitable and to make this format successful:

1. the first element was lowering the debt -> the leasing of the store, the warehouses and all the buildings that they had to use for the network, was very important because it led to a reduction in the need of huge debt for buying these fiscal assets
2. the other element was the capability of auto-financing the activity -> that was very important because the timing of the activity for this large enterprise was very important because they turned the stock very quickly.

There are other two other points that we can take into consideration:

1. The operating side -> flat organization, there is not a very well-developed middle level between the top executive and the control of the direct chain. The flat organization has two characteristics:
    a. The level of decentralization: every warehouse and every store was responsible for the inventory and for the relationship with the supplier.
    b. A centralized control that was mainly oriented to the efficiency of the network
2. The human relation and the relationship with the employees. About the human relation, we can add two elements:

a. The first one is that they tried to make a policy that avoided unionization of the workers.
b. The other element was the idea to call and consider the workers associates -> allow employees in participating in the management of the enterprise. This was made through two instruments:
    - The first one was the distribution of stock to the workers -> link the workers to the performance of the enterprise.
    - A strong common culture -> it was able to create the idea of participation

⇨ This financial strategy together with a strong corporate culture, were the two elements that created barriers to the entry of other companies.

General merchandise stores

The general merchandise store sub-sector (code NAICS 452) comprises:

- establishments primarily engaged in retailing a general line of merchandise that may, or may not, include a general line of grocery items

At the end of 2014 this sub-sector employed over 3 million people in the US (approximately 2% of the US civilian labour force), but it was a low-productivity, low-wage sector:

- workers in this sector
    - earned an average of $14.79, compared with a national average of $24.66 for private sector employees
    - worked an average of 30.4 hours per week, compared with a national private-sector average of 34.6

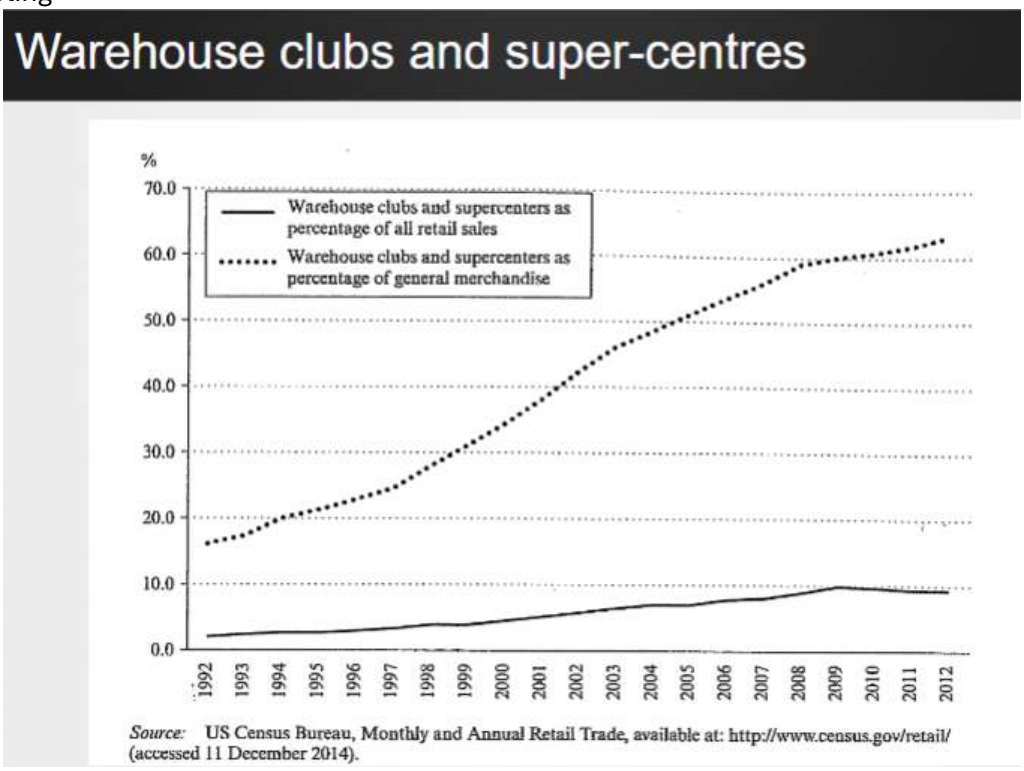
This was a sector, especially at the beginning, characterized by low productivity and low wages, except for some enterprises like Walmart.

The growth of general merchanidse discounters

The emergence of general merchandise discounters is a story of technology and transaction costs.
During the 1990s this industry radically changed:

- 1992:
    - warehouses and super-centres accounted for 2.2% of total retail sales
    - warehouse clubs and super-centres accounted accounted for 16.1% of general merchandise sales
- 2012:
    - warehouses and super-centres accounted for 9.5% of total retail sales
    - warehouse clubs and super-centres accounted accounted for 63.4% of general merchandise sales

The increase of both warehouses and super-centres is an indirect effect of the growth of Walmart -> Walmart was able to influence also the other competitors that have to increase their productivity.



A populated, low-wage sector

In 2000 general merchandise employment represented only 13.2% of retail trade employment: this had increased to 19.2% by 2005 and to 20.6% by 2010

Average hourly earnings in this sector were 84.9% of the average for retail trade in 2000, but 82.9% in 2010

Productivity

The entry of more efficient firms in recent year led to an increase in productivity:

- less efficient firms abandoned the market
  - a phenomenon related to the technology gap between chain and non chain stores

Mass market merchandisers make money by combining very low profit margins with very high volumes:

- a high inventory turnover and low wages allow them to obtain
  - particularly low labour costs as a percentage of sales

⇨ the idea was that the increase in the use of information and communication technology in the US led to increasing productivity (the productivity in US was larger than in Europe)

Different sectors, similar differences

As far as labour is regarded, a transfer occurred:

a. from manufacturing activities into services
b. not unlike the transfer from agriculture into manufacturing that occurred during the industrial revolution

The service sector is more heterogeneous in terms of occupations and skills than is the manufacturing sector: as well as the manufacturing sector is more heterogeneous than the primary sector. The wage dispersal is also much greater -> the difference between the top manager of the service sector and the wage of the common worker is higher than in industry.

This is related to several different aspects:

a. The first one probably is the flat organization
b. the characteristic of the service sector -> the possibility of unionization and the possibility of creating common interest among the workers is lower, and this led to wage compression in the long run.

The structure of the service sector

The service sector involves:

Channel Marketing

a. greater physical dispersal of activity than does manufacturing
b. units of much smaller size.

These two features have made organization of workers more difficult or of less relevance:

1. workers are physically more dispersed
2. common interests among various groups of employees are less clear
3. syndicalist organizations have less appeal than they did in the past

The unweighted average share of unionised labour among employees in all OECD countries went down: from 21% in 1999 to 17% in the mid 2010s.

⇨ The transformation in the retail sector is not just a matter of transformation of the sector, but the transformation of the society

The spread of discountrs and its effects

The impact of mass merchandisers affected:

1. prices and competition
2. the retail market structure
3. the labour market

Scale and scope: the key of success

E. Basker, S Klimek and P. Hoang Van (2012), *Supersize it: the growth of retail chains and the rise of the "big-box" store*:

a. Larger retail firms: can achieve scale economies in acquisition and distribution; in turn: they help suppliers to achieve scale economies in production
b. Consumers enjoy scope economies from one-stop shopping
c. The interaction between these two forces explains the growth of mass merchandisers: adding two stores to the average chain means 100 additional items in each of the chain's stores

Prices and competition

Lower prices were discounters' most obvious effect:

a. direct effect
   - discount stores have a price advantage over competitors
b. indirect effect
   - traditional retailers tend to cut prices in response to competition from low cost rivals

Volpe and Lavoise (2008), *The effect of Walmart super-centres on grocery prices in New England*:

- Walmart prices are 14-17% (national brand products) and 7-10% (private label products) lower than prices at competing stores
- Walmart prices are 19-23% (national brand products) and 14-18% (private label products) lower than prices at stores too far away to be considered competitors

Non prices competitive responses

Basker and Noel (2009), *The evolving food chain: competitive effects of Walmart entry into the supermarket industry*

- Walmart super-centres entry reduces competitors' prices by an average of 1- 1.2%
- effects are even larger at small scale grocers and those that serve primarily low income consumers

But retailers do not always respond to entry by a low-cost competitor by lowering prices, they could also:

- change their marketing mixes
- improve the quality of their stock
  - hardware stores, for instance, in the US responded to the entrance of mass merchandisers raising their prices and focussing on providing high-value services

Market structure

The literature provides some evidence that support the claim that big box retailers drive out competitors or

prevents them from entering:

- Jia (2008) found that Walmart expansion during the 1980s and 1990s explained 40-50% of the concurrent reduction in the number of small discount stores
- Artz and Stones (2006) analysing 1995-2000 data from Mississippi concluded that Walmart entry reduced the growth rate of grocery store revenue by:
    - 17 percentage points in non metropolitan markets
    - 4 percentage points in metropolitan areas

Labour market

While mass merchandisers may reduce the number of small direct competitors, this could be balanced by increases in small business in other sectors:

- Walmart destroys more jobs that it creates?
- secondarily, does Walmart replace "good" jobs with "bad" jobs?

There is not a definitive answer to the previous question:

- because the different effects in the short and in the long run:
    - Basker 2005 demonstrated that Walmart entry increased employment in the short run, but this effect is then mitigated by the exit of some competitors and by the re-enginering of the supply chain
- because of the endogeneity of big box store entry when studying labourmarket effects

2. *Retail FDI (Foreign Direct Investment)*

A quite recent phenomenon: retail FDI

In contrast to incentives that policy-makers often give to manufacturing foreign firms:

- government of developing countries have been more conservatives in the case of retail FDI
    - they continue to impose very restrictive conditions on foreign chain retailers wishing to enter their consumer-oriented retail markets
- the main reason for this contradictory behaviour is the fact that in developing countries the retail sector accounts for a large share of total employment and GDP

An example from the post-WWII era: Italy

For large part of the second half of the twentieth century a huge gap have separated Italy from the main European countries: in terms both of shops' size and market shares

In 1971 a national law (n. 426) reworked the regulation (disciplina del commercio) that had been adopted in 1926 as a part of the Fascist policies aimed at reducing inflation:

- the opening of a new outlet was made conditional on license given by the competent municipal government
    - for outlets with a surface exceeding 400 squared meters in municipalities with less than 10,000 residents, as well as for outlets with a surface exceeding 1,500 squared meters in larger cities

In addition:

1. the regional government had a veto power with respect to the municipal decision
2. the law instituted the compulsory inscription in the register of commercial firms along wit extremely detailed lists of goods (or product tables)

The 426/71 law was mainly an instrument for controlling the diffusion of large-sized corporations inside the retailing sector -> this law was a way of controlling the amount of large corporations operation through some sort of licensing system.

FDI policies in developing countries

In recent decades many developing countries have opened their retail sector to FDI

Which spillover effects?

Retail FDI's position in the supply chain implies effects which can be very different from those of manufacturing FDI:

- multinational retailers sell directly to final consumers, so there are no downstream industries that could benefit due to the availability of:
    - new intermediate inputs
    - lower costs of pre-existing inputs
    - imputs' quality upgrading
- instead multinational directly affect the costs of living of local residents

Retail FDI cannot produce forward spillover effects, because the final effect is just on the final consumer, but it has a relevant impact on upstream suppliers: backward spillover effects often produce also indirect horizontal spillover effects

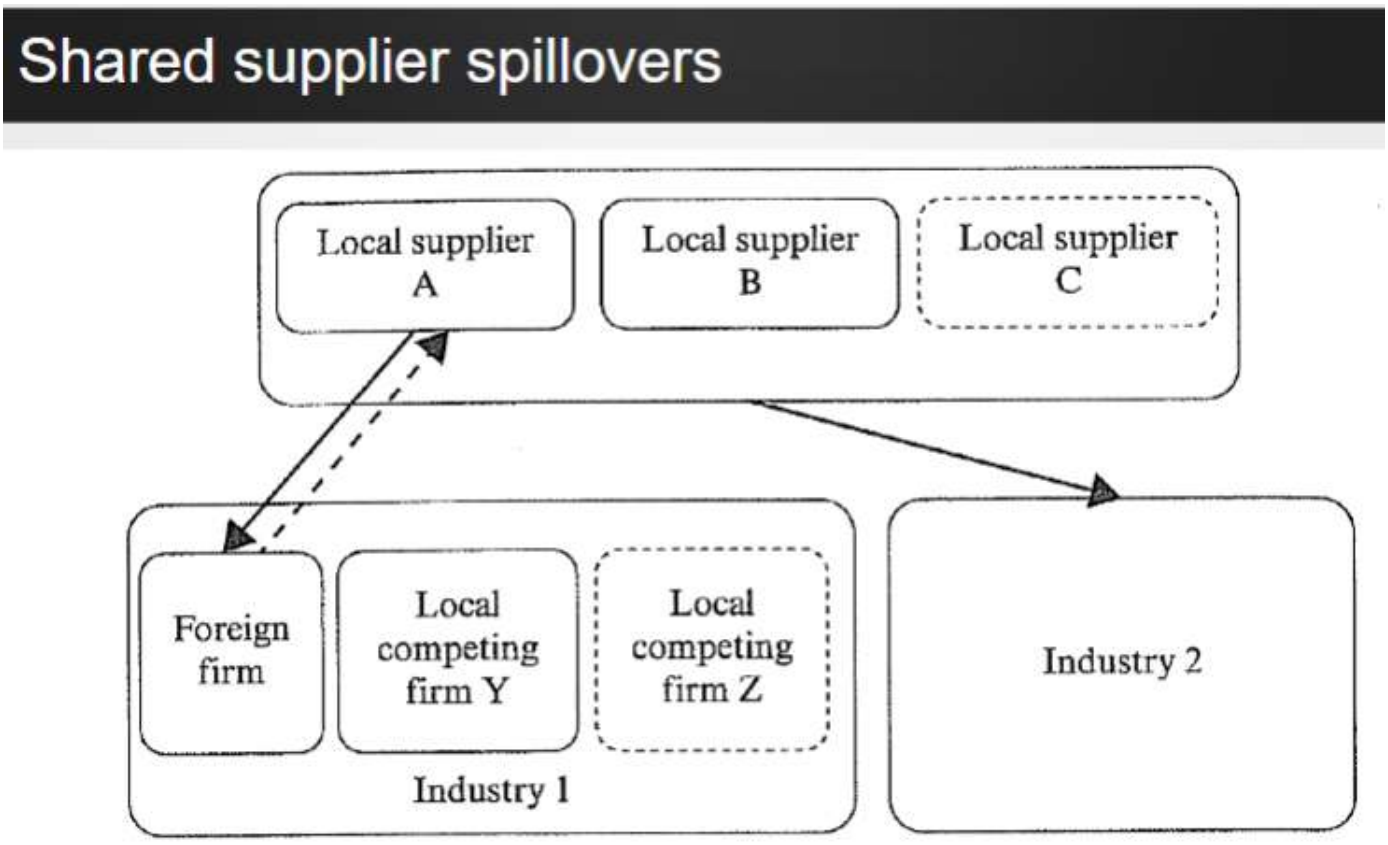


Figure 8.1 Market structure for backward spillover effects

Backward spillover effects and retail FDI

Retailers in developed countries are mainly modern stores:

- they use advanced distribution techniques and technologies
- their value added per worker is usually higher than the one of traditional retailers

on the contrary the majority of retailers in developing countries are mom-and-pop shops

Multinational retailers:

a. tend to purchase products on a large scale and have extensive local and international networks
b. have a stronger bargaining power in their dealing with local suppliers

they can therefore push the suppliers to keep reducing costs and/or upgrading products, making suppliers become more efficient and innovate more frequently.

3. Walmart goes abroad

The internationalisation strategy

During the first five years of its globalization (1991 to 1995), Walmart concentrated heavily on establishing a presence in the Americas: Mexico, Brazil, Argentina and Canada

The European market had certain characteristics that made it less attractive to Walmart as a first point of entry:

- the European retail industry is mature, implying that a new entrant would have to take market share away from an existing player
- there were well-entrenched competitors on the scene (e.g., Carrefour in France and Metro A.G. in Germany) with formats similar to Walmart's
- as with most newcomers, Walmart's relatively small size and lack of strong local customer relationships would be severe handicaps

Asia, why not?

Walmart might have overcome the difficulties by entering Europe through an acquisition:

a. but the higher growth rates of Latin American and Asian markets would have made a delayed entry into those markets extremely costly in terms of lost opportunities
b. in contrast, the opportunity costs of delaying acquisition-based entries into European markets appeared to be relatively small

It is no doubt true that Asian markets had huge potential when Walmart launched its globalization effort in 1991: but the Asian market is the most distant geographically and the most different culturally and logistically from the United States market

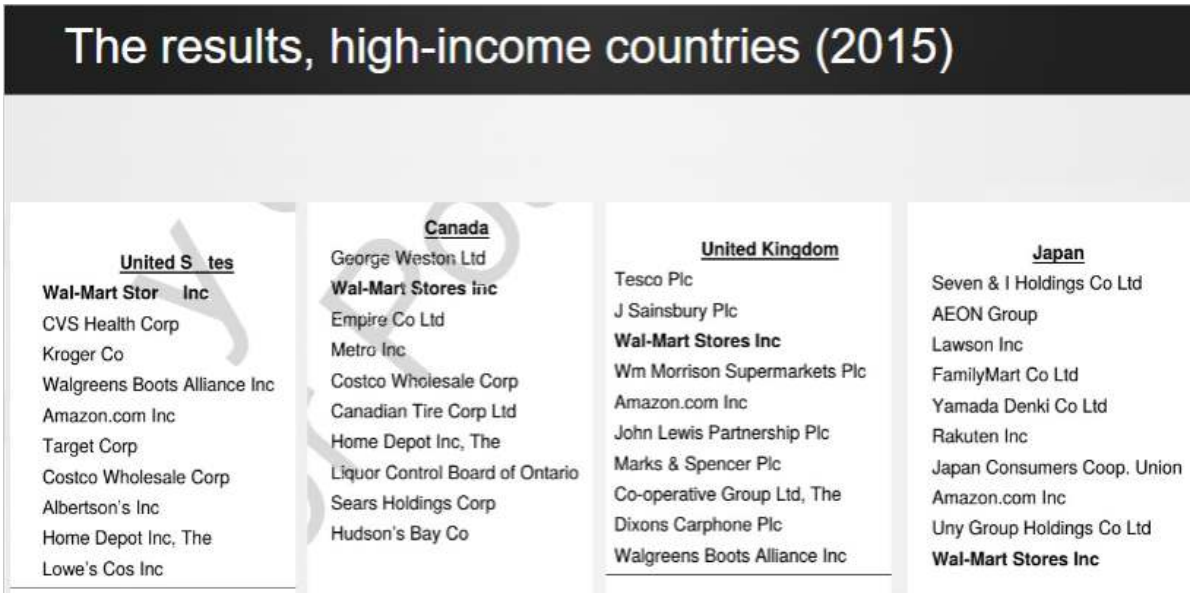
The relevance of intermediates

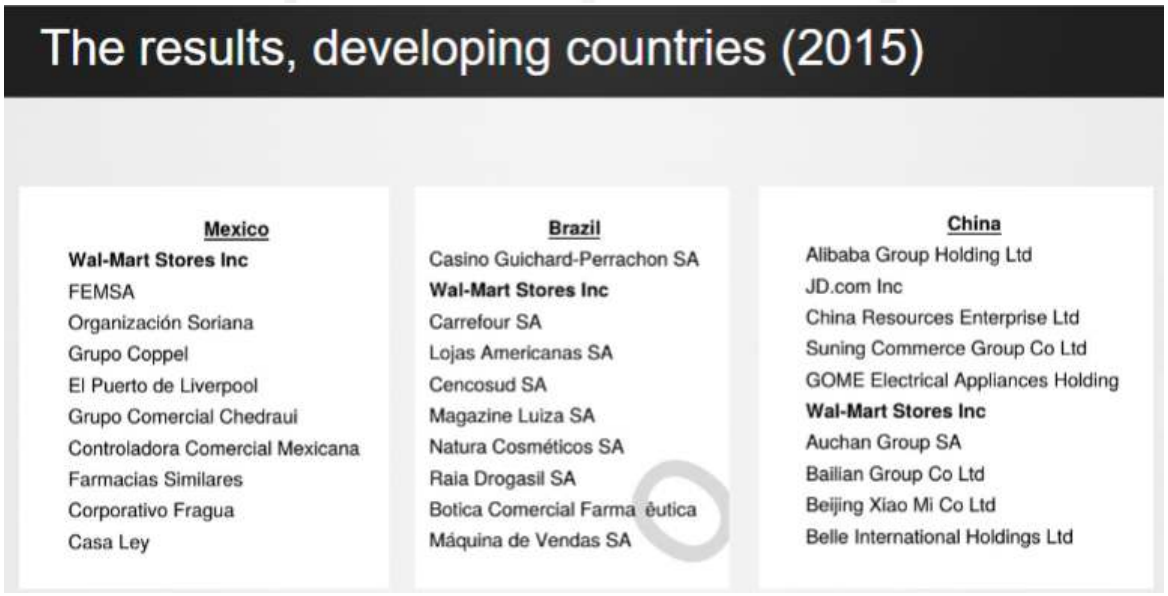
By 1996, Walmart felt ready to take on the Asian challenge:

- it targeted China, with a population of more than 1.2 billion in 640 cities
- but China's cultural, linguistic and geographical distance from the United States presented relatively high entry barriers

Walmart decided to use two beachheads as learning vehicles for establishing an Asian presence:

- during 1992-93, Walmart agreed to sell low-priced products to two Japanese retailers, Ito-Yokado and Yaohan, that would market these products in Japan, Singapore, Hong Kong, Malaysia, Thailand, Indonesia and the Philippines
- in 1994, Walmart entered Hong Kong through a joint venture with the C.P. Pokphand Company, a Thailand-based conglomerate





Building different competitive adavantages

Amazon's access to data on its customers is exhaustive:

a. social media streams
b. online searches
c. past behaviour on its website

Walmart's access to customer data is limited to store-level analysis of the sales pattern: through checkout receipts. While Walmart customises its stare based on the needs of the people who live in a specific locality, Amazon customises its website page based on the needs of the individual customer.

Towards an omni-channel retailing

In recent years the customer preference mowed towards omni-channel retailing: an integrated platform that seamlessly comprised digital and physical retail

This shift compelled the two companies to making substantive investments

- Walmart hoped that online expansion and ability to leverage its massive physical network (offering flexible delivery and pick-up/return services on online orders) would fuel its growth
- Amazon was driven towards establishing a brick & mortar presence in order to sustain its high rate of growth
    - the inherent limitations of an online model had so far hindered Amazon's ability to penetrate deeper into the two large retail categories of grocery and apparel that favoured a hybrid approach

Different attempts of hybridisation

In 2016, Walmart acquired Jet.com, an e-commerce company in the US, for US$3.3 billion.

Through the years it also introduced a variety of online grocery services such as:

- Walmart Pickup that allowed customers to order online and pick up at one of its stores
- Pickup Today that allowed customers to pick up their online orders at a stare within four hours for free

Walmart also installed pick-up towers near the entrance of many of its stores that served as vending machines for non-grocery online orders:

- pickup towers' life inside Walmart stores was short, but with the pickup towers, Walmart got better at being able to
    - quickly fulfil online orders at its stores
    - communicate with customers by text or email to let them know an order was ready for pickup

Improved experience at the physical store

In September 2017, Walmart acquired New York-based Parcel, a technology-based, 24/7 operation that delivered packages the same-day, overnight and in scheduled two-hour windows.

At the same time Walmart's mobile shopping platform was instrumental in creating an omni-channel experience at its physical stores:

- inside the store, the Walmart mobile app, once turned on, slipped into the "store assistant" mode, providing shoppers access to up-to-date information about
    - the products, where they were stocked in the store
    - how much their shopping carts would cost when they check out
- and an automated checkout process

The rocky road to bricks and mortar

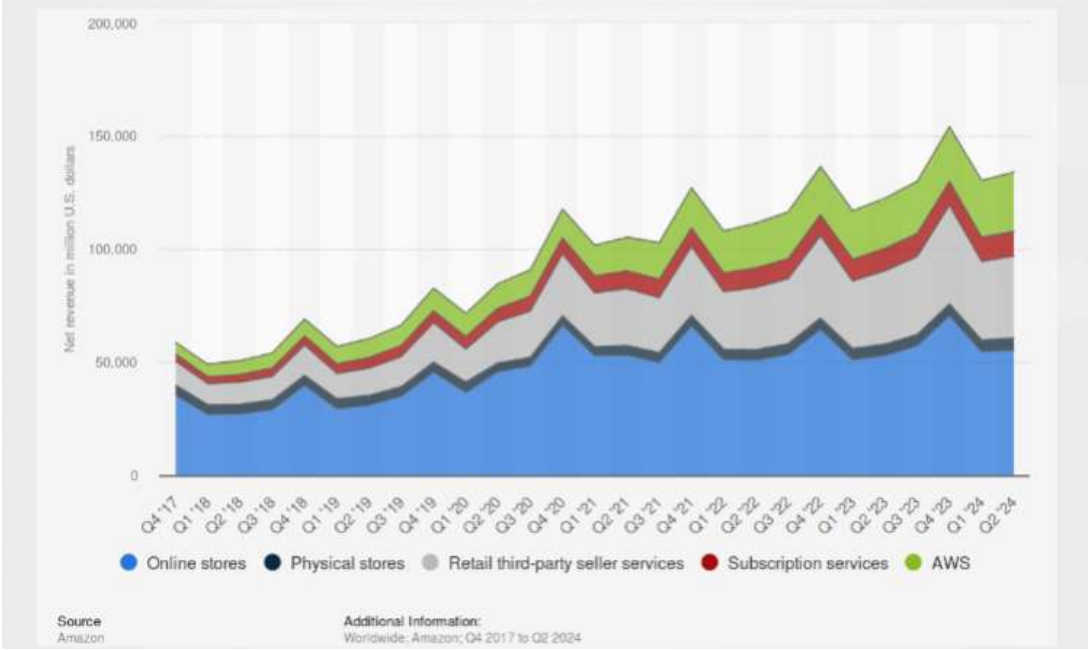
More or less in the same years, Amazon invested heavily towards creating an offline presence

- since 2015, it had opened 13 bookstores in addition to more than 40 pop-up stores across the US
- in 2017, Amazon acquired Whole Foods, a premium grocery chain with 470 stores, for US$13.7 billion
- in January 2018, after five years of research and testing, Amazon opened Amazon Go, a fully automated convenience stare with no checkout required

Convergence in productivity

In million of USD	2002		2007		2012		2017	
	Walmart	Amazon	Walmart	Amazon	Walmart	Amazon	Walmart	Amazon
Net Sales	226,479	3,933	374,526	14,835	466,114	61,093	495,761	177,866
Employees	1,500,000	7,500	2,000,000	17,000	2,200,000	88,400	2,300,000	560,000
Inventory	25,056	202	35,180	1,200	43,803	6,031	43,783	16,047
Total Assets	94,685	1,990	163,514	6,485	203,105	32,555	204,522	131,310
Sales/ Employee	0.15	0.52	0.19	0.87	0.21	0.69	0.22	0.32
Sales/ Inventory	9.04	19.47	10.65	12.36	10.64	10.13	11.32	11.08
Sales/Total Assets	2.39	1.98	2.29	2.29	2.29	1.88	2.42	1.35

A new model, by growing diversification?



CHANNEL MARKETING

MANAGEMENT SESSION

COURSE OVERVIEW

What is this course about?

a. **Retailing**: selling **goods** or **services** to **consumers** (selling products to the clients, especially from the retailer to the final consumers)
EX: consumer packaged goods at the supermarkets; fashion stores.
Retailing is not limited to goods!

- **History, present, future**
  - ***HISTORY***
  - ***PRESENT***: before the Covid, in U.S., many retailers went out of business, they close.
    Why? First of all, because of the concentration process; in fact, because of the concentration process, big companies become even bigger, while the small companies started to give up with the competition and they were forced to close. On the other hand, just few new companies open.
    EX: Toys 'R' us closed 1,600 stores worldwide in 2018.
    In U.K., many traditional retailers closed stores
    Is this a 'Retail Apocalypse'? The idea raised from the fact that a lot of stores closed, while just a few one opened as we can read in the newspaper articles. But the real question is: 'Was it really a retail apocalypse? Not really as we are still able to go to stores which are still open.
    So, the aim of this class is to provide the measurement tools to understand different scenarios, understand what's going on and try to give more tools to read the reality that surrounds us, both as customers and marketer, and finally understand how retailers adapt and survive in this scenario.
  - ***FUTURE***: talking about the future we have that there are several innovations that can disrupt a little bit the scenario.
    - robotics:
      a. robots **check shelf inventory** -> we don't need someone that goes shelf by shelf to check if the product is there, but we have a robot that can tell us pretty fast, in a pretty cheap way, and pretty straight away what product is missing, what stocks need to be replaced and so on. And this is very important because when a customer goes to a shop in retailing, and the customer doesn't find the product he or she is looking for,
         they can up and sell out not very nice things -> for the retailer, there is a missing purchase from the customer that can decide to shop in a different store, but also a missing customer for the next period.
      b. robots **assist customers** -> robots can assist customers, can provide them with feedback, suggestions, recommendations, and as a customer, you can be served by a robot that can help you in your purchase journey.
      c. robots **move inventory** in the warehouse -> robots can automatically understand what movement the goods need to do in the warehouse, simplifying and making cheaper and more sustainable the supply chain.
      d. robots **make delivery**
    - big data:
      a. enable retailer to personalize promotions
      EX: having a loyalty card helps both the retailer that collect data, can put higher switching costs for consumers, and the consumers who can get some discount, accumulate points,

and then redeem some price as a whole -> from the retailer this is very useful as we can track not only what consumers are buying now comparing that to their previous purchases, but also at what time and from where they usually purchase, which type of categories, how frequently each consumer goes to the store and in which moment of the day, giving us the possibility to understand and even forecast the behavior of our consumers.
From the consumer point of view, we can talk about loyalty. Loyalty can be considered in two different dimensions:

1. Behavioral dimension: what actually people do in the store (transaction phase)
2. Attitudinal dimension: why they are doing things the way they are doing

b. We can have even more data while talking about online store (click and movement of the mouse, time spent on the website and so on) that will help us in getting the decisions about what we are going to do as retailers.

- this is a very dynamic sector, in which we have a lot of innovation, and this innovation can change the way retailers play in the industry.

  - **Retailing strategy**: retail managers face a lot of important strategic decisions such as:
    - Store location -> where is located our store (do not confuse location with positing: location is the place in which the store is in the real world, while positioning is the brand position in the consumers' minds)
    - Assortment -> the product the retailer is offering to the customer
    - Prices and promotion -> they can change with the format of the retailer and the period of the year

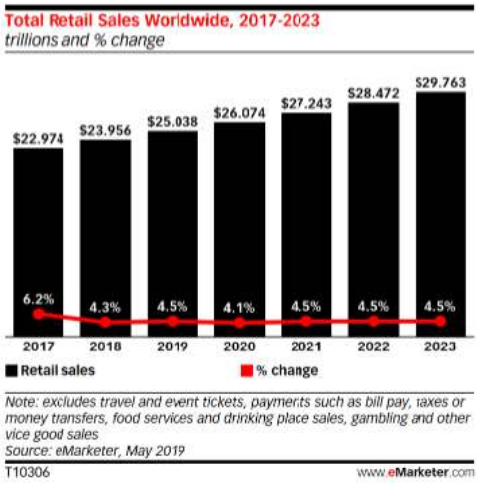
b. **Channels**: the **chain** through which the **good** or **service passes** until **it reaches consumers**.
Different ways that a firm can reach the customers -> multiple ways (i.e. channels) to buy a product.
Competition among channels can cause tension and we have even more complications when distributing products/services internationally -> the decisions about channels can be a very critical moment for firms
EX: we cannot buy Coca-Cola directly from them, but we can buy and iPhone directly from apple, why?
There are several reasons linked to the different strategies that the companies decide to follow.

RETAIL INDUSTRY, RETAIL FORMATS, RETAIL MARKETING AND RETAIL TRENDS

Retail industry

The retail sector is defined as the grouping of **commercial companies**, namely retailers.
The **main activity** of retailers is the **buying** and **selling goods**.
Retailers represent the **link** between **manufactures** and **end consumers**.
So, the role of the retailer is pretty delicate and important because it facilitates the exchange between the manufacturer (namely the producer) and the end consumer, increasing the efficiency of the market because for both the end consumer and the manufacturer is very complex to get in touch.

An overview before Covid-19: moderate growth projections have been shaping the industry until 2020, with key focus on emerging markets.



Global Retail Development Index, 2017

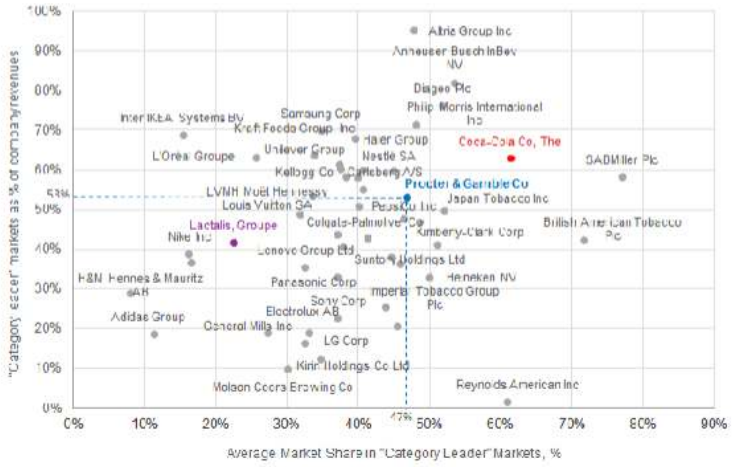
Country	Population in million	Per Capita GDP	National Retail Sales in USD billion
India	1,329	6,658	1,071
China	1,378	15,424	3,128
Russia	144	26,109	434
Brazil	206	15,211	447
Indonesia	259	11,699	350
Turkey	80	21,147	241
Philippines	103	769	137
Saudi Arabia	32	54,078	114
Thailand	65	16,835	119
Nigeria	187	5930	109

Source: World Bank, World Economic Forum, International Monetary Fund

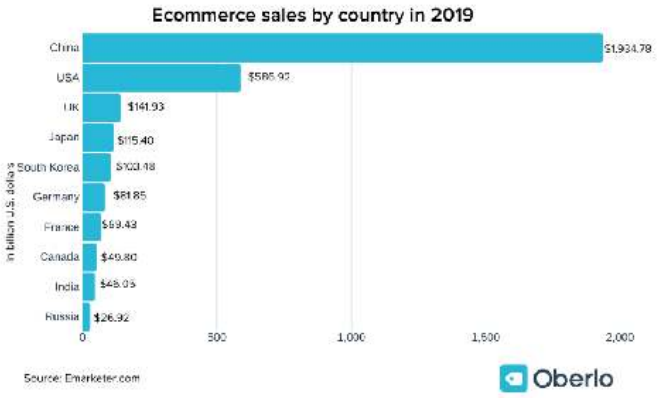
Mordor Intelligence

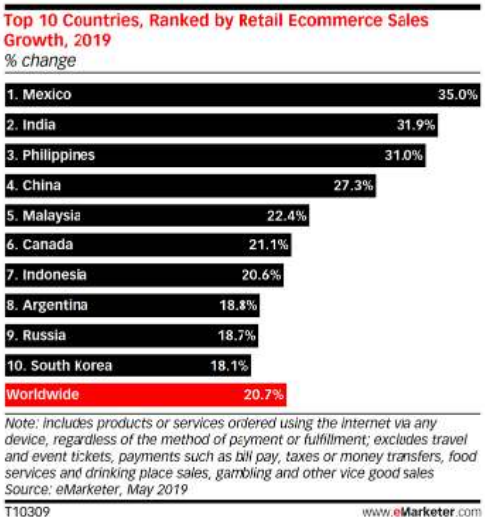
FMGC (First Mover of Good for Consumers) Leaders VS. Retail Leaders assessment suggests critical role of bargaining power (which is the power between the retailer and the manufacturer and their negotiation activities).

Rank	Company	2018 retail sales (billions)
1	Walmart	$387.66
2	Amazon.com	$120.93
3	The Kroger Co.	$119.73
4	Costco	$121.43
5	Walgreens Boots Alliance	$98.39
6	The Home Depot	$97.97
7	CVS Health Corporation	$83.79
8	Target	$74.48
9	Lowe's Companies	$64.00
10	Albertsons Companies	$59.71
11	Apple Stores / iTunes	$47.77
12	Royal Ahold Delhaize USA	$43.60
13	Best Buy	$39.15
14	McDonald's	$38.83
15	Publix Super Markets	$36.52
16	TJX Companies	$29.59
17	ALDI	$28.78
18	Dollar General	$25.63
19	Macy's	$24.90
20	H.E. Butt Grocery	$24.02



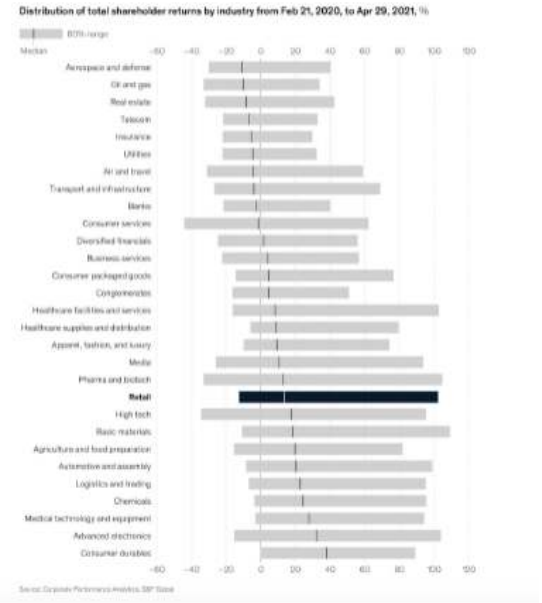
E-commerce segment exhibits significant cross-country differences, but with a general increasing trend.





Covid-19 shock and the New Normal: evidence suggests the pandemic shock implies long-term shifts in market demand and supply. Covid was a very big disruption for the market in general, particularly for the retailers, because we had, as anticipated, a first moment where the priorities of the customer shift -> this was something that changed a lot the scenario and that's why we are talking about the new normal.

While the whole world was struggling, the retail sector outperformed many other industries, but the gap between sector leaders and laggards has grown -> the market share was in the hands of few traders while all the others struggle.
The retail industry has seen a huge shift value to online purchase and so to online players -> the market capitalization of the online player increased a lot.
The Super 25 companies accounted for 90% of market-cap gains in retail -> the big players became even bigger.



Retail formats

The structure of the retail sector

The retail sector is **structured** and **complex.**
A first distinction, that will help us understand the characteristics of the two main type of retailers, is between:

- **Brick and mortar** (traditional companies): mainly developed by opening physical stores
- **Online players**: specialized in selling online (e-commerce or pure players)

Remember that the rise of online players is not killing the offline ones -> the traditional retailers have to adapt in order to keep their competitive advantage.

Store format

It is the **overall appearance** and **feel** delivered to the marketplace, integrating the **image**, the **layout**, the **product range** offered, and the **overall positioning** of the outlet in the marketplace.

Brick & mortar formats: store classification

a. Type of medium used in the selling activity (**retail channel**):
   - **Fixed-store retailers**: they can be divided according to their size, the type of product sold, clientele, method of sales, etc.
   - Street vendors
   - Special types of sale
b. **Size**: in some countries there are laws providing different-size classes of stores

c. Type of **product** sold:
   - **Food retailers:** selling mainly foodstuffs and mass-consumption goods (e.g. detergents, body care)
   - **Non-food retailers:** plurality of players focusing on different sectors (e.g. furniture, clothing, consumer electronics)

d. Type of **clientele**:
   - **Retailers:** end consumers are the ones to which the retailer sell
   - **Wholesalers:** refer to professional audience (operators with a tax identification number), only some type of clientele are allowed to purchase

e. **Service**:
   - **Self-service stores**
   - **Assisted sales stores**

f. **Traditional stores:** traditional small stores in city centers, usually assisted sales stores, whose staff is composed of the owner-entrepreneur and his/her family -> really hard to find nowadays

g. **Modern stores:** following certain parameters (mix of characteristics) that allow for the distinctions of homogeneous classes of store, called **formats**

Brick & mortar formats: store format – dimensions

Store format can be categorized according to:

- **Size**
- **Location**
- **Assortment:** synthesis of the products and the services (remember that the assortment will have a different meaning for the retailer and the manufacturer, who has a set of products that are targeting a certain segment of the market).
  Breadth is the vertical dimension of the assortment (a line with different product within the same line), while the variety is the horizontal dimension of the assortment (the number of lines within the assortment)
- **Ambience**
- **Prices**
- **Opening hours**

Most common formats:

Speciality stores: a **retail outlet** that focuses on selling a particular **product range** and associated items. Most specialty store business operators will maintain considerable **depth** in the type of product that they specialize in selling, usually at **premium prices**, in addition to providing higher **service quality** and **expert guidance** to shoppers.

Core features:

a. Located in major hubs, malls
b. **Min assortment breadth**, **max depth**
c. Caring of ambience and visual merchandising
d. Regular opening hours
e. **Destination store**

Department store: a retail establishment with a building open to the public which offers a **wide range of consumer goods** such as clothing, housewares, furniture and appliances. It typically offers a choice of **multiple merchandise lines**, at variable price points, in different product categories known as "**departments**" (hence the name).

Core features:

a. **Located in major hubs**
b. **High assortment breadth**, **average depth**
c. Caring of ambience and visual merchandising
d. Regular opening hours
e. Destination store in some categories

***Supermarket*:** a large form of the traditional **grocery store**, is a **self-service shop** offering a wide variety of food and household products, organized into aisles.

Core features:

a. **400 → 2499 sqm**
b. Central locations
c. **Deep assortment on selected categories** (food grocery, personal care) + some other merchandises
d. Fair ambience
e. Regular opening hours
f. **Intensive promotional effort**

***Hypermarkets*:** a **very large retail** store that stocks **highly diversified merchandise**, such as groceries, toys, and camera equipment, or a **wide variety of merchandise in a specific product line**, such as computers or sporting goods.

Core features:

a. **=/> 2500 sgm**
b. **Major hubs**
c. **Fair assortment on several categories** (food, grocery, personal care + general merchandises)
d. Ambience varies
e. Regular opening hours
f. **Intensive and extensive promotional effort**
g. **Monthly destination**

Discount stores: a type of department store, which sells products at **prices lower** than those asked by traditional retail outlets. Most discount stores offer a **wide assortment** of goods; others specialize. They can have this cheap prices because they cut cost on the environment, they have just a few people of the staff and so even with low price they can get positive marrgins.

Convenience stores: small stores that stocks a range of **everyday items** such as groceries, toiletries, alcoholic and soft drinks, tobacco products, and newspaper.

Off-price retailers: off-price retailers **purchase at below-wholesale prices** and **charge less** than retail prices.

Online formats:

General marketplace: **one-stop-shop** based on **convenience, volume** strategy leveraging on **bargaining power** and **big data management** (not only what the customer did before, but also try to forecast what they are willing to do in the future -> forward looking approach)

Auction marketplace: **contact function, no titles**, leveraging on **variety of assortment and vendors.**

***Social media*:** maximize on **social network effects** and **customer engagement**

Unique items marketplace translates the **specialty store concept** into the **online environment** leveraging on **scale** so to **broaden the range**

bonanza
everything but the ordinary

***Subscription box*:** focus on **tailoring value** and **need for touch.**

GROUPON

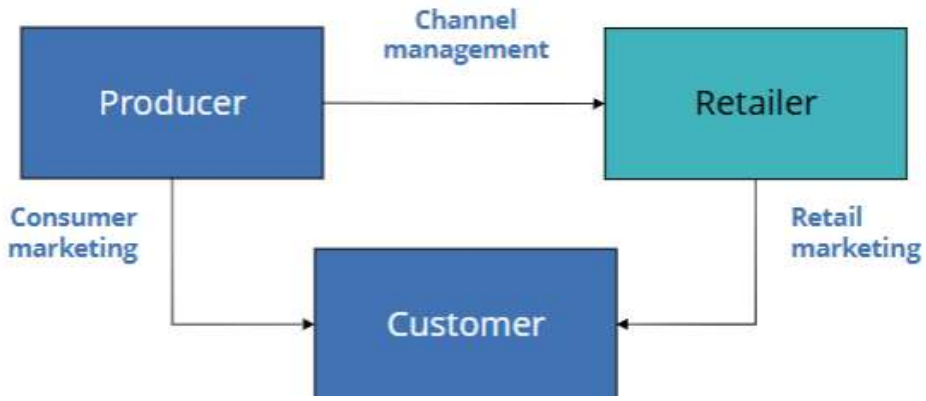
livingsocial

***Daily deals*:** maximizing on the management of **promotional flows, replicating off-price retailers without managing titles.**

Retail marketing

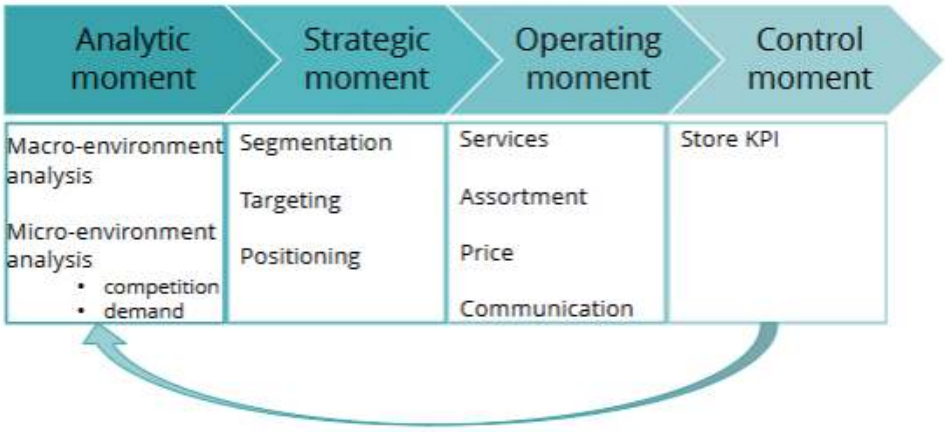
Retail marketing: the system

Into the distribution system, **retail marketing** deals with the **marketing function** that resellers to the large public implement to **maximize store visits, store sales, customer loyalty** and **shopping experience.**



Retail marketing: the process

The management process (which is a chain of steps) of retail marketing covers four main phases from analytics into performance control:



1. **Analytic moment**:
   a. Macro-enviroment analysis: the macro-environment is represented by everything that surrounds the firm, excluding competitors and demand (part of the micro-environment).
      i. Area and demographics
      ii. Culture and society (use of social media)
      iii. Economy and business
      iv. Science and technology
      v. Politics and regulations (taxes, regulations)
   b. Micro-enviroment analysis:
      i. Competition | Market intelligence:
      Strategic groups (groups make by dividing the firms within the market by the strategy that they use) and positing
      Share of wallet and patronage
      ii. Market demand | Quantitative analysis:
      Overall market
      Channels
      Formats
      Product categories
      iii. Market demand | Qualitative analysis:

Channel Marketing
Shopping behavior
Customer journeys and shopping experiences

2. **Strategic moment**:
   a. Segmentation
   b. Targeting
   c. Positioning
3. **Operating moment**:
   a. Services
   b. Assortment
   c. Price
   d. Communication
4. **Control moment**:
   a. Store KPI (Key Performance Indicator)

Retail trends

Mega trends:

a. Growth of Artificial Intelligence and machine learning
b. Penetration of Augmented Reality (AR), Virtual Reality (VR), Mixed Reality (MR)
c. Rise of new social media as touchpoints
d. Tailoring value criticality
e. Growing role of CSR from Covid-19 onwards

Retail trends: assessment and challenges

Long term business trends

- Market liberalization
- Business globalization
- Inflation rates
- Convergence of sectors

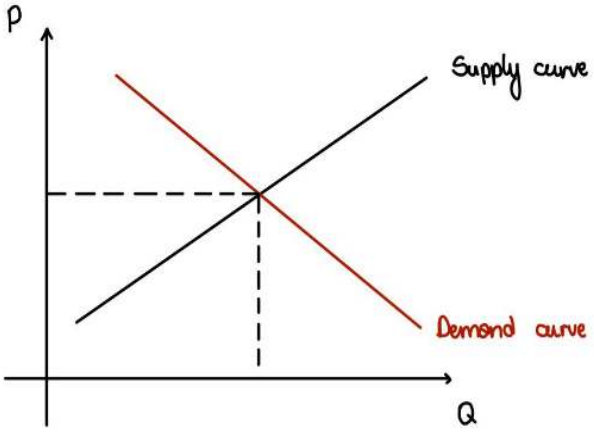
Key challenges

- Understanding customer journeys
- Mastering bargaining power
- Leveraging on private labels
- Leading in technological innovation

RETAIL STRATEGY

Key strategic question

When we think about our marketing practices, the marketing main goal is to deliver value to the customer correctly, and in doing so we need to position ourselves the market -> first strategic question that we have to give an answer to is "**why?**" we exist in an environment.
In order to position the value proposition in the market we have to enact the positioning strategy throughout the four levels -> **positioning strategy** means create a clear image about my product in the market, so I can attract a specific segment of the heterogeneous market that find an extra-value in the features of my products and to do so we need to deal with microeconomics concepts.



In economics, we say that markets tend to be in equilibrium when quantities of equilibrium are exchanged at a given price, we can set also the number of vendors in a market and the number of buyers in a market -> markets are places where we perform a transaction exchange and in performing those exchanges, we meet an equilibrium where given the product characteristics, given the market demand characteristics and the market supply characteristics, the act of conversion and equilibrium where given quantities exchange at a given price.

We can not find retail management in this graph, and in particular in market equilibrium since in a market equilibrium we exchange at a price which is competitive, and it is the price that repays the marginal cost of producing units up to the equilibrium quantity -> in a market equilibrium, nobody is making profit, there is no room for competitive advantage, but we are in perfect competition.
What are the conditions under which this equilibrium is satisfied?

1. **No** information **asymmetry** -> the market is open to information exchange; there is symmetry, meaning by this that everyone has the same kind of structure
2. **Rational agents**
3. **No** entry/exit **barriers**
4. **Large number** of suppliers and customers -> fragmentation of the market demand among suppliers
5. **Homogeneity** of products -> markets are not homogeneous, because we are different, and we want different thing => heterogeneity

In the real-world markets are not that good, but they are more a space where there are different exchanges and different prices since we do perceive differences -> there are heterogeneities in the marketplaces.
Moreover, there are not as many vendors and customers as we wish to have or to reach equilibrium.
But even with those imperfections, if we are good with our strategy, we can get an advantage on other competitors and get a position of advantage which allow us to extract from the market higher profitability than the normal -> marketing does exist because **markets are not perfect**
EX: Assuming for a second that we converge in a market where information is perfect, well-inclusive because digital transition allows everybody to access a lot of information, allowing us to become rational agents thanks to the fact that the digital transition is incrementing the number of information available to the market agent. This makes our ability to take choices higher increasing the competition.

Price dispersion can be use as an indicator of the imperfection of the market -> if the market is perfect, we expect just one price. On the other hand, if the market is imperfect, we expect to find different prices on different websites or on different stores. Moreover, we expect the price dispersion to be higher in the physical store, as we are not able to check all the prices in all the shops, rather than online where we can easily compare different options. During research they found out exactly the opposite cause having more information does not make us more intelligent, but it creates sometimes even more confusion; moreover, we do not check all the pages, but just the first, the second and maybe the third one in the list.

Interagency of preferences in the market is the reason why we do exist -> the markets are not homogeneous since people want different things; they have different priorities. So, we need to segment the market in order to able to create values for the market in which we compete.

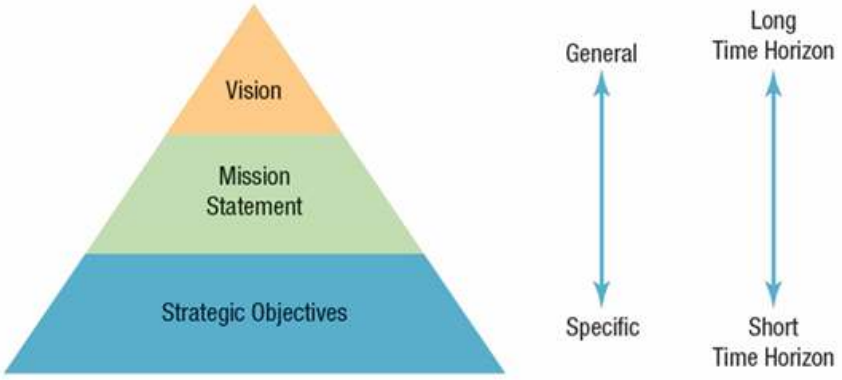
In B2B markets, this is extremely strong since there are few vendors and few customers, while in B2C markets, slightly different because we are far away from perfect competition -> it is possible to have a position of advantage.

Furthermore, another reason of the existence of retail managers is the falsification of the assumptions that economist consider when explaining how markets work and understand how we can build a competitive advantage with a strategy which allows us to be better than competitors.

We take the prospective of the retailer, which sells to the large public, and we have to check our assumptions -> depending on the validity or non-validity of the assumptions, we can build a difference in the marketplace having a **better position** than the competition -> better position means on the one hand that we can sell more at the same price as our competitors because we have a low-cost strategy, or on the other hand that we sell the same quantity as our competitors, but at a higher price.

We have to remember that the marketplace is going to change radically in the next 10, 20 years, so we need to learn from previous model, but at the same time we be ready to jump to other models.
Our strategy, our purpose is to establish a positional advantage in a marketplace which allows us to have higher results than the norm.
To set-up a strategy that is better than the one followed by our competitors, the first things that we have to ask is:

1. What is our **vision**? -> the vision helps us to derive a purpose which has to be developed with objectives.
2. **Mission**/statement -> the purpose is the concept of the mission, which is linked to a specific value system (i.e. ESG)
3. The **goal**/objectives -> positioning of our value proposition



The organizations can be prosperous and can resist over time, only if the environment in which they are in is prosperous and resisting over time -> nowadays happens that some corporations persist at the expenses of the environment in which they are embedded in.
In developing our role, we want to make sure that we reach prosperity but with the advantage of the other stakeholders our firm is embedded in. We want prosperity of the entity, the organization, or also with the prosperity of the actors, the stakeholders, the organizations with which we interact.

It is really important to understand the difference between the vision and the mission since many leaders in the corporation want someone else to develop their intuitions into the vision/mission.

a. **VISION**: represents the organization's long-term *dream* -> the final goal, what we want to reach at the end of the day -> *where* we want to be
b. **MISSION**: describes the organization's current purpose -> *why* it exists and *what* it does in the present. It is generally concrete and short- to medium-term oriented, focusing on what the organization does daily to achieve its objectives.

Vision, Mission: Starbucks

For services is even more difficult to execute the mission because of the differences that a service has compared to a product.
Which is the difference between a good and a service? A product is something tangible that I can perfectly see, while a service is something that I can experience, so it is intangible. A second difference is that I can design a product somewhere, then produce it somewhere else and finally sell it in a third place -> it is a process done in different phases and at different moment. On the other hand, the service must be produced and delivered it the moment the consumer order it -> production and consumption in services occur at the same time, as it is something intangible and that cannot be stored nor transported.
This is the problem that Starbucks, and other similar retailers, have nowadays.

Vision: Starbuck as the place in between two poles (home and workplace) where people are not getting satisfaction. It is important to create a vision that will last forever. the society, nowadays no place is relaxing -> the vision is about to the where, if about the world in the future => it is external and subjective
Mission: create the third place => it is internal and objective

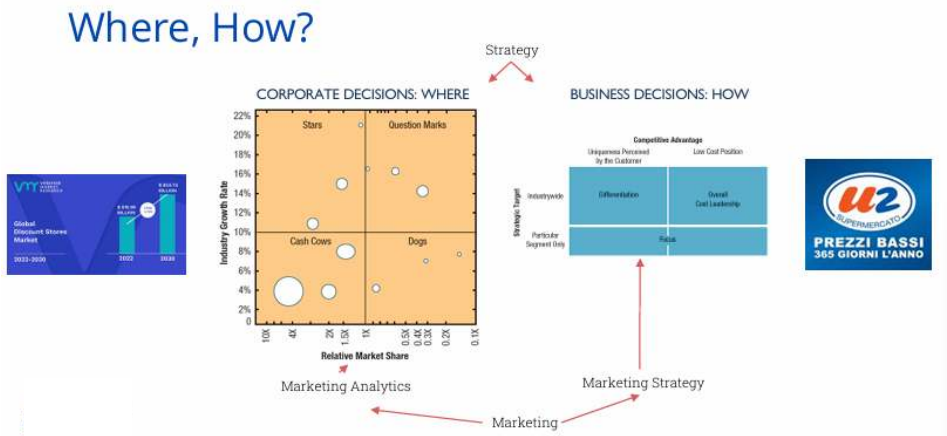
Marketing contributes significantly in different ways:

1. Analyzing the context
2. Defining the value proposition that we want to propose in the market
   EX: Luxury is about giving ourselves the right to have abundance in something which is normally not abundant, because you can afford it at that point.

The second key strategic question that we ask ourselves is **"where?"**.
In order to determine in which businesses context we want to develop our activities, we can assess to elements:

1. market growth
2. market size, market share -> the relative market share of a firm is the share of this firm divided by the share of the leader in the industry or in the strategic group, or by the follower if I'm the leader
   => **$Rms_A = ms_A/ms_B$** (=L, L-1)

- it is really important to understand where to position the brand, and be aware of our direct competitiors, in order to get the highest value of relative market share.



Strategic decisions ys about priorities in resource allocation.
According to BGC Matrix, **stars businessess** are those in which we invest the most since they are growing and strong business. **Dogs businesses** are those where we want to get out of -> the business is not growing and we are weak. If the business is not growing, but we are strong the best is to strat reducing the resource allocations; this kind of business is called **cash cow**. Finally, if the business is growing, but we are weak we are dealing with a **question mark** business.

Dependign on the context in which we are we have to understand where to position ourselves.
Having data about the relative market share of a company is strategic since it is a proxy of **bargainig power**, which is the capability to capture cvalue out of trasaction gaining extra profitability
Finally, the thrid question to ask is "**how?**" -> how we develop our position of advantage in the market?
We developour position of advantage in the market typically in two ways:

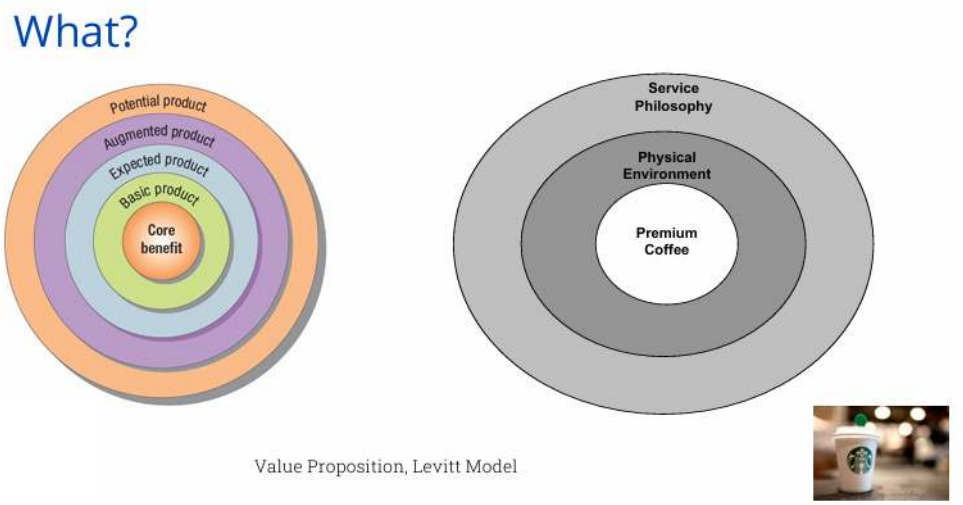
1. Choosing after having assess how heterogeneous are the preferences in the market
2. Focusing on just one segment of the market.

Understand really well the market structure in order to develop a competitive brand. have the best general idea of the type of brand.

So far, we have discussed about the key strategic choices that we ask into the channel and retail environment.

a. Why our organization exists in the business environment and social environment?
b. Where our organization plays the game and competes?
c. How we want to compete? We want to get the competitive advantage of this organization, or we want to be the competitive on a local level? It is not properly a decision in the sense that there is a certain degree of freedom, but it is a matter of fit with the environment in where we want to play the game.

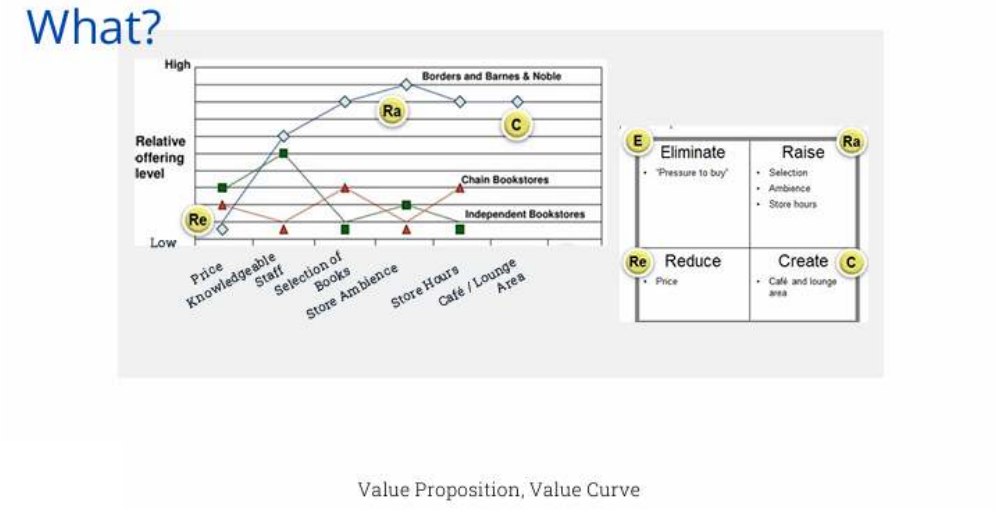
The fourth question is the "**what?**" Where we connect the general level mission of our corporate, and where we have to deal with the goal to deliver and the value of position that we aim. -> *what* is our value proposition?
At starbucks we are not buying just coofee, but we also buy the possibility to spend time in the store, meaning by this that when we design the what, the value of position is a touch point that help us in converting cunsomers into buyers.



Value Proposition, Levitt Model

There are five different spheres that influence how we can design the thing.
The first sphere is represented by the **core benefits** to satisfy the specific problem that we define.
Then we have the **basic product**, whihc is the appearance, how the product looks.
The **expected product** is how consumers perceive it, how it interacts with the user, and how it looks.
Finally we have the **potential product** that is how we will manage it -> the core benefit is identified by business, the basic product is the minimum set of requirements to identify my business, the context and how my product is different from the competitiors one. If we want to stay in a business we need to leverage up the basic product into the expected product to match the consumers' expectations strategically.
However, today, if we want to be successful we propbably need to do more than what customers expect: we need to augment the product to make the difference. So, augmented product is where we beat expectations and then beating expectations we are able to get a competitive advantage. The strategic question is so '*how do we want to augment your product to avoid what?*'
To answer this question we can use the **Levitt model**: is a collapsing model, meaning by this that what is augmented today, will become expected tomorrow and will become basic after tomorrow.

The value curve deploys the value proposition concept by the different value drivers such as the features and the product characteristics.



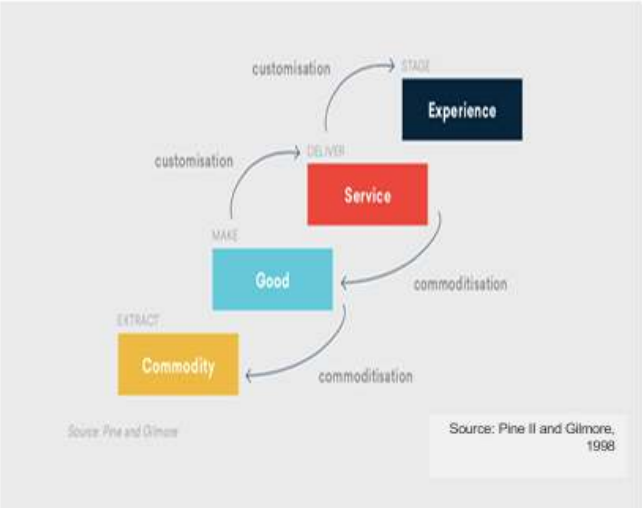
Value Proposition, Value Curve

EX: Let' now see how the value curve deploys for a retailer selling books.
In this specific case, we have three retailer selling books as independent stores.
Given the value driver on the horizontal axis, we measure how much they deliver.
Independent bookstore: not that good with the assortment, because we are a small independent book with the hard bargaining power to buy as much as Amazon.
Chain bookstore: more decent store-angels, but not the best in class.

Barnes & Noble: this is the US best in class which has much better landings.

- The value curve helps us to increase our value composition by highlitinging the benefit that I can get all over the cost that I paid to get these benefits.

The value proposition works like this: the benefit I can derive from the offering, given the cost I have to sustain in order to access the benefits I receive.



Value Proposition, CX

Nowadyas we are in the so called experience economy.
At the beginning as a society we were in the **commodity** economy: the production was focused on commodities, which are raw materials and prime elemets -> **primary sector**
Moving on we arrive to the **good** economy: we strated extracting raw materials with the goal to transfrom them into products -> **secondary sector**
After that we keep improving reaching the so called **service** economy: after transformation we evolved even more by adding intagible elements in what we do -> we are no more manufacturing but we decide how to sell products and deliver services -> **tertiary sector**
Finally we get into the **experience** economy: nowadays consumers are so aware about what they need to buy and about what they want to have that they are not enough satisfied with just buying the product, but they also want to buy the experience of having a good customer journey within the store -> consumers want more and more over time and there is not limitation to better solutions to consumers' problems and the way to make the difference, so we can not stop to the commodity, good or service level but we have to go further in the way we sell products -> in experience management we care about the understanding how our consumers can get benefits out of the interaction we deliver to them.

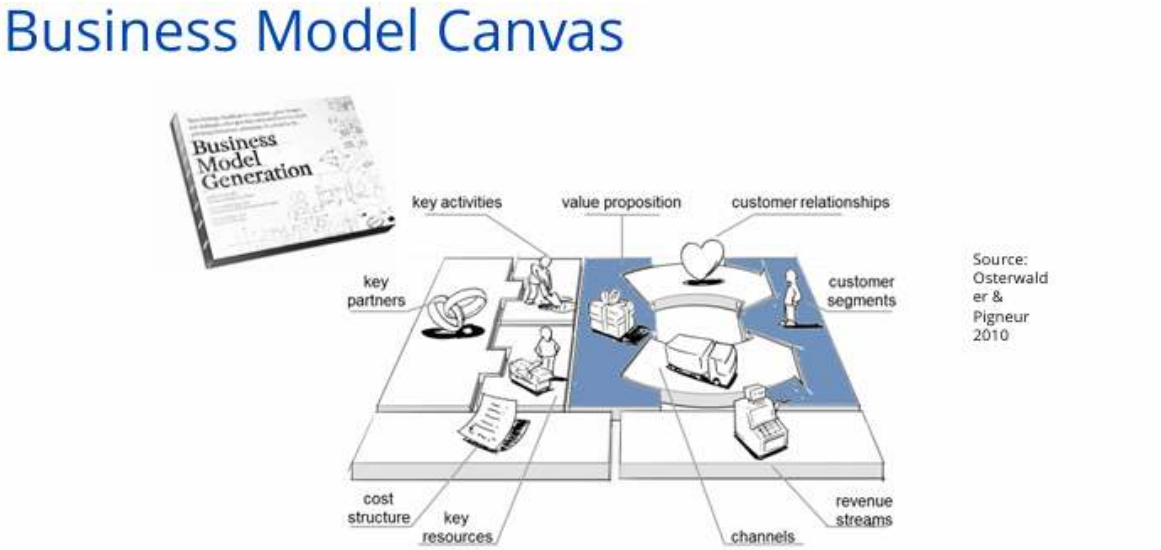
Hybrid ("Phygital") CX

Amazon go change the way in which people can perceived the shopping experience by minimizing the pain points and reducing friction in the purchasig process (costs=pain; benefits=gain).

After four years of investment it was launched in 2017 -> *How can we judge the success of this retail strategy?*
We can count the number of stores open in a certain period of time, since the time period can be used as a proxy of the success of the initiative -> the concept must have scalability, meaning by this that the concept developed can be applied elsewhere to extend the netfwork and being more successful

What people do within a store is not so easy to track -> in doing so amazon leverages the standars and this is the reason why the AmazonGo opened are just a few all over the world.

Business model



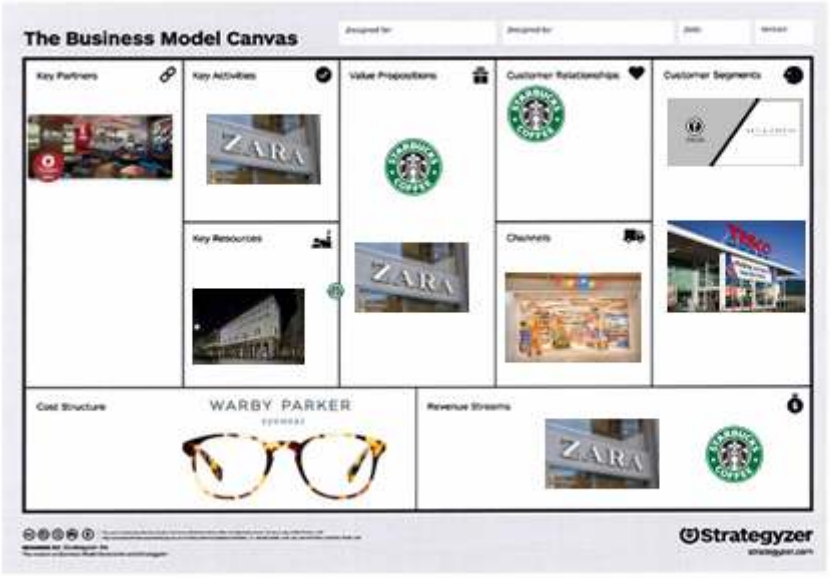
Source: Osterwalder & Pigneur 2010

The business model canvas is a scientific tool that integrates the different elements of a business strategy; it is very valuable in developing the strategy in retaining.
The business model canvas tells hat a business strategy develops into two directions:

1. **Effeciency**
2. **Effectivenss**

Gives the key ingredients of the business recipe.

- we want to have efficient activities, efficient partners, efficient constructors, and we also want to be efficient in the procurement of resources to conduct our business.
  On the other side, we want to be more effective than the competition in exploiting this heterogeneity, meaning by this that we want to be effective in selecting our customer segments out of the market.
  We need to understand where we can make a significant difference within the business we have.



Source: Osterwalder & Pigneur 2010

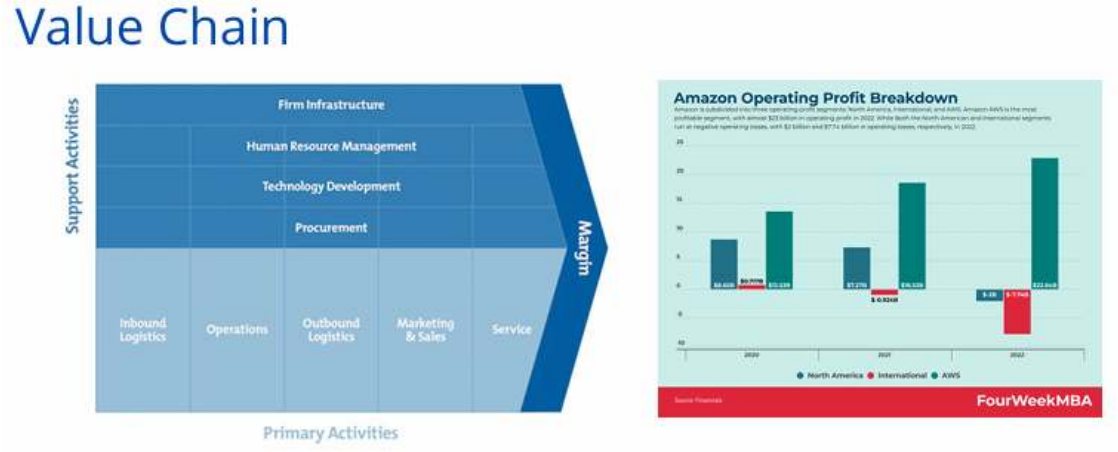
EX: Lavazza -> is well acknowledged worldwide for its quality capillarity of the network. Lavazza has

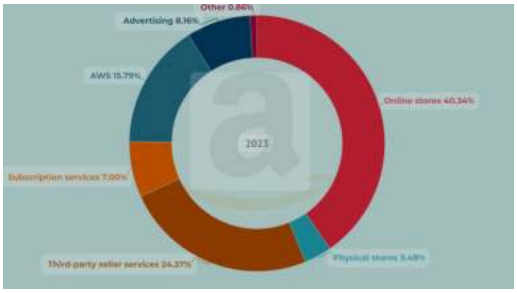
well-structured franchising contracts, since it is a way to integrate the channel and to norm the behavior of the retailers with which we partner

EX: Starbucks -> has a very good concept of the value proposition, which is in the centre of this model -> the value proposition is what drives the revenues -> give you coffee, wi-fi and other services. Finalyy they are stong in revenues streams

EX: Zara -> Zara has a unique value proposition, and it is also strong in customer relationship sine its costumores are loyal to it, and finally it is storng in the revenues stream

EX: **Warby parker** -> they decide to sell just online having in this way a strong cost structure that allows them to produce affordable eyeware

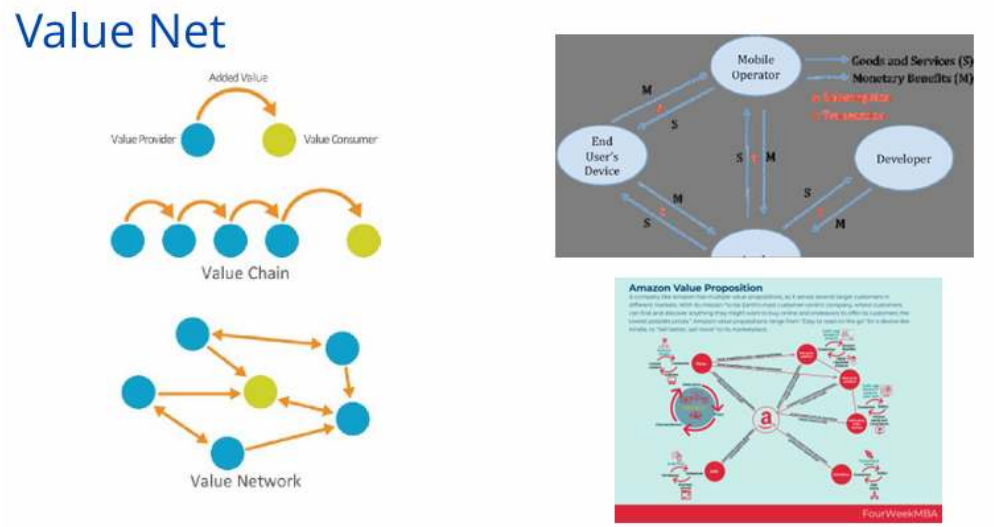




The **value chain** is a concept introduced by Michael Porter to describe the series of activities within an organization that add value to a product or service, ultimately making it more valuable to customers.
It's a model used to analyze the internal operations of a company and identify areas where it can create competitive advantages by optimizing or innovating its processes.
It help us anwer this question "*Where am I contributing to my business in creating value?*"

The core business of Amazonif we analyze the split of its business seems to be *online store*, but actually using the value chain model we can find out thata Amozon is not making much money out of distributing, but they make most of the money in the AWS division, which is Amazon Web Service.

- The value chain model is developed to generate how we generate profitability in the transformation process of intups into outputs, and in the support activities that we perfom to sustin the transformation process.



Competitive Advantage Drivers

Good sustainability

- Location
- Customer Loyalty
- Customer Service
- Exclusive Merchandise
- Low Cost Supply Chain Management
- Information Systems
- Buying Power with Vendors
- Committed Employees

Poor sustainability

- Better Computers
- More Employees
- More Merchandise
- Greater Assortments
- Lower Prices
- More Advertising
- More Promotions
- Cleaner Stores

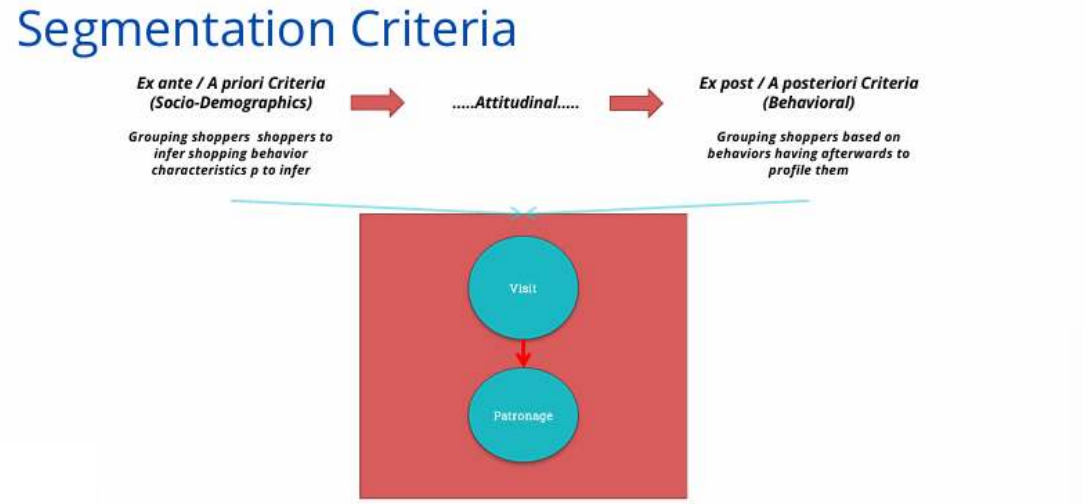
After having analyzed the value proposition and after having integrated it into the business model canvas we need to understand where our competitive advantage come from.
The first source of is location, the second one is location and the third one is still LOCATION -> be located in the right spot is fundamental to capture the correct target -> micromanagement means to understand where the traffic flow goes and be there ready with the correct product/service, because retailing is about time value and place value. This consideration is valid for both online and offline business.

Location is not the only competitive advantage drivers, but of course is it one of the most important. In general we need to understand in our business which competitive advantage driver are the ones that we want to maximize.

Retail market segmentation

When we talk about a marketing strategy we need to rember that is made of three elements:

1. Segmentation: divide the population in homogeneous group in order to increase my allocation efficiency being more effective and increasing the probability to attract consumer and improve our revenues.
2. Targeting
3. Positioning



Given a market frame we segment the market in order to actrat consumer to visit our store and not the competitors one, meaning by this that we want to influence consumers' decision to buy -> **store patronage**
In order to do so, we have to segment the populaton, meaning by this that we have to group customer into clusters in which they are homogenoues in ordet to predict their purchasing behavior.
There are different criteria that I can choose when segmenting the population, such as:

a. Demographic and sociographic: age, geneder, education...
b. Attitudes
c. Behavior

Demografic and sociographic criteria are defined as ex-ante criteria, while attituted and behavior are defined as ex-post criteria.

Store positioning

Marketing= the business practice that ensures

a. **Customer acquisition**
b. **Customer retention**

A we have previously said location is a compatitive advantage for firms. A location with high density of stores creates a top-of-mind awareness for the shopping visit, and it makes it very difficult for a competitor to enter.
Retailing= walk the door of the store; stay longwhile in the store, since there are empirical evidence that the longer the visit the higer the chances to convert the visitors into a buyer, and come back to the store anytime-> we need to position our store where the traffic is, in order to have an higher traffic flow within the store

Store positioning: the concept as a touchpoint

Store concepts:

a. a place to visit -> in this case the main goal is not attract people to buy directly at the store, but we are acctrating them in order to deliver them an experince that will allow them to purchase our product (**EX**: Ferrari store in Duomo) -> the purpose is to create a touchpoint with the brand, more like an experience centre, to bring the connection to the brand.
b. a place to stay
c. a place to bond -> in this case the main goal is to deliver experience in order to create a strong bond with the consumers to be seen as a reference point for the category that we are selling (**EX**: Eataly a place where you can try what you are going to buy, when you can buy the things that you've tried and where you can also try and learn how to cook)

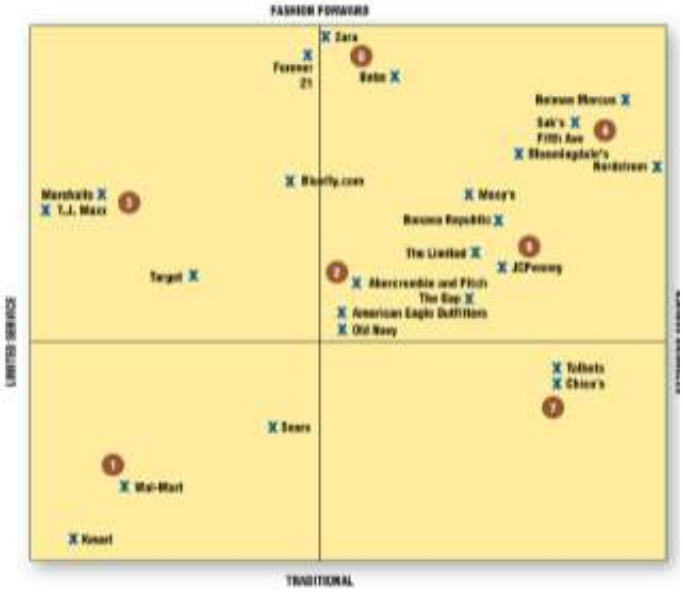
Store postiong drivers

1. **AMOUNT OF SERVICE**
   a. Self-service retailers: customers are willing to self-serve to save money. Typically discount stores

b. Limited-service retailers: most department stores
c. Full-service retailers: salespeople assist customers in every way. Typically are high-end department stores and specialty stores

2. **PRODUCT LINES**
   a. Specialty stores: narrow product lines with deep assortments
   b. Department stores: wide variety of product lines
   c. Supermarkets
   d. Convenience stores: limited line
   e. Superstores: sell food, nonfood, and services
   f. Category killers: giant specialty stores
3. **RELATIVE PRICES**
   a. Low margins are offset by high volume
   b. Off-price retailers
      - Independent off-price retailers (TJ Maxx, Marshall's)
      - Factory outlets (Levi Strauss, Reebok)
      - Warehouse clubs (Sam's Club, Costco)
4. **ORGANIZATIONAL APPROACH**
   a. Corporate chain stores: commonly owned/controlled
   b. Voluntary chains: wholesaler-sponsored groups of independent retailers
   c. Retailer cooperatives: groups of independent retailers who buy in bulk
   d. Franchise organizations: based on uniqueness
   e. Merchandising conglomerates: diversified retailing lines under central ownership

Store positioning & store image



It is important to understand where to position our store not only thinking about a real place in the world, but also deciding the store image that we want our consumer to think about -> for us it is also important the perception that our consumers have about us, and so the position that we have in their mind.

RETAIL MANAGEMENT

Retail marketing mix management

ASSORTMENT

Assorment has two dimensions:

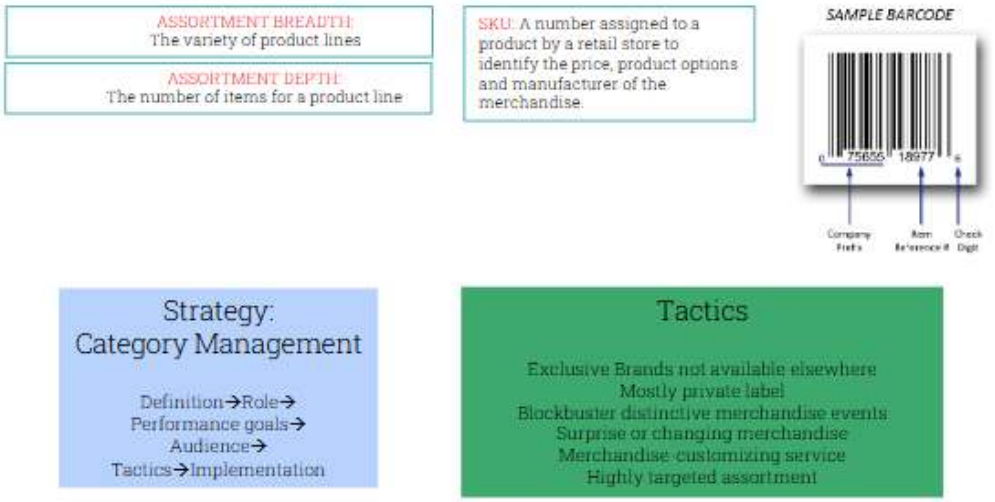
1. **Breath**: the variety of product lines
2. **Depth**: the number of items for a product line

Normally we use to assess the overall size of the assortment, which is a combination of the two.

SKU (Stock keeping Units): it is a number assigned to a product by a retail store to identify the price, product options and manufacturer of the merchandise.

Category management is a practice that optimizes the management of these assortments by defining a broader conceptual set of category, that allows visitors in procuring those based on their needs.

Category management starts from shoppers' analysis to understand how they frame the assortment, and then use this logical framework to optimize how they merchandise and how they develop the distribution of the assortment -> it is a practice typically conducted in joint by producers and retailers.



MERCHANIDISING

Merchandising refers to the promotion of sales via presentation -> it refers to the way we exhibit products in the store, and so has it is linked to visual techniques and communication.

The way you organize the space is relevant to exhibit the merchandise and the way you present it to the customer.

It is important to design windows and visual elements coherently with the positioning and the message that we want to deliver. Of course different windows mean different target and different positioning of the merchanidise that we want to set, even in the sameproduct category.

Online is the same, but talking about the landing page of the website.

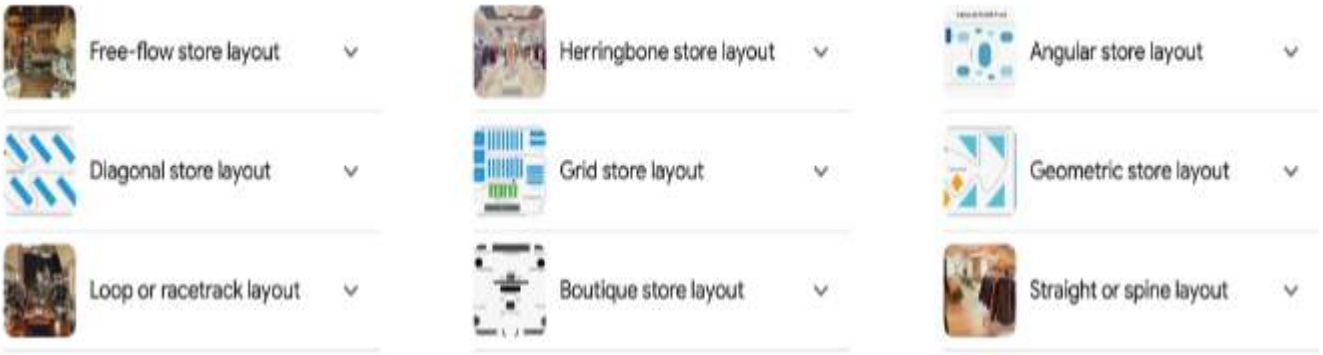
Store space – analytical dimensions

Now, we need to optimize the use of the scarce resource SPACE, by otptimizing the layout the disposition of the products in the store.

a. **Layout use**: visitor flows and cashier flow
b. **Display use**: merchandise distribution, dyspaly locatin and product interaction
c. **Visit duration**

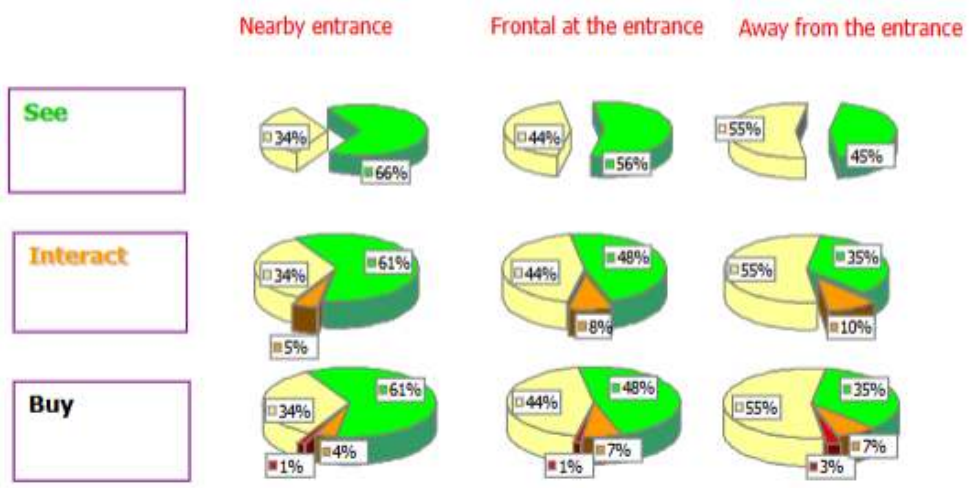
LAYOUT

When we desing the **store layout** we are talikning about the interior arrangement of retail facilities. It is so important to define the **selling areas**, those area where merchandise is displayed and customers interact with sales personnel. (75-80% of the total space), and the **sales support areas**, those devoted to customer services, merchandise receiving and distribution, management offices and staff activities.
According to our strategy when can choose among different kind of layout.
EX: if we want to maximize the traffic flow and minimize the visit store we will choose a layout that allow consumers to search the needed items as fast as possible. Vice versa, if we want to minimize the number of visitors and maximize their stay we will choose a layout which makes harder to go out of the store.



DISPLAY USE

Another strategic decision is decide where to put the products within the store -> in front of the entrance, in the middle of the stroe, at the end of it just next to the cashier?
It depends on the purpose that we have



VISIT DURATION

30/40 sec per category

supermarket

11 min book store

Up to 20 min jeans

IN-STORE COMMUNICATION

Nowadays the communication is in-between, integrating both physical and digitalcommunication, what is important is to customize the way in which we communicate within the store.

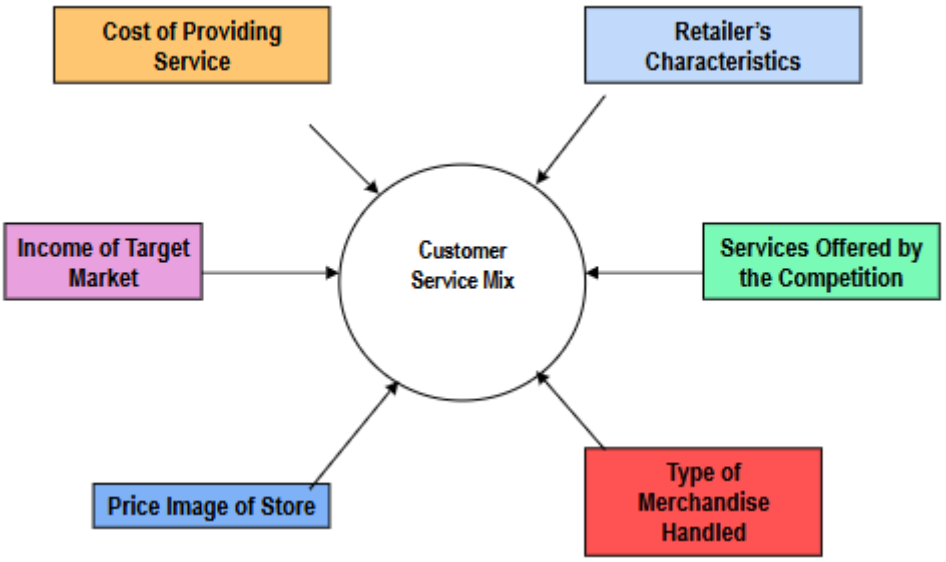
Services

Talking about service we need to rember that retailing has three main keys:

1. **People**
2. **Place**
3. **Products**

Typically we calibrate the level of services, which are people intensive, by three things:

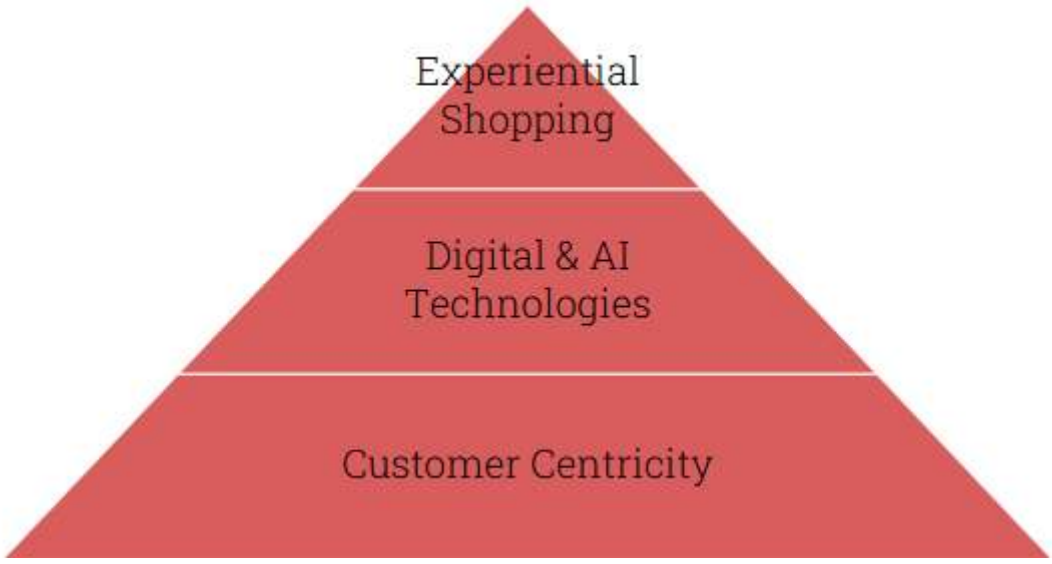
a. what are the expectations of the market demand
b. what the competition does
c. we check relativily to the marginality that we have our ability to deliver products to our consumers



Questions to assess whether a retailer's promotion is serving the customer:

- Is the advertising informative and helpful?
- Does the advertising provide all the information the consumer needs?
- Are the salespeople helpful and informative?
- Are the salespeople friendly and courteous?
- Are the salespeople easy to find when needed?
- Are sufficient quantities available on sales promotion items?
- Do salespeople know about the ad and what's being promoted and why?

Store relationship management



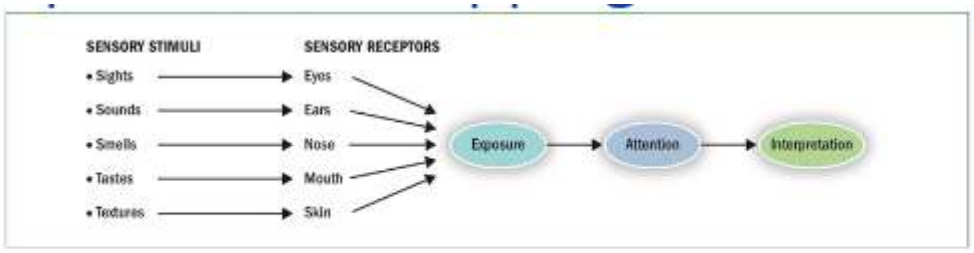
Customer centricity: is the ability of people in an organization to understand customers' situations, perceptions, and expectations. Customer centricity demands that the customer is the focal point of all decisions related to delivering products, services and experiences to create customer satisfaction, loyalty and advocacy (Gartner, 2022)

Digital & AI technologies

EX: strictly seasonal restaurant, open from June to September, that would be a synthesis of gastronomy and show, embracing different disciplines, in and original fusion: fine dining, technology, music, design, cinema

EX: Luxury fashion brand Ralph Lauren has announced its partnership with social network and avatar simulation app Zepeto. The app allows users to function in a fully articulated virtual world where they can socialize with others using a customizable 3D avatar. Users will be able to purchase a fully digital Ralph Lauren clothing collection, reminiscent of his physical apparel, giving users the opportunity to dress their 3D avatars in exclusive products.

Experiencial shopping



ZARA CASE

What are the sources of advantage that Zara have in its business model?
They are very fast thanks to the fact that they are really integrated and they own the channel, meaning by this that they can provide inputs to the R&D directly from the consumers and store managers suggestions.
This is possible thanks to the vertical integration of the Zara's bussiness suppply chain.
Zara's business is also customer centric, which means that it is driven by the customer in general -> at first you customize and only then you decide which product to produce. Customizing means I adapt to consumers' needs; this adaptation is on the one hand very fast because if the market takes nine months to bring the item into the store, Zara usually takes five weeks. On the other hand, being costumer centric means to be dynamic also in the software management, which means being able to change, even every week, the window, the assortment to induce store visits and so higher purchase occasions.

Imagine now to be an investor, would you prefer to have shares from Zara, given how fast they are, adaptive they are in the market, and effective they are in driving visits to the store, or would you prefer to have shares from H&M?
Both make money baseing on the marigin that they can get from both the core business and the core operations -> we can use the margin to develop for the profitability given the place in which we position our store. We can apply the same logic also talking about the invetories and the people which work in the store. Of course the integration of these elements gives us a gain of profitability (ROI, ROL).
Comparing the two results we can state that the two firms are almost align even though they present different business model.

NEIMAN MARCUS CASE

The case is set in 1998 when Neiman Marcus, which is based only on department stores, is trying to find some growth alternatives -> they want to switch from the department store to the specialty store.

1. **What is the Neiman Marcus difference?**

The "Neiman Marcus difference" is a **key competitive advantage** for the chain.

a. The **sales process**
   - The sales forces is **actively engaged in selling**
   - The sales forces **compensation** is **commision-based**
   - Sales associates have their **own book of clients**, and they are focused on serving them
     - There is often a **personal relationship** between the seller and the shopper
   - Business between seller and customer is often held over the **phone**
     - **Store traffic** may not be the key indicator of store performance and sales
   - **Optimum selling program**
     - Educational programs: Neiman Marcus Bestseller, Enanched Selling Techniques

b. The **focus**
   - Operation focused on serving **luxury customer**, especially the **frequent purchaser**
   - **150.000 InCircle customer** amount for **50%** of its business, spending about $6.000 each per year
   - The company maintain and grows the **loyalty** of those customer through frequent purchase programs, promotions, publications
   - They receive special points, attend special events, receive dedicated mail, have close relationships with the sales associates

c. The **merchandising**
   - Relationships with **established designers** > **merchandise leading designers**
   - Relationships with **emerging designers** > **edge image** in the fashion world
   - Relationships between **sales associate** and **customer** > **final sale**

d. Differences from **competitiors**
   - Nordstrom is know for its customer service, but it has a more moderately priced assortment of merchandising
   - Whit Saks does not have a clear positioning
   - Neiman Marcus offers more value than individual designers' boutique
     - Neiman Marcus has multiple designers, a deep selection (however not the entire line of a boutique store), and a liberal return policy

Is "The difference" a strength or a weaknesses?

Relative performance of Neiman Marcus

	Neiman Marcus	Saks	Nordstrom	Tiffany	Specialty store avg.
Sales/sq.ft	$407	$351	$384	$1.700 est.	$390
Inventory turns	3.34	3.13	4.26	1.56	5.1
EBIT %	8.4%	6.9%	7.0%	12.0%	11.8%

2. Are the Galleries of Neiman Marcus a good idea for Neiman Marcus?

The goals of the company

Neiman Marcus is facing saturation of its primary markets for its full line stores.
The company is searching for the opportunity that will create $150-200 million in annual incremental revenue and a 15% return on invested capital.
The product concept must be consistent with and built on the Neiman Marcus brand.
The concept must be aligned with the parent company Harcourt General, which maintains a shareholder value orientation and disciplined long-term approach to its business.

Concept assesment

Item	*Ref*	*Value*
Sales	Exh 5	$2,373 mn
Sales NM stores division	P6	77%
Sales NM stores division	P6	$1,827 mn
Stores num	P1, 6, 10	31
Sales per store		$58.942 mn
Sales of the three categories: 15.7%	Table B	$9.253 mn
Size of traditional stores	P1	135,000 sq.f.
Surface for the three categories: 11.7%	Table B	15,795 sq.f.
Surface available in the gallery format	P16	10,000 sq.f.
Ratio traditional/gallery format		63%

Item	*Value*
Projected sales in the gallery: 63% of 9.2 mn	$5.75 mn
Gross margin: 45%	$2.63 mn
Selling and admin: 23%	$1.37 mn
Rental and property taxes: $45-$75 ave $60 per sq.f.	$0.60 mn
Pretax profit	$0.66 mn
Capital cost per store (p.16): $5-$6 mn.	
Required return: 15%	
PBP: 10 years	
Target return: 0.15*$5,000,000	$0.75 mn

Qualitative assesment

Potential sites

a. Markets that **do not currently have a Neiman Marcus store**, do not have a Tiffany store, and have identified Neiman Marcus **charge customers**
   - In this markets the Galleries only face **local competition**, do **not cannibalize** full store sales, and there is a small but acknowledged **luxury customer base**
   - There is demand in these smaller centers for the **quality** and **assortment** of products that **Galleries** has to offer, considering the number of people in these markets already identified as Neiman Marcus customers
   - Cleveland, Seattle, Baltimore, Milwaukee, San Antonio
     - part of the top 25 cities in Exhibit 11 using every criteria

b. Smaller, secondary markets **may not secure the sales associates** necessary to build "The difference"
   - It would be difficult to get **existing sales associates** to leave their established clientele
   - Alternatively, **hiring sales staff** from locations in the smaller markets needs a major **re-education** in the Neiman Marcus way
   - It would require lot of time to develop **relationships** in the Galleries where the customers purchase luxury jewelry which requires **product knowledge** and in-depth **customer knowledge**

c. Markets that have a **core customer base** and very **high demographics**

- Jewelry account for **6%** of Neiman Marcus's sales, but come from only **3%** of the purchasing customer base
- While luxury customers may live in small markets, they prefer to purchase luxury goods **during trips to major sites** where there is a perception of better selection and value
- The **joint presence** of the Galleries and Tiffany would help establish the market for the luxury jewelry concept
    - New York, San Francisco, Los Angeles, Chicago

Other factors

- Potential **competitive marketplace** and **competitive response**
- Customer **purchasing behavior**
- Ability to bring **Galleries to scale**

3. **What other growth alternatives does Neiman Marcus have?**
    a. A **smaller scale** Neiman Marcus store
    b. A Neiman Marcus **bridal store**
    c. Combine the Galleries concept with an **ongoing series of special events** tied to **apparel**
    d. **No further** than its existing operation for a real growth engine

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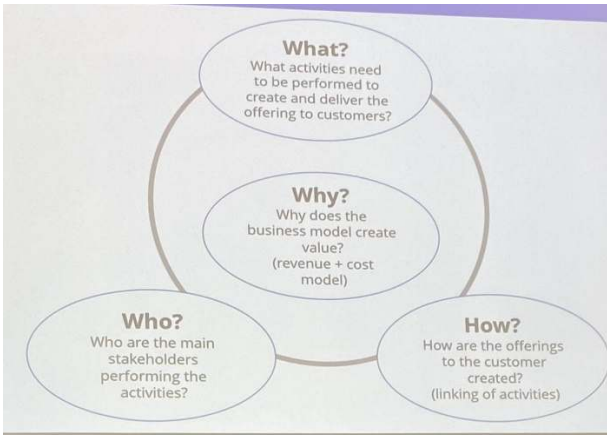
AMAZON CASE

1. **Describe Amazon.com as of the end of the case (spring 2017). What kind of company is it? What is its business model?**
    In considering **classic** business models, Amazon combines a **shopkeeper** model of having a **location** on its website where it sells products at retail that it purchases at wholesale prices, with **broker** and **subscription** models.
    - The **broker** aspect relates to Amazon opening its shop to third-party retailers for a fee
    - The **subscription** aspect related to Amazon offering Prime membership



WHO
The main stakeholders for Amazon are:
a. the **sellers** are interested in a larger market that is driven by more traffic to Amazon's website
b. the **customers** are interested in a combination of selection and low prices

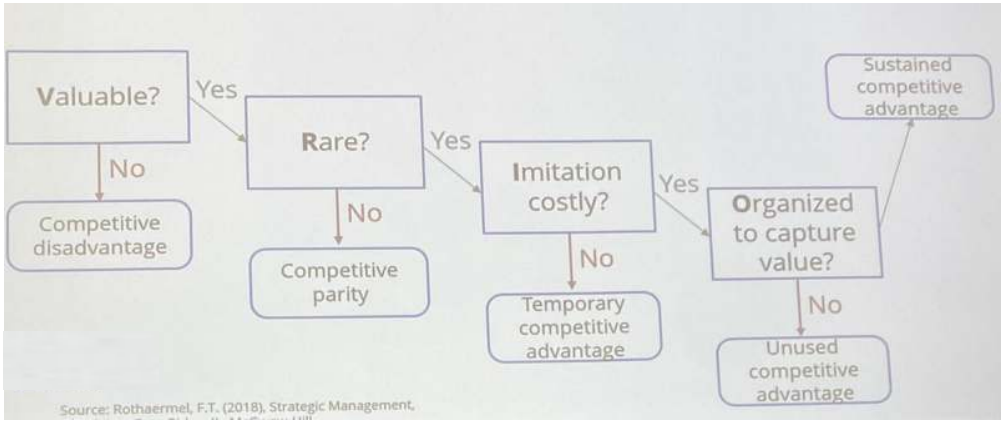
WHAT
Amazon's ability to lower prices by having a low-cost structure (website and warehouse without stores) that feed the customer experience and helps make it a preferred location for sellers.
Amazon is concerned about the customer experience and sends emails about the status of the orders and manages shipping to customers.

HOW
It relates to growth, or additional offerings that are provided to customers through new products and services.
Amazon Prime membership also has the twin advantages of smoothing Amazon's revenues and increasing customer switching costs.

WHY
Amazon enjoys growth or increasing revenues.
However, while it offers lower costs, it struggles to be profitable as Bezos' concept does not have profit coming out with continued growth driven by reinvesting revenues.

2. **How Amazon gain and sustain a competititve advantage?**

The VRIO framework



VALUABLE

Amazon's resources are valuable from the consumer's perspective.

- The **e-commerce** activities provide consumers with everything they could possibly want/need in a cost-effective and convenient manner.
- Consumers are willing to pay a **subscription fee** to access several advantages and features.
- **AWS** meets the cloud computing needs of individuals and businesses.

RARE

Amazon's resources are rare.

- The first company to make success out of e-commerce on scale.
- **Few companies** can operate and **offer value** to consumers the way that Amazon does. Amazon is among the biggest publishing houses, for example, because of the resources it has regarding publishing and selling books.
- Few companies can offer the could-computing service that **AWS** offers to consumers.

IMITATION COSTLY

- Amazon's resources are **not necessarily** costly to imitate, because of the rapid evolution of the technology.
- Despite the **AWS unit being the company's revenue star** among its business units overall, other companies can compete readily with Amazon (Microsoft's Azure, Google's Cloud, Verizon, Cisco, IBM, etc.)

EX: Alibaba can become a player that erodes Amazon's dominance in e-commerce.

EX: Amazon's ability to break into hardware space with the Kindle is indicative that Amazon too can gain the resources to compete for consumers with traditional market leaders like Apple.

ORGANIZED

The company is **organized to leverage** its resources toward competitive advantage considering its growth and ability:

- to **adapt** to the changing technology environment (see product and service innovation)
- to **identify opportunities** for strategically appropriate acquisitions (see tech bubble and financial crisis).

Overall:

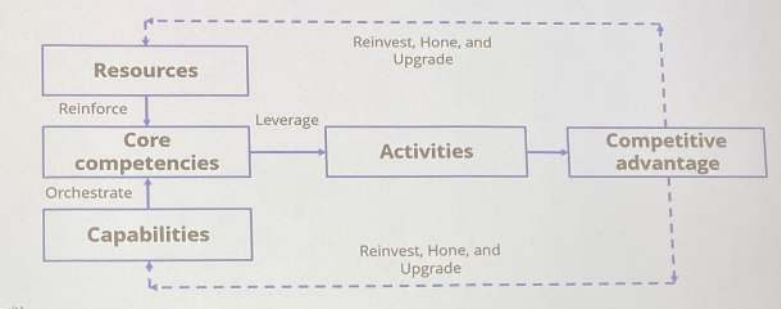
- Amazon has a **competitive advantage**, but it needs to **remain vigilant** to sustain any advantage.
- The trends indicate a move toward significant **industry convergence**, as Amazon, Google, Microsoft, Walmart and Alibaba compete directly in multiple product and service markets.
- As an example, Amazon released the Kindle Fire, entering the mobile device market once dominated by Apple. And now Amazon offers a full line of digital content (books, movies, videos) to compete with iTunes, while challenging Google in the development of web and cloud-based services.
    - (see also Google entering the mobile device market, Walmart focusing on e-commerce)

3. **What's Amazon's core competency?**

Amazon's core competency relates to managing the **customer experience** that is linked to its activities and performance, as well as continued investment in resources and capabilities.

- Amazon attracts customers with **lower prices** and a **wide selection of goods**, that are leveraged through multiple activities
  - collecting reviews, operating warehouse to ensure accurate orders, sending customers email on shipping status, data on customer purchases, etc.
- Amazon has **lower costs** by eliminating stores and operating only a website and warehouses. The lower cost attracts **more customers** and generates economies of scale. The more customers attract **more sellers**, generating economies of scope.

4. **How is Amazon using its core competency in its diversification efforts?**



The core competence-market matrix

Diversification efforts

New core competencies/existing markets

EX: following Apple's introduction of Siri, Amazon launched Echo

New core competencies/new market

EX: developed Amazon Prime Video and own content

Existing core competencies/new market

EX: AWS provides - 10% revenues, Amazon moving into shipping

Existing core competencies/existing market

EX: opening additional warehouses, selling Amazon branded products

5. **Is AWS related to Amazon's core business?**

YES

a. Amazon's customer experience and revenues depend on its website, making the services core to its operations.

b. AWS enables small retailers to access capabilities they could not afford, and it facilitates third party sales.

NO

a. Retailing is different from IT

b. The growth of AWS is likely restrained by its ties to Amazon (e.g., competitors are less likely to use AWS; Amazon is less likely to use services that it does not use itself)

Amazon revenues and profits, 2017 update

Amazon business segments revenues 2016

North America	$79.8 billion	58.7% of the total
International	$44.0 billion	32.3% of the total
AWS	**$12.2 billion**	**9.0% of the total**

$136.0 billion of total net sales in 2016

Amazon business segments operating profits 2016

North America	Operating income of $2.4 billion	Operating margin of 3.0%
International	Operating income of -$1.3 billion	Operating margin of -2.9%
AWS	**Operating income of $3.1 billion**	**Operating margin of 25.4%**

Amazon Product Groups Revenue 2016

Retail products	$91.4 billion	67.2% of the total
Retail third-party seller services	$23.0 billion	16.9% of the total
Retail subscription services	$6.4 billion	4.7% of the total
AWS	**$12.2 billion**	**9.0% of the total**
Other	$3.0 billion	2.2% of the total

$136.0 billion of total net sales in 2016

KEY CONCEPTS IN DISTRIBUTION CHANNELS

Retailing

Retailing = selling goods or services to the consumer (end-market customer) -> retailing is the ability to distibute at a detail level to the large public, which could be also a company or a corporation

We can differentiate retailers according to the service or goods:

a. Services/FMGCs (Fast-moving consumer goods)
b. CPGs (Consumer packaged goods)/Durable Goods

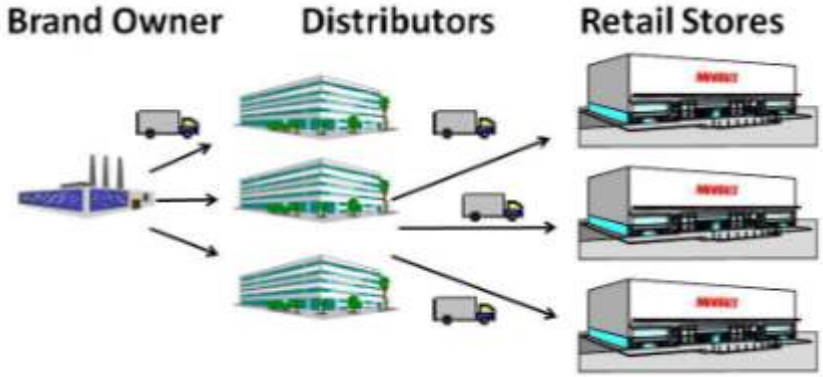
At the same time we can also differentiate the retailers based on the goods that they providet ot the market:

a. Specialty store
b. Cofee shop
c. Oil station

Finally we can differentiate retailers by checking the channel of distribution that they use.

Channels of distribution = chain of organizational actors and relationships through which the goods/services are delivered from producers to consumers.

Some players operate on multichannel or ominichannel other with just the e-commer or the physical store.



Touchpoints to sell merchandise to the final customers have boomed nowadays in retailing, along with e-commerce, and forced traditional players towards reconfiguration of their channels of distribution, and integration of multiple supply chains.

This is why we start talking about **cross-channel competition** is a key trait of contemporary channel marketing -> multichannel/omnichannel management based on coordination and integration is nowadays the challenge #1 for any channel marketing manager.

- The type of relationship that the company has with the customer is dependent on the type of channel that the company have, because they can manage the relationship differently -> if there is not the direct channel, then the relationship is maintained by the presence of an agent, meaning by this that the company has less control on how the customer behave and perceive the company.

Channel flows and actors

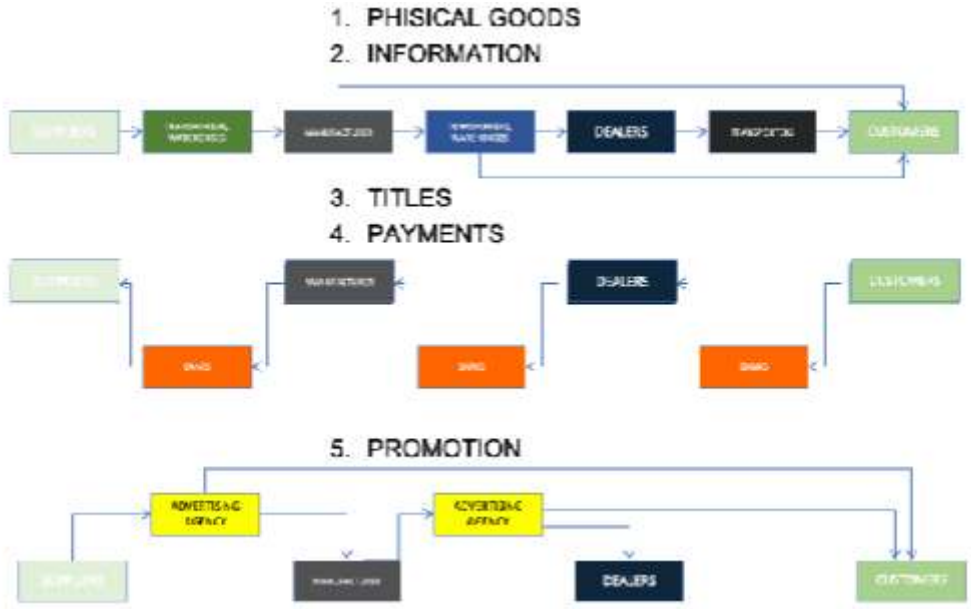
Channels are systems of actors and relationships that producers put in place to secure the availability of the merchandise where shoppers buy, the retail outlet(s). These systems act like tubes, and they are in charge of more than the mere physical delivery of the merchandise. They allow for managing multiple flows to be conveyed to the final consumers.

Distribution channel

There are five types of flow in a marketing channel

1. **Physical goods** -> this flow is related to the active movements of product through the distribution channels. Usually, it's started from the manufacturer, and through intermediaries could arrive to the final customer.
2. **Titles/property rights**
3. **Payments** -> the movement of financial resources from the customer to the retailer, from the retailer to the wholesaler, and finnaly, from the wholesaler to the producer.
4. **Information** -> it involves the exchange of data and information between the members of the channel
5. **Promotion** -> the promotion flow is related to the communication and promotion that happens through the channel, and it can be related to the advertising, the store promotion, the digital marketing campaign, and this can help stimulate the sales.

There are several types of actors in a marketing channel; not all of them manage all flows. Moreover these flow are not in general monodirectional but there is bidirectional chenge of information.

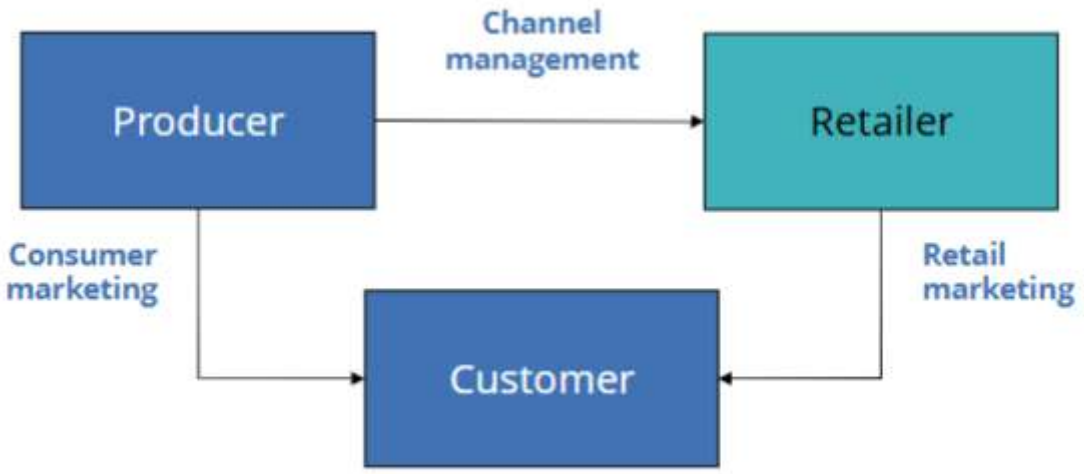


Actors in the channel distribution

The most important actors/members/types are:

- **Producers** - the actor that manufactures the goods/services
- **Wholesalers** – a merchant intermediary who resells to retailers or other merchants, in large quantities, normally not dealing with consumers
- **Jobbers** – a specific type of wholesaler, acting on a small scale and selling only to retailers or institutions
- **Retailers** - merchant intermediaries who sell directly to the large public, with one or more outlet types
- **Agent** – an intermediary acting upon mandate for a principal, to facilitate deals and exchanges. They do not take title to goods, but rather put other actors in contact, and are compensated via a commission given by the principal.

The distribution system



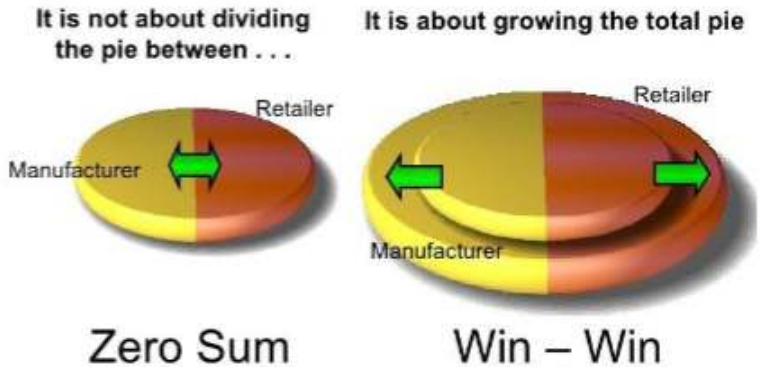
The unit of analysis in distribution channels is not the single firm, but the system of firms that perform the distribution function/the value delivery process.

Think as a system, not as a company -> we have to consider the broader network of relationships of actors that facilitate the movement thìowards the distribution channel.

1. **Marketing channel**: emphasis on the transactions, power, and social exchange relationship between members of a channel, and the practices to manage transactions, power, and relationships
2. **Supply chain**: emphasis on the coordination and integration of operations (logistics, procurement, sales) of the members of a channel

The retailer play a role in deciding the display and also how the product will be seen by the customer.
EX: Danone partners with Carrefour when moving from plain milk to snack yogurt -> the partnership between Carrefour and Danone is not only about how the product is placed in the display of the shelf but it's also about Carrefour giving access to Danone to new customers that are interested in this product that previously was not part of the assortment.

⇨ Two goals in a distribution system: **pie sharing** and **pie enhancing**



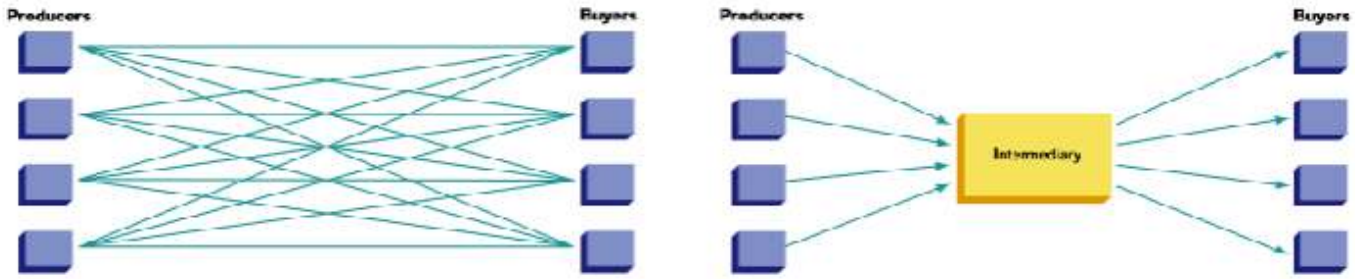
CHANNEL FUNCTIONS AND CHANNEL PROCESSES

A Functional Theory of Marketing

Channel marketing concerns with one of the four marketing mix tools (P=Place). They include specific functions that the marketing organization performs to implement the marketing strategy/marketing plan, concerning the delivery of products and services to the final customer.

The core function of a channel

The core function of a channel is to increase the efficiency of the distribution, by reducing the number of contacts, negotiations and transactions that buyers and manufacturers need to perform to deliver goods and services to the final user.



The eight channel functions

1. **Distribution**: Transporting and storing of goods (e.g., physically moving products from manufacturer to store)
2. **Contact**: Finding of and communicating with potential buyers (e.g., setting up stores in high-street locations)
   EX: Online portal and Real estate agency
3. **Promotion**: Developing and distributing information about an offer (e.g., sending weekly leaflets highlighting special offers)
   EX: In-store promotion and Online banners
4. **Matching**: Fitting the offer to the buyer's needs (e.g., selling a single can of Coke instead of a whole pallet)
   EX: Apparel adaptation in fashion stores or from pallets in the warehouse to mono-dose yogurt packages on displays
5. **Negotiation**: Reaching an agreement on price and other terms & conditions
6. **Financing**: Acquiring and using funds to cover costs of channel work (e.g., offering buy-now-pay-later deals)
   EX: Retailers lending to consumers and Retailer-sponsored credit cards
7. **Risk taking**: Assuming the risks of carrying out the channel work (e.g., paying the supplier before goods are sold to end-consumers)
   EX: Ice-creams, Newspaper return policies, Online shopping refund policies and Money withhold practices
8. **Information**: Providing information about market actors and trends (e.g., providing market share data based on checkout information)
   EX: Online platforms and Loyalty cards

Channel processes: the Process Theory of Marketing

Marketing is a process, i.e., an organized sequence of interlinked activities, which begin with the analysis of the value function of a customer, and develops through the creation of a value proposition, its communication to the targeted segment of customers, and the implementation of the activities needed to deliver value in the customers' hands.
Channels of distribution are the set of organizational and inter-organizational arrangements that enable the sub-process of value delivery.

The four value-delivery dimensions

1. **Time value: when**
   Channels make the product available when customers need it (e.g., newspapers)

EX: temporary shop when it rains

2. **Place value: where**
   Channels make the product available where customers need it (e.g., convenience stores)
   EX: la labelle assiette
3. **Ownership value: available at**
   Channels give access to the products for the occasion of usage or store it for future value (e.g., umbrella)
   EX: Amazon warehouse or fresh fish market
4. **Tailoring value: for you**
   Channels pack, tailor and refine products to adapt them to customer needs (e.g., clothes)
   EX: tailor made garments

CHANNEL GOODS AND SERVICE

Channel goods

We can a simple distiction among:

a. **Necessity goods**: these goods have a negative correlation with income and there are usually buy in high-volume, low-marginality channels, with price promotion
b. **Normal goods**: these goods have a positive correlation with income, and they are caracterized by the capillarity of distribution
c. **Luxury goods**: these goods have a positive correlation with price, and they are usually sold in exclusive channels with added-value services.

A second distinction can be between:

1. **Experience goods**: consultative selling, direct channel
2. **Search goods**: limited service, indirect channel

Channel services

Retailers' services

Acceptance of credit cards	Free shipping
Alterations of merchandise	Gift wrapping and notes
Assembly of merchandise	Layaway plans
ATM terminals	Online chat
Blogs	Online customization
Bridal registry	Online inventory search
Check cashing	Parking
Child-care facilities	Personal assistance in selecting merchandise
Coat checks	Personal shoppers
Credit	Repair services
Customer reviews	Restrooms
Deep selection	Return privileges
Delivery to home or work	Shipping to store or home address
Demonstrations of merchandise	Shopping carts
Display of merchandise	Signage to locate and identify merchandise
Dressing rooms	Special orders
Extended store hours	Valet parking
Easy returns to bricks-and-mortar location or online	Warranties
Facilities for shoppers with special needs	

Wholesales' services

To manufacturers	To retailers
— Facilitate large scale production	— Supply goods by different manufacturers
— Reduce the burden of storage	— Reduce the burden of storage
— Provides useful market information	— Provides useful market information
— Protects from risks	— Protects from risks
— Provides financial assistance	— Provides financial assistance
— Facilitates continuity in production	
— Facilitate large scale in production	

CHANNEL STRATEGY

So far we have discussed about what channels of distribution are, what are the main aspects of distribution channels, what are the main functions of distribution channels, to perform a particular execution of the marketing strategy.
Then we discussed together about how a key actor in the distribution channel can develop a good market strategy and can manage for the execution of that strategy.
The discussionstrated with the retailer, which sell products or services to the large public.
N.B. the retailer sells to the laarge public, not the final consumers, because the retailer can serve both B2C and B2B market.
The retailer buys the products that it serves from a wholesaler, that are jobbers when there are a lot wholesalers at a local level; there can also be regional and even national wholesalers. Of course at he strating point of the distribution system there is always the manufacturer.

Manufacturer => national wholesalers => regional wholesalers => Wholesaler (if they are many they are called local jobbers) => Retailer => large public of buyers, both b2c and b2b

- Retailer strategy
- Retailer marketing management inseirlo fatto bene da ipad

Today we are going to take the prospective of the manufacturer withiin distribution channel startegy.
In our perspective we are manufacturer of mass market products and we have already defined the execution of our own marketing strategy based on segmentation, targeting and positioning, now we have to decide how to go to the market.

What is the core fuction of a distribution channel?
From a functional perspective, the channel performs a core function with the aim to increase the efficiency of the distribution system as a whole, which is made of 8 subfuctions, by reducing the number of contects and negotiations that we have with the other actors.
From a process perspective, the channel is there to deliver a good or a service to the final consumer, or more generally, to deliver a value -> we have a value proposition and we want to transfer this value proposition in the hands of our customers. To do thata there are four dimensions that we can use:

1. Time: when our customers need to go to the retailer to buy a product/service
2. Place: where our customers purchase the product/service
3. Ownership: it is related to the property rights that we trasfer to the customer in exchange of their money -> when we select our channel members, we want to select those channel members, which are the best in managing property rights; on the other hand buyers want the flexibility to decide when these rights have to be transferred
4. Tailoring: adaptation of the operator to the needs of the customer

Channel function -> 1. increase the efficiency of the distribution system as a whole (8 subfuctions)

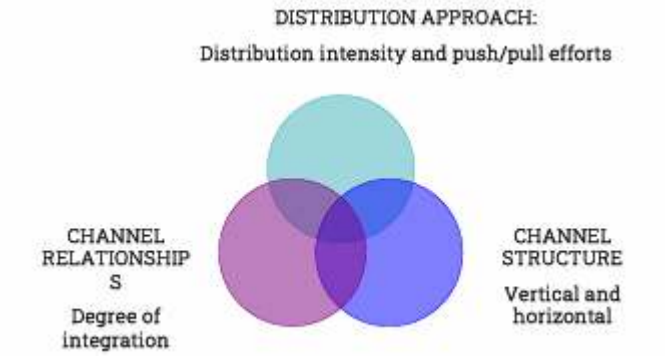
Channel Marketing
Channel process -> 2. value delivery – time

- Place
- Ownership -> property right and transfer the products
- Tailoring inserirlo fatto ben da ipad

While doing this discussion the main assumption that we have to keep in mind that the manufacturer has some bargaining power according to the type of retailer we want to contract with.
Nowaday the evolution of the distribution system is going to a direction in which independent store are progressively replaced by larger chains -> **EX**: Walmart turnover is almost equal to half of american population
In many sector, retailers have evolved by growing in scale, till the point that in many product category they are that large that is very difficult for corporations to avoid passing that channel -> so we were used to design channels top-down, but nowadays, because of the evolution of the retail sector, more and more channels are designed through bottom up mechanisms.

KEY STRATEGIC QUESTIONS

Framework



1. Distibution level of intensity and push/pull effort -> how many point of sales sould we have?
2. Channel structure -> how long sould the channel be?
3. Channel relations -> degree of integration

DISTRIBUTION APPROACH: INTENSITY

Intensive distribution: all the points of sale that ask for the project can get it, without any discrimenation.
The main purpose is maximizing on salas valumers.
The products that usually require it are the mass market goods.
Some possible downsides of this approach are:

- Financial Risk

Channel Marketing

- Control over the marketing mix execution

uber of point of sales in a given target geographical area
Low level of involvement and low differentiation so you need to be everywhere or you lose power

Exclusive: one channel
High involvement and high differentiation - > the idea is that if you are really involved into something you are disposed to drive 150km to purchase what you want

In between there are selective

Intensive distribution
All the points of sale that ask for the product can get it, without any discrimination.
Main purpose: maximizing on sales volume
Products usually requiring it: mass market goods
Possible downsides: financial risk, control over the market mix execution

Selective distribution
Distibution channels are carefully selected
Main purpose: getting better cooperation with the trade and controlling the brand image
Products usually requiring it: durable goods
Possibles downsides: sales volumes, return on advertising efforts
Leverage the merchandise

Exclusive distribution
Distribution channels are proprietary or under tight coordination
Main purpose: maximum control on brand images

Distibution approach: push/pull decisions
Never a black and white decision -> max emphasis
Retailers need your brand in order to be competitive

1. Push goes with selctive/exclusive -> I'm investing in shop activities and I help them (Zara, vertical integration, short channel, strong empahisis push and low on pull + training the employee)
2. Pull goes with intensive -> if I use pull is because I need the brand to leverage

Pull: the business strengthens its own image
Push: the business creates the conditions to make sales people "pushing" the product, through good product placement in the shop and personal advice
Appropriate incentives are needed especially for retailers
Products usually requiring it: high quality/high price products
Push startegy is usually implemented together with a selective distribution

Channel design framework
How long I want the channel to be and how large I want it in term of retilers types and formats
B2c case -> slides
Direct or indirect channels
Direct: no resellers in between the manufacturer and the shopper -> no intermediareis, no property rights transactions
Indirect: when you have resellers in between the manufacturer and the shoppers -> 80% are b2b and not b2c because not in direct contac with the shopper
Short: 1 actor in between the manufactorer and the shopper

Channel Marketing
Long: we have more than one reseller between the manufacturer and the shopper
The longer the channel the lower capex the lower the control
The shorter the channel the higher capex the higher the level of control

Horizontal dimension
The type of intermediaries used to reach the target -> hyper/supermarket – e-commerce and so on
The particular type of intermediates to be used at the various level of the channel must be defined based on four different variables

Channel relationships
Degree of integration
MoB -> Make or Buy
Luxoctica cost of good sold: 15€
Contribution margin: 185
Reselling price: 200€
Contribution margin: 100€
Street price: 300€
Inserire slides
Size in the zara sttore takes more time than the competitors
The more you invest the more control you have

Null: classic market contracting (arm's length)
Intermediate: quasi-vertical integration (relational governance)
Max: proprietary vertical integration

Inserisci slides -> structured contracts
Zara is the only company full integrated both downstream and upstream

Manufacturer -> wholesalers -> retailers -> buyer (large public that could be either b2b or b2c)
The number of actor in the channel depends on the length of the channel

Horizontal type of decision -> how many format

Thrid type of decision -> the integration of the channel

After the structural decision we have to manage the process to deliver of product/service in the market, and the interaction that we have with the actors of the channels

I can heve different channel structure from different shop format
Seemless customer experience -> frictionless
All these are process type decisions

CHANNEL MANAGEMENT
Imagine a channel short and indirect : the success of the manufacturer is determined by: pi= Q(retail price-cost of good sold-marketing sold(advertising))

Win-looose game

piR= Q(street price- reseller price)

The setting: channel relationship dimensions

		Process	
		COMPETITION	**COOPERATION**
Content	**ECONOMIC**	*1* *Economic Competition: Market Power and Price*	*2* *Economic Collaboration: Game theory & Pay-off*
	SOCIAL	*3* *Social Competition: Power and Conflict*	*4* *Social Collaboration: Social Capital and Trust*

Core competece of the retailer: procurement (bargaing power of procurement is really relevant) -> buy the rigth thing at the rigth time
Price orientation: Market imperfection that reducing the ability of the retailer at the lower possible price

Michael porter story -> relative size, availability of altervatinves -> who of the two (manufacturer and retailers) have the most advantage -> these two dimension explain the vertical relationship.

Long term perspective -> Second step: get into the movie -> not short term trasactions, they are part of a series of interaction over the long run between the actor of the channel -> they are long run relationships, we need to manage relationships with those partener to integrate reactions of my counter part in my decisions.
Increase market to increase awareness -> massive advertising but I want to preserve profitability => increase prices -> the reaction of esselunga was to advertise the customer about the fact that barilla was no mre on the self for the increase in prices -> after a while barilla decided to turn back to the previous prices

Sociology: social interaction -> beyond the negotiation of the terms of the exchange

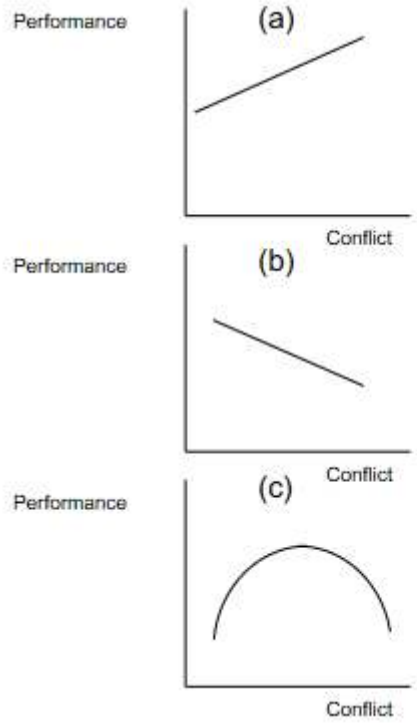
2 dimensions:

1. Competitive dimension: antagonist we our channel memebers, win-loose interaction, max value capture -> how we manage power (ability to influence/enforce -> enforcement power; reward power; identification power) and develop conflict (attitudinal and behavioral contrast due to divergence of objectives)
2. Cooperative dimension: trust (it is linked the a belife) and commintment (speecific cost in a relationship, it is a sunk cost) -> imperfect contract are the rule of the game

Key variabkes in channel management

a. Power
b. Conflict
c. Commitment
d. Trust -> competence, integrity, benevolence (I show that between my value capturing ability and I don't extract as much as I can, but we leave something for the counter part) -> built after repeated purchases

Channel Marketing
Conflict and performance

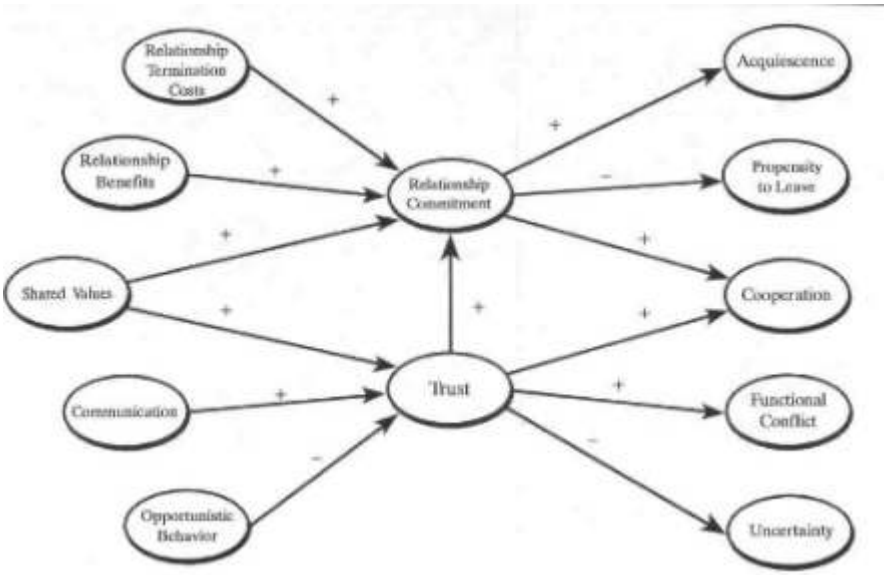


Different representations of the relationship between conflict & perfomance

→ functional conflict or not

Acting in the interest of continuing the relationships, but retailers do not wanth this kind of relationship

Commitment – Trust theory



MULTICHANNEL MANAGEMENT

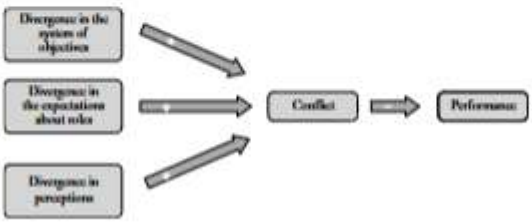
Multichannel Strategies

Variety of outlets	Scarce	High
High	MULTI-OUTLET • Cosmetic industry: short channel with pharmacies, perfumeries and supermarkets	MULTI-OUTLET AND MULTI-CHANNEL • Office equipments: direct selling, by catalogue, short channel with large specialized surfaces, wholesalers
Scarce	MONO-OUTLET AND MONO-CHANNEL • Grocery: supermarket only	MULTI-CHANNEL • Clothing: boutique outlet reached through a direct, short and long channel

Variety of channels

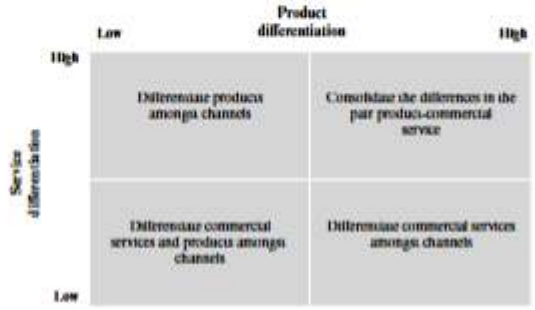
GUARDA foglio
Check where we are -> multioutlet if hs includes more than one format, multichannel if we have multiple vs -> not monolitic, no homogeneity -> the complexity that we manage here depends on the kind of product

Multichannel Conflict Drivers



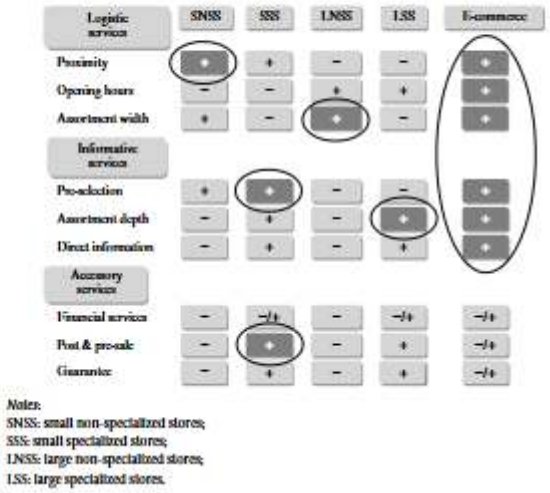
Increase the level of coherence

Differentiation Tactics



Different tactics for different situations
Same product -> different packaging if you go to the boutique
Product and service differentiation

Service Differentiation



OMNICHANNEL MANAGEMENT

Omnichannel Management

The emphasis moves from opening multiple channels into
coordinating and integrating multiple channels
around the shopping journey so to maximize the shopping experience

Whever I strated I want to have the maximum consistency.
Coordination and integration

Channel management: trade marketing

- Trade as an active subject
- Trade as a customer
- Need to attract, satisfy, retain, the intermediate customer

The trade marketing concept
Trade marketing= Managerial approach/efforts (plans and actions) aimed at gaining a sustainable competitive advantage in one or more segments of intermediate customers, by satisfying their specific needs

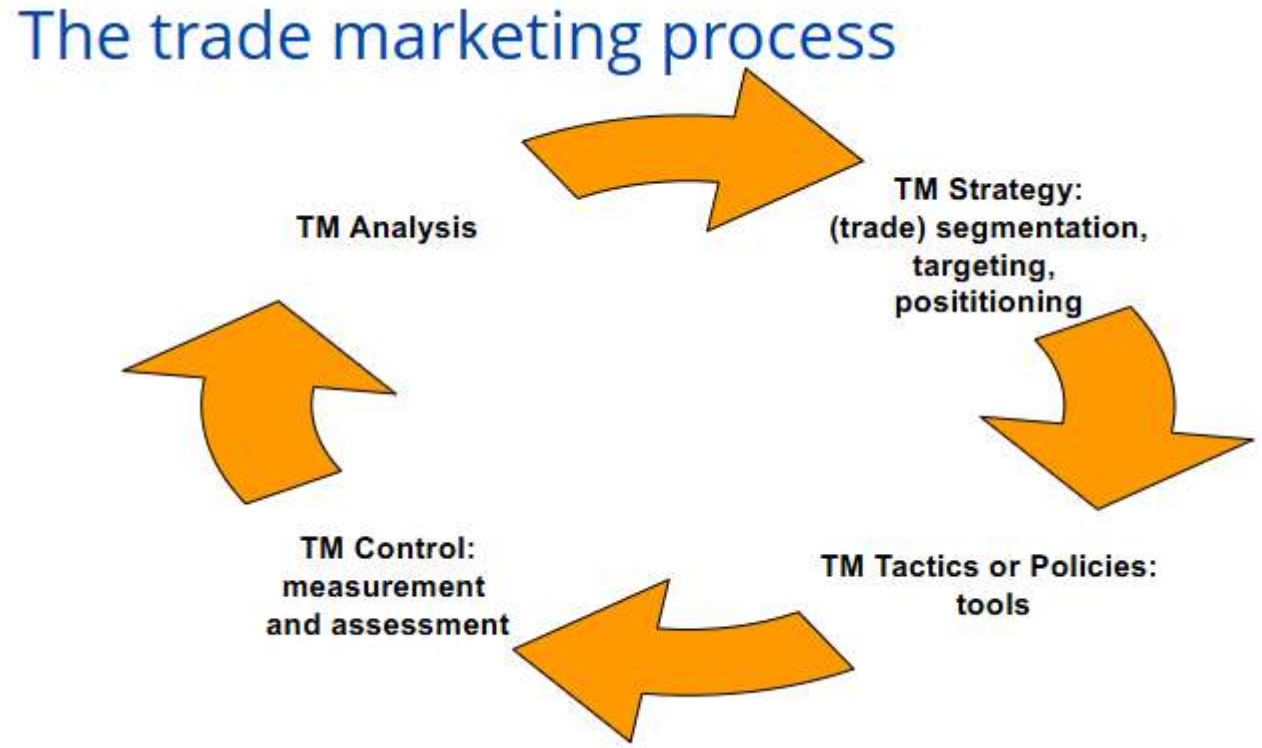
Motivating channel members to cooperate in achieving supplier's distribution objectives

Channel management: trade marketing
Trade as an ACTIVE suject
Trade as a CUSTOMER (intermediate)
Nedd to attract, satisfy, retain, the intermediate customer

1. Define the channel structure -> what is pull/push distribution

Integrare foglio
And then we strat to segment the market, adopt policies according to the different need of our b2b customer -> size, format. We treat our channel members as customers
Organizational member that collaborate with us to create value

Department dedicated to different reseller -> move to the cooperative shifting to the social dimension



Channel are like tubes that connect shopper with buyers.
Manufacturer produce in large quantity with limited variety, while in small quantity with large variety.
First tactic: SELL-IN -> we want to fill in the assorment of the resellers
Economic objective; the objective of the retailer is exactly the opposite because they want to minimize the stock -> conflict that can be solved with social interaction to find a power source, since the retailer is an arm to reach our objetive
-> economic terms: incentives to increase volumes and eventually shelf allocation
-> trade promotions
We power more water into the tube, more merchandise into the channel

There is also another way to go

Trade marketing tactics

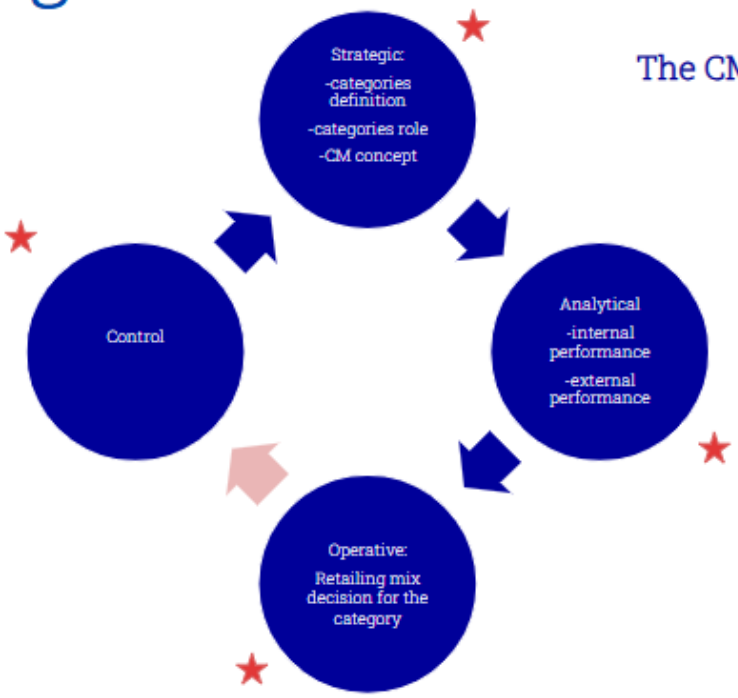
Sell-out

- merchandising support
- category management
- in-store promotions/communication/events
- logistical support
- other support (eg. training and assistance, market research, etc.)

Tactics that help the manufacturer not to procuring, but supporting the reseller in selling.
It works very well in the cooperative dimension
-> Merchandising support

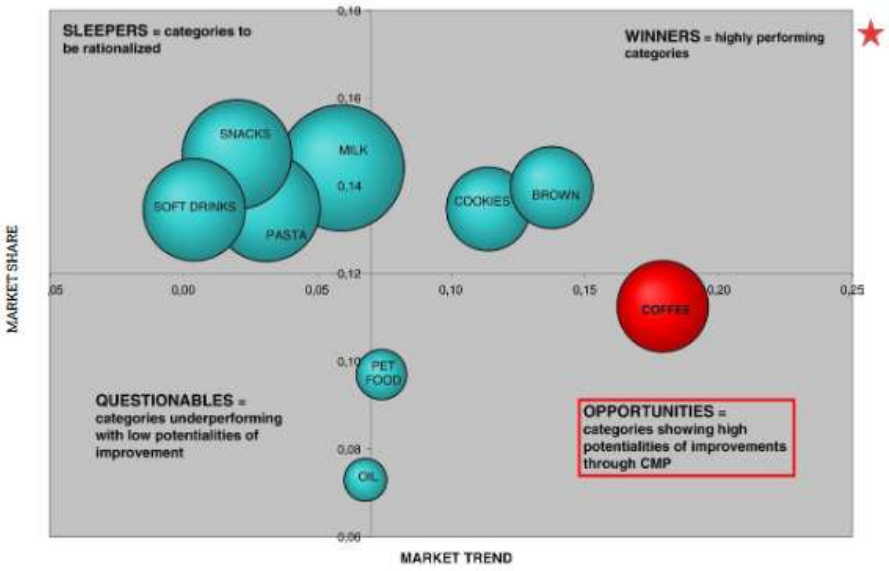
Category Management

The CM Process



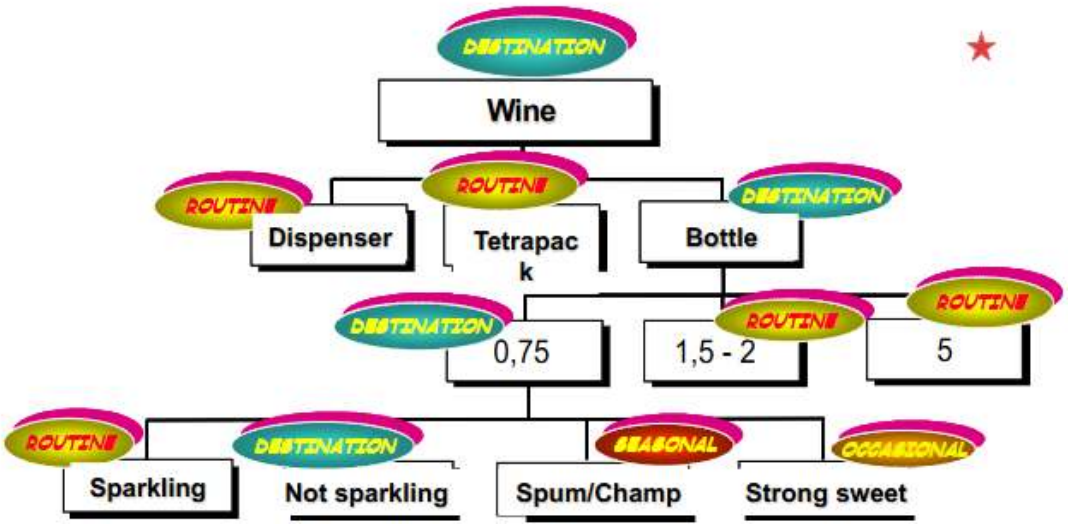
Retailers organize their assorment not only buy products line, but also categories
Scientifc process part of the trade marketing that m develop in conjuntion with the r in order to the effectivenss of the retail to improve
Specific investment, sunk cost by lavazza into the chain and the task objective is to tell esselunga the products that they can sell, when put product to promotion and so on -> the retailer put people and information to the process to define the strategic role of the product in the category

Category Management: Opportunity Gap

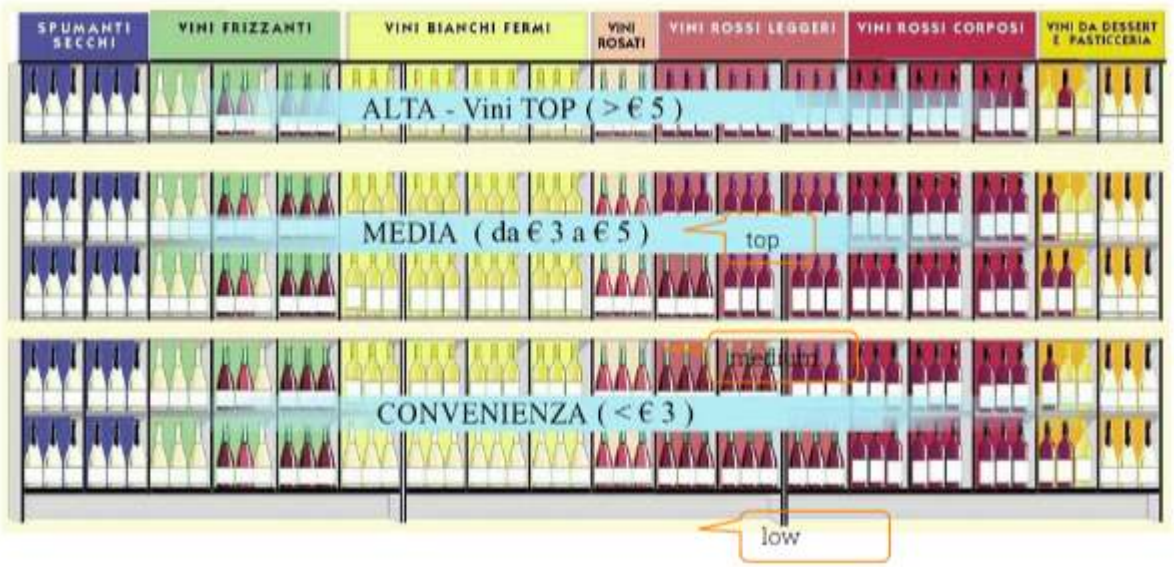


The market share we have in the territory is lower for the chain than for other categories

Category Management: Category Tree



Trust brokers -> actors that serve but actors so they are trusted consultant and they can bridge the data, the opportunity gap analysis was done by the brokers



Specific investment in order to understand how to put the products on the shelves

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TEACHING DIVISION

OUR PARTNERS

700+ CLUB

ETHAN SUSTAINABILITY

DELIVERY VALLEY
NO GENDER KITCHEN

LA PIADINERIA