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Retail Marketing

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First Edition

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Preface

This first English edition of *Retail Marketing* once again demonstrates how rapidly things evolve in our field. Within the last months the landscape changed heavily. We are in the midst of the second big shift in retail. After the introduction of self service some 50 years ago, today the digital physical mash-up is taking place.
We spent a great deal of attention on determining retail trends towards the year 2020. Our thanks in this regard goes mainly to the HBD and Inretail, who gave us permission to use a modified version of the Re'structure Retail 2020 vision report as our new chapter 4.
Nowadays it is impossible to disassociate the internet from everything that consumers do. It has become a part of our lives, which is why we have decided this time to give internet a more prominent position in the book. We were fortunate enough to use a study by ABN AMRO and Inretail in the cross channel retail field, for which we are very grateful. We updated the lost sales area. We would like to thank student-assistant Aron Lewis for this. We opted for new graphic material. Here, in particular, our thanks to the companies of the Foundation Anton Dreesmann Leerstoel for their assistance. We would also like to thank all the members of this foundation for their support from the Leerstoel in Amsterdam and Groningen.
Our special thanks go out to several people for their contribution in various subjects: Wouter Haasloop Werner, John Terra as co-author of chapter 4 and the Cross Channel Report and Chantal Riedeman as co-author of chapter 22. The data have been updated and we have added research data to the book. We also applied some extra focus points in the area of market research. The book is therefore topical, which is very important in a field as turbulent as retail.

Retail Marketing is first of all intended for students at universities and higher economic schools, preparing for a career in retail. To them this is an opportunity to not only gain factual knowledge on retail, but to also understand the industry in which they will be working. In addition, the book is intended for managers in retail. Although in principal these people no longer need to be taught how to do retail and why they develop certain activities, the content might help them to develop a better view of the overall picture.

Drs. F.W.J. Quix
Prof. Drs. R.P. van der Kind
Amersfoort, June 2014

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Introduction

Most textbooks treat the retail sector based on the question: what is retailing? Although this question is certainly also discussed in this book, the focus lies on answering the question: how do I do retailing? After all, entrants to the industry will only rarely find themselves in a situation where they are directly involved in the creation of entirely new retail formulas. They are more likely to work in existing companies, where the formulation of the problem is focused more on improvement and optimisation of the existing operations, both in terms of the market approach and in terms of internal procedure. This is why this book pays much more attention to operational applications of the theory.

In this book the retail concept implies ‘the sale of goods to consumers, whether or not through stores’. In general, the retail concept has a much wider application: it may include the sale of services to consumers.
For example, the office network of a bank (strongly focussed on the marketing of financial services to individuals) may be included in retail. The term ‘retail banking’ speaks for itself. The same applies for travel agencies and independent insurance agents. The term retail therefore includes ‘all purchases of goods and services by the consumer from his (free) disposable income’, we shall, however, limit ourselves in this book to physical goods.

Experience shows that the techniques that were initially developed for applications in goods retail, can also be applied successfully in other branches of retail. We can even say that goods retail has lead the way, from which ‘other’ retail can learn much.

PART 1

Description of the industry

In part 1 we discuss the structure (and specifically the development of this structure) of the retail sector. In chapter 1 we discuss what exactly is to be understood under retail and which changes have occurred through the course of time in the interpretation of the concept of retail.
Chapter 2 discusses some frequently used classification criteria of retail. In chapter 3 we discuss the significance of retail for the European economy, in particular retail. The chapter is supplemented by a comparative analysis of retail in different countries. We also look at the differences between retail marketing and industrial marketing.
In chapter 4 we discuss the retail trends towards 2020. Here we use a method to determine the potency of trend bundles.


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1 Retail marketing

The positioning of retail marketing is the central topic of this chapter. Before discussing the concepts of marketing and retail marketing, the definition of retail will be explained in detail. By defining retail, it is important to reflect on the changing function of retail over time. Furthermore, it is important to determine the position retail occupies in the economic theory.

1.1 The concept of retailing

Retailing

With *retailing* we mean 'all business management activities that focus on direct sales of goods and services to consumers, provided that the goods and services are paid out of the net income of the consumers'.

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Direct marketing

With *direct marketing* we imply the direct deliveries to the consumer. Companies that make use of brokering in order to deliver products to the consumer do not participate in retail marketing, but in trade marketing. Unilever does not deliver directly to the consumers and therefore participates in trade marketing. The Body Shop, which does deliver its products directly to the consumer, does retail marketing.
The expenditures should come from the net income, in other words: from the gross income following deductions of social security contributions and (income) tax. Compulsory pension insurance is not included in the retail expenditures. A private investment account, intended for a rainy day, is however included in the retail expenditures. The cost of a business trip (tax deductible) does not apply as retail expenditures, but the cost of a leisure trip does.

Retail expenditures

Retail expenditures can roughly be divided into:
- expenditure on services by consumers, such as banking services, insurance, medical services and leisure trips;
- expenditure on goods by consumers.

Since the sale of consumer goods to consumers takes place primarily through retail, the totality of that expenditure is also called *retail expenditure*.

Retail expenditures

The goods sector is contained within the retail sector, and thus the retail, the clearest in terms of structure. The reason is that retail businesses often only sell to individuals, while suppliers in the services sector – in addition to selling to individuals – are almost always selling to businesses as well. The distinction between private and business is not always used clearly. Selling to the so-called business sector is always much more important to banking companies and insurance companies than selling to individuals. Add to this that production and retailing often take place in the service environment within the same organisation (where the retail function is considered secondary to the production function), it becomes clear why service retail is a much less clearly demarcated area than the products sector.

Retailing

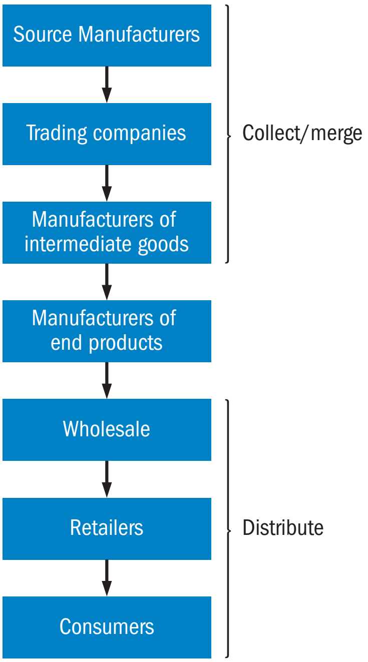
Although the concept of *retailing* implies much more than just goods retailing, the two concepts are often used interchangeably in practice. This is understandable due to the indistinctness described above. In this book, the retail sector of the Dutch economy will largely be explained from the merchandise sector, thus predominantly from goods retail. However, examples from the services sector will be used regularly. Not in the least because of the emergence of mixed forms. Goods retailers are more and more often including service packages in their product ranges, such as insurance, the possibility to draw money and to purchase mobile telephony and internet subscriptions. In late 2013, HEMA announced that it would be teaming up with health care insurer Menzis. The purpose of the cooperation was to create an affordable insurance in combination with 10% discount on all purchases at HEMA. Also other services were added by HEMA such as notary services and training and educational programs.

1.2 Retail

Retail

Defined in the simplest of terms, *retail* is 'that part of the total economic activity that deals with the sale of goods directly to consumers'.
Economic textbooks usually classify the activity using the business chain. Retail will always be located at the bottom of the business chain and is therefore the final link in the process of supplying goods to the consumers (figure 1.1).

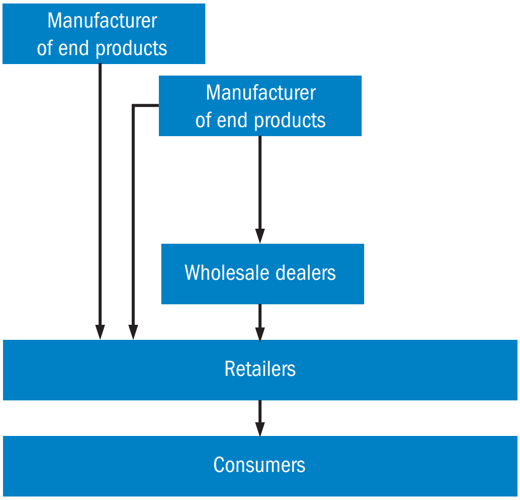
FIGURE 1.1 The business chain in general



Customers
Suppliers

The immediate environment of retail within the business chain is formed by both the *customers* (the consumers) and the suppliers. The *suppliers* may be manufacturers of end products that supply directly to the retail. As the concentration and the size of the retailers increase, this will occur more and more often (figure 1.2). This may also be wholesale dealers, as was predominantly the case in the past: peddlers that tried to bridge the imbalances that originated between the large manufacturers and the small storekeepers.

FIGURE 1.2 The immediate retail environment



The problem with using the business chain – in order to explain the function of the retail – is that the supply process is generally very much product determined. You can draw up a business chain for the product 'CD's', or for the product 'books'. At the bottom of this business chain you will always find one or more forms of retail that have or will include the specific product in the product range. But does the description of retail as the final link in the production process also imply that retail has been described in all its complexity?
If that were true, the retail form 'department stores', which has both books and CD's in the product range, would be quite comparable with the retail form 'record shop' or 'bookstore' from its position in the market. As we all know, this does not really correspond with reality.

The description of retail as the final link in a production process that propels the goods from the manufacturer to the consumer is therefore incomplete. The conceptual understanding of retail as part of a single product oriented business chain dates from the time that retail was compared to 'the art of distribution'. The old function of retail was 'redistributing the flow of goods from the manufacturer to the consumer by time, by location and by quantity'. This redistribution was necessary since the industrial revolution caused the rise of mass production. Therefore production and consumption no longer coincided, in contrast to the previous period.

Redistribution in time

The *redistribution in time* involves the stock function of retail: bridging the period between completion of the production by the manufacturer and the date of purchase by the consumer, often caused by the occurrence of irregularities between demand and production (for example due to seasonal fluctuations).

The *redistribution to location* involves the geographic distribution function: the place of production is rarely the same as the place of consumption. The goods must therefore be delivered to the final place of 'demand'.

Redistribution to location

The *redistribution in quantity* involves solving the differences between the 'output quantities' with the manufacturer and the 'input quantities' with the consumer. From a cost perspective, the manufacturer creates large quantities at the same time, while consumer demands only relate to one or a few products. The output quantity of the manufacturer should therefore be divided into a number of smaller quantities.

Redistribution in quantity

1.3 Changing function of retail

The old distribution concept dates back to the period when the power in the business chain was still found with the manufacturers. In this concept, retail was considered to be part of a *goods producing process*. In fact, we are therefore dealing with an industrial approach to distribution. At the time, retail consisted primarily of product specialty stores: relatively small stores that specialise in a relatively small product range, with strong similarities in terms of product characteristics, like the hardware specialists, the timber trade, the grocer, the milk man, the greengrocer and the pharmacist.

Goods producing process

The change of function that has occurred over the last few decades, is due to the fact that the power has gradually shifted from the retail suppliers (the manufacturers of consumer products) to retail customers (the consumers). With the transition from a *seller's market* to a *buyer's market* an oversupply is created which is offered to increasingly more discerning consumers using a variety of outlet channels. In such a situation it is no longer the manufacturer that determines what is offered when and through which channels, it is the consumer who determines what, when and through which stores he wants to buy. It is the wishes of the consumer and how the retailer responds to these wishes that currently determine the success of retail businesses, and no longer the degree of efficiency in the distribution of products and/or services. In fact, this change in function corresponds with the general shift from an industrial economy to a service economy: retail is no longer a box mover for the industry, but a service provider for the consumer.

Seller's market
Buyer's market

The essence of the change is that the function no longer primarily consists of the redistribution of a production flow from current sections of the business chain, but much more from meeting the demand of the underlying sections of the business chain: the consumers. Distribution aspects should indeed be implemented in this new function of retail (*supply on demand*), but they are no longer the only aspect of the business operations. They are still essential, but no longer a sufficient condition for a successful business operation.
With an increasing number of retail companies we even see that the physical distribution function is outsourced. As a result, the function of retail has changed from 'redistributors in time, location and quantity of a

Demand supply

product (range)' to 'supplier/maker of the consumer based demand related product ranges in an appropriate supply environment'.

Marketing mix

The element with which the retailer responds to the consumer needs is called the *marketing mix*. We will discuss this in more detail in part 5 and 6 of this book. The method in which the elements of the marketing mix are compiled, leads to a supply formula: a consistent and weighed composition of the marketing mix elements, leading to a recognisable and logical proposition for the target group. The supply formulas therefore follow the consumer need, and not reversed. It is from this latter opinion that retail, and in particular the retail, is illuminated in this book. In doing this, we will be faced with the diversity of the phenomenon of retail. We look to both pull oriented strategies (demand-driven) that are successful, and to successful companies with a push or partial push strategy, such as the Etam group, which uses a push strategy. Control is central here. We will also return to the mixing forms later in this book.

1.4 Consequences of the changing function of retail

Changing from 'product distributor' to 'demand supplier' has had far-reaching consequences for the modern retail. It resulted, amongst other things, in a considerable expansion of the degree of difficulty of the retail: success factors no longer consisted of only product knowledge and distribution skills, but should have been supplemented with knowledge of the consumer needs, insight into the trends, knowledge of purchasing methods, knowledge of methods to communicate with the consumer and sometimes even – in situations where the manufacturers do not wish to participate in satisfying the needs of the consumer – knowledge of developing own production lines. Evolving from product redistributors into demand supplier in its most extreme form can be illustrated with a comparison between the old and new business chain. The example relates to the Do It Yourself (DIY) sector (figure 1.3 and 1.4).

In the old business chain, retail was found mainly in one column, namely the product line in which one specialises. Consumers who wanted to do DIY had to go to a large number of stores: from the paint dealer to the hardware store, followed by the lumberyard and so on. In each of these stores the consumer once again had to wait for assistance and had to pay separately. All in all, a rather time consuming process that was also – due to the low efficiency in the operation – rather expensive. Because the stores were small, the goods could rarely be ordered directly from the manufacturer:

Wholesale dealers

a brokerage originated (between the *wholesale dealers*). The wholesale dealer made an additional translation between the quantities that were received from the manufacturer and the quantity that an individual retailer could purchase at a time. Therefore, this wholesaler also worked as a distributor.

FIGURE 1.3 Old business chain (example of the DIY industry)

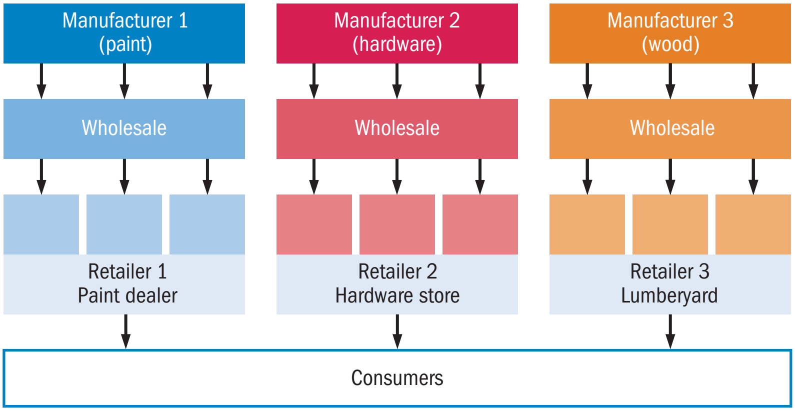
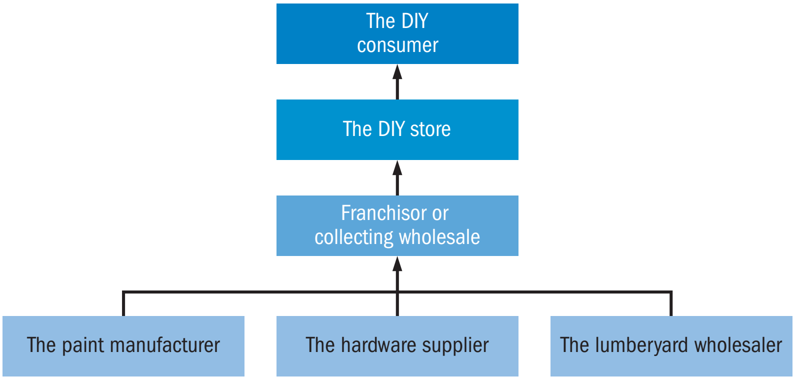


FIGURE 1.4 New business chain (example of the DIY industry)



In the new business chain, the need of the consumer is central. Retail offers a product range tailored to the consumer's demand. That product range is generally much wider than before and can come from very different product lines. The supply of products is therefore in the hands of manufacturers from various business chains. It is the retailers' task to combine the products from the same business chains in such a way that a *demand related* product range (a product range tailored to the broad consumer needs) arises.

Demand related

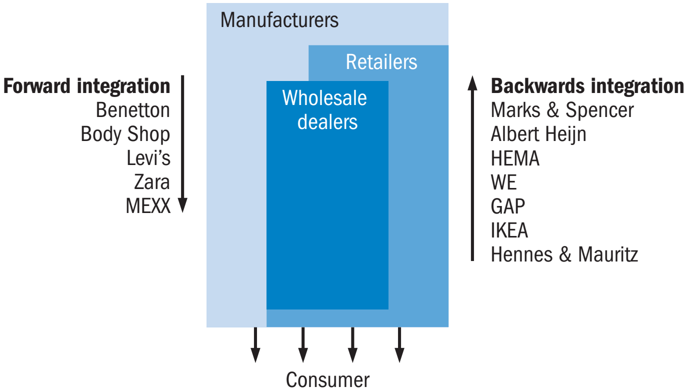
Therefore, it no longer revolves around selling products that are present in the market, but also providing products that the client demands, if needed by developing and producing own retail brands. The latter is also referred to as *private labels,* or house brands. For as far as the retailer cannot comply with the requirements of the new business chain, for example because it is too small or because the expertise is lacking, the retailer can – as in the old business chain – be assisted by wholesale dealers or purchasing organisations. But these wholesale dealers have been given a different function than the wholesale dealers in the old business chain:

Private labels

their job is to presort for the demand-related retail product ranges. Their function is therefore more of a 'collecting' function than a 'distributing' function. The franchisor is the ultimate form of such collecting wholesale: a retail supplier that is not only restricted to supplying a (part of) the product range, but that also takes over other components of the marketing mix of the retailer, such as promotion, store layout, display plans and possibly a complete formula.

The function changes in retail are explained here in the form of two extremes. In practice we see all kinds of mixed forms: manufacturers that take over parts of the detail function through forward integration and retailers that take over parts of the wholesale dealers, or manufacturers who function through backwards integration (figure 1.5).

FIGURE 1.5 Mixed forms in function change of retail



Forward integration
Backwards integration

Examples of *forward integration* from manufacturers to retailers are Benetton, The Body Shop (currently owned by L'Oréal), Levi's, Mango, MEXX, Rituals and ZARA. Examples of *backwards integration* of retailers in the manufacture sphere, or at least in the sphere of the prescription of production specifications, are Albert Heijn, GAP, HEMA, Hennes & Mauritz, IKEA, Tesco and WE. Incedentally, these phenomena also appear with wholesale dealers: Schuitema (presently called C1000) was a supplying wholesaler to independent companies in the food sector, but has since become formula administrator of the supermarket formula C1000 and will disappear in time due to the takeover by Jumbo. Intergamma in turn is a franchisor of the DIY store formulas Gamma and Karwei. Example 1.1 with regard to Benetton and example 1.2 with regard to the Body Shop will relate to forward integration. An example of backwards integration will then be given (example 1.3).

EXAMPLE 1.1 FORWARD INTEGRATION: BENETTON

Benetton started in 1965 as manufacturer of knitted products in a number of 'back room workshops' in Italy. Because Benetton had developed a procedure in which knitted products could be coloured much later in the production process than in the paint procedures of the competitors, a competitive advantage was created. After all, in a buyer's market situation where it becomes clear at a very late stage which colours the consumer wants, such a procedure is much more capable of meeting consumer needs than competitors who have to colour their materials six months in advance. However, the existing retail was not yet ripe for this manner of turbo distribution, which is why Benetton developed its own stores, followed by a sizeable franchise organisation later on.

Source: Palermi, Benetton, After Internationalization we work for Diversification. In: *International Trends in Retailing*, vol. 4, no. 2, p. 27-30)

EXAMPLE 1.2 FORWARD INTEGRATION: THE BODY SHOP

The Body Shop was established in 1976 in the pantry behind the house of founder Anita Roddick in Brighton. She was dissatisfied with how existing products in the field of body care were manufactured and presented to the consumer by the existing suppliers (large cosmetics manufacturers such as Estée Lauder, Elisabeth Arden, Chanel and Revlon): 'We sell hope.'). This is why Roddick started to experiment with a number of environmentally friendly and animal friendly substances. The results were not only interesting for her, but also seemed to fill a niche (void) in the needs of other consumers, a niche that was not noticed by the existing suppliers. The result is well-known: a global chain of specialist body care companies, responding to two underlying trends in the current consumer needs: health and caring for the environment. It is interesting to note that one of the recent successes of the Estée Lauder group, shaken up by the success of The Body Shop, is 'Origins', a store formula set up entirely around the idea of caring for the environment.
On 18 March 2006 *de Volkskrant*, amongst others, reported the sale of The Body Shop to L'Oréal. Founder and environmental activist Anita Roddick denied to have gone against her own principles. Animal protection organisations in Great Britain had a different opinion and called for a boycott of The Body Shop, because L'Oréal used animals for testing their cosmetics. The Body Shop became successful because they rejected animal testing. The consumer organisation Ethical Consumer feared that the takeover would have negative consequences for The Body Shop, because L'Oréal placed commercial considerations above idealism. Anita Roddick rejected all criticism. They called the takeover the best gift that The Body Shop could ever have gotten for its thirtieth birthday. 'L'Oréal displayed visionary leadership and is a convinced advocate of our values. They understand that Body Shop is an outsider in the world of the international business community.'
In 1984 the company was taken to the stock exchange. In the nineties, the success story was spoiled. The expansion in the American market was a lot less subtle and in its own country other chains also started offering natural products. Roddicks famous peppermint foot lotion was overshadowed by new, more exotic products. In 1998, Roddick stepped out of the daily management of the company and four years later she also gave up her position as President. Roddick denied switching the enemy. According to her,

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L'Oréal is prepared to take over the principles of The Body Shop. 'If the largest cosmetics company in the world can learn about small family farms and women's cooperatives, then we should be happy.' For the time being, L'Oréal will manage The Body Shop remotely. The Body Shop remains an independent chain with its own head office.
On 10 September 2007, Anita Roddick passed away due to a cerebral haemorrhage at the age of 64.

Source: Anita Roddick, *Body and Soul*, 1991, Ebury Press, London (printed on recycled paper); *de Volkskrant*, 18 March 2006; *de Volkskrant*, 10 September 2007)

Forward integrated: ZARA

EXAMPLE 1.3 BACKWARDS INTEGRATION: MARKS & SPENCER

Michael Marks was a Polish immigrant. He initially earned a living in England as a market vendor. Later he worked as a market trader. During this period he developed the penny concept: all products were sold for a penny. His slogan read: 'Don't ask the price, it is a penny'. The successful approach quickly led to regular stores that were rapidly expanding. In 1894 he stared a partnership with Tom Spencer in order to strengthen the management: Marks & Spencer was born. However, the actual development of the current concept began with the appointment of Simon Marks, son of the founder, as

chairman in 1917. Simon Marks was convinced that – in order to maintain the low price policy – it was necessary to proceed to a modified distribution method, where the manufacturer is the direct supplier. The wholesaler must be eliminated.
However, this meant that the supply volumes per product would have to be considerably higher than it was with the wholesale dealers. A significant reduction of the product range was therefore decided on in order to increase the volume per article. The criteria for this was the success of the products with the public: the products with a high sales rate and large volumes were given extra space at the expense of the products that did not perform as well. The internal competition between product groups for the available space and the connected clean-up of a large number of product ranges resulted in a product line with a completely unique character. This unique character was also appealing to the public: although a large number of products had disappeared, the sales of the remaining products increased much more than the lost sales. Marks & Spencer could no longer be characterised in the then customary supply formula terms: the company was not a department store, nor was it a specialist company. A new phenomenon originated: a store that specialises in a purchase situation for the consumer, namely the purchase moments for simple, quick purchases in the 'many and often range', where the convenience and the price quality ratio is central in the purchase behaviour.
The strategy that was followed therefore led to a limited product supply that could be sold in very large volumes, and therefore lead to an over demand on suppliers. This over demand was used to develop a private brand (Saint Michaels) that was produced entirely according to the product specifications of Marks & Spencer. Marks & Spencer thereby strived for long term cooperation relationships (co-makerships) with its suppliers, where Marks & Spencer employees cooperated with the factories as quality controllers. Marks & Spencer still follows this policy very successfully. The company is also known as the 'manufacturer without factories'.
The first years of the twenty first century – from a British point of view – things suddenly went extremely bad for Marks & Spencer. In 1998 the profit amounted to a record amount of over £1 billion, several years later (2001) this was down to £145 million. Marks & Spencer had lost sight of its core values that endeared the company to the British public in the previous century. The problems were also noticed in Europe (including the Netherlands), because the company withdrew from almost all European markets to completely focus on problems on the domestic market.
The decline of Marks & Spencer was due to various developments. Their own brand Saint Michaels, which was the only brand that Marks & Spencer sold for a very long time, perfectly reflected the value-for-money philosophy.
However, during the nineties of the previous century there was a sudden expansion of sub-brands, of which very few acquired any client supporters of note. Because the style of the products had become outdated and the product quality declined, Marks & Spencer had a record stock of £3 billion in 2004.
While Marks & Spencer was busy expanding, specifically outside the United Kingdom, the domestic market was rapidly changing. Emerging competitors such as NEXT and Topshop, but also supermarkets that had added clothing to their range, such as ASDA (of Wal-Mart), won more and more customers from Marks & Spencer. The problems were still somewhat hidden by the upward trend in retail in general. But the biggest problem was that management had no idea what they actually wanted and what it was that

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did not work. There were no structural changes implemented to change the tide. Products were placed in the store in the hope that they would sell a strategy that was guided mainly by supply rather than demand. Furthermore, many stores were stuffy and outdated and also much too dark and too crammed. The personnel were also not really motivated by the relatively low wages. Under guidance of CEO Stuart Rose, Marks & Spencer crawled up from the depths, applying a sharp reorientation of the company. The company was put back on the map by focussing on the core values that had made the company so successful. This happened based on three cornerstones: *improve the product, improve the stores and improve the service*.
The product range was tackled by taking important brands back into their own hands, such as the ladies fashion brand Per Una that was bought from the creator.

Backwards integrated: WE

All personnel received extensive training and their salaries were increased, making salary increases dependent on performance. The most visible part for customers was the refurbishing and restyling of the stores. Behind the screens the *supply chain* was de-cluttered, on the one hand by improving the cooperation with suppliers and on the other hand by opening various buying offices globally (*sourcing offices*) to be able to make better decisions across the entire chain, from buying to distribution of the products. Finally, to make it obvious the pioneering role that Marks & Spencer had fulfilled before was fully restored, a large eco plan was introduced in January 2007. In this way Marks & Spencer wanted to manufacture as sustainably as possible, CO_2 neutral resulting in a healthier life for customer and staff. The company has made it their goal to excel on all these points in 2012. This statement was supported by the introduction of a large number of healthy and organic lifestyle products that could be purchased nowhere else.
Due to all the above measures, Marks & Spencer has returned to the elite British retail division and it can rightfully be called the 'manufacturer without factories' again.

Source: Marks & Spencer: a manufacturer without factories. In: *International Trends in retailing*, vol. 6, nr. 2, p. 23-35; Back in Fashion: How we're reviving a British icon. In: *Harvard Business Review*, May 2007

1.5 Position of retail in economic theory

Modern retail as we know it only developed after the industrial revolution. Prior to this time there was trade with individuals, but not in the form of institutionalised retail. In the food sphere, surpluses of food produced for own use was traded on the market. In the non-food sphere, valuable products were ordered from craftsmen and produced according to individual specifications. This in fact, in modern terms, involved one-on-one marketing. Only with the emergence of the industrial revolution and the resulting decoupling of the time of production and consumption did the imbalances mentioned above start to take place. Retail arises when the costs of the newly added link (retail) are less than the *economies of scale* of the industrial mass products. From this point of view, the emergence of retail as a separate section in the business chain can thus be linked back to the economic transaction cost theory (Williamson, 1975 and Coase, 1934).

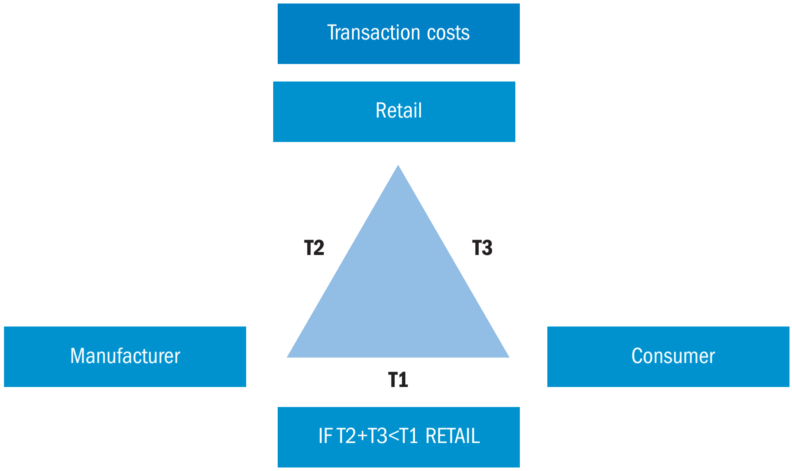
Economies of scale

The above described function changes from retail (from the *goods producing process* to the *demand satisfying process*, respectively from moving boxes to service provision) can be explained using the transaction costs theory: due to the shift of power from the manufacturer to the consumer it is no longer about minimising the cost within the business chain from the view of the manufacturer, but to minimise the find or search problems of the consumer. The search costs of consumers consist of two parts: on the one hand the 'hassle' associated with buying products (such as relocation, the price of the product and finding the product, or the cost of shopping), on the other hand the pleasure that one can derive from shopping (the proceeds). The consumer will choose the store where the balance of the costs and proceeds is the most favourable (Haasloop Werner and Quix, 2010).

Demand satisfying process

Retail only arises if the transaction costs involved with the direct supply from manufacturer to consumer is higher than the sum of the costs that are involved with the supply from manufacturer to retailer on the one hand and the supply from retailer to consumer on the other hand (see figure 1.6).

FIGURE 1.6 Transaction costs



In formula: retail has the right to exist if;

$$T1 > T2 + T3$$

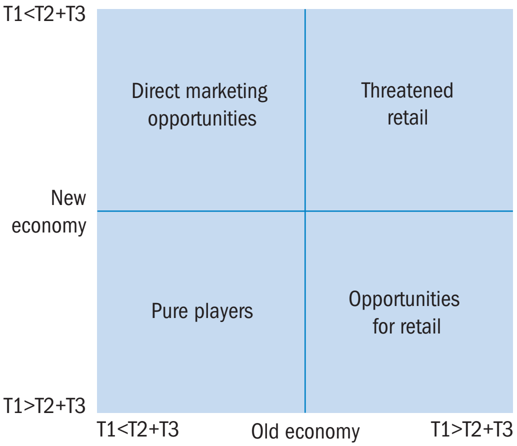
T = costs involved in the direct distribution from the manufacturer to the consumer
T2 = costs involved in the supply from the manufacturer to the retailer
T3 = costs involved in the supply from the retailer to the consumer

The maturing of the internet paved the way for some manufacturers to supply directly to consumers. Costs directly attributable to distribution can in some cases already be much lower for direct supply to the consumer. Still, some manufacturers will be reluctant, because they are still greatly supported by the retail network. This could be due to the fact that today a large part of the products can be sold via traditional channels, where after sales also takes place via retail. This ensures that the transaction costs theory still turns out positive for the retail sector, but not only because of the direct distribution costs. An evaluation of the transaction costs for each sector within the retail will have to take place in the coming years. As we already noticed, for music, books and travel this will be faster than for other branches.

Online retail within the transaction cost theory
Starting from the Transaction cost triangle and the assumption that internet could lead to a completely different composition of the distribution costs in retail, the possible new combinations will be weighed in the transaction cost matrix of Sarkar, Butler and Steinfield. On the horizontal axis there are the

two options in the 'old' economy, before the existence of the internet, the vertical axis contains the situations in the new economy, after the internet was born (see figure 1.7). Each quadrant will be addressed in more detail.

FIGURE 1.7 Transaction costs matrix



The upper right quadrant: the threatened established retail (bricks and mortar)
Before the internet era, transaction costs benefitted existing stores. With the arrival of the internet, the transaction costs are beneficial to the e-tailers. This is the situation where the established retail should be the most apprehensive. It means that these stores see their sales decrease in the long term in favour of the market share of the e-tailers. In fact, this is already the case: book stores, record stores and especially travel agencies notice the impact of the internet. At the moment, this last category is also the biggest with regard to online sales.

The upper left quadrant: strengthening direct marketers
Before the internet, transaction costs were beneficial to direct marketers and this is still the case. This quadrant forms no immediate threat to retail. After all, these sales were never with the retail to begin with. It will however be clear that the relative position and the technical possibilities of the direct marketers will become stronger thanks to the internet. Dell Computers is an example of a direct marketer that utilises the options of the internet to the full extent. However, Dell also has its eye on retail locations. Dell has kiosks in many shopping malls in the United States to make direct contact with the shopping public.

The lower left quadrant: the area of the pure players (clicks and order)
The transaction costs before the internet were beneficial to direct marketers, nowadays they are beneficial to retail. This means that there are new opportunities for retail distribution systems that offer goods via the internet, to fine tune supply and demand respectively. Amazon, Marktplaats, Zalando, Bol.com and eBay are examples of these so-called *cyber mediairs* or *pure players*.

Example 1.4 illustrates that things could also go wrong with a pure player.

EXAMPLE 1.4 ETOYS

eToys, an American pure player toy e-tailer, is perhaps one of the best examples of a failed online operation. Retail and e-tail are more than a website with many visitors and buyers, the goods also have to reach their final destination. eToys went to the stock exchange in May 1999 for twenty dollars per share. After the first day of trading the share was already over 85 dollars and thus had a market capitalisation of more than ten billion dollars, much higher than the established Toys“R”Us. The company ‘invested’ tons in marketing. It also invested significantly in the supply chain and the infrastructure, with the intention of cashing in on its achieved first mover advantage. Business was good: sales increased from 1 million dollars in 1997 to no less than 150 million dollars in 1999. eToys was celebrated as one of the internet heroes and examples for the industry. But in 2000 it became clear that the company had moved miles away from being profitable. The problems piled up. The share price collapsed and in early 2001 they had to apply for bankruptcy, the share price dropped below ten dollar cents and the company had no money left to keep it operational.

Source: *Retail Shopping, 2007: Net versus the Mall*, Harvard Business School, 2007

The lower right quadrant: the multichannel or crosschannel providers (clicks and bricks)

This involves either hybrid companies that start up an internet sales channel from the established retail, or pure players who also build fixed retail from an existing internet channel. Examples are HEMA, H&M and ZARA. While Apple, actually a manufacturer, or rather a brand, which sells directly through the internet, has its own stores and distributes primarily through conventional and online retailers. Coolblue and Pixmania.com are examples in the opposite direction. They are some of the first e-tailers that opened physical branches. In the future we may even see branches of Bol.com appear although they have their physical presence via Albert Heijn.

Analysis of the developments based on the transaction costs matrix

Various studies, including a study by Forrester in the US, which was based on a clustering of retailers according to the transaction costs matrix, indicated the following:

- The established retail (the upper right quadrant) in certain industries will suffer market share loss in favour of internet providers. Although the share of internet providers is still small, the growth rate of sales via the internet is much higher than that of the established retail. The choice is then: stay where you are and eventually experience sales pressure, or join the market share race at the expense of high investments (and therefore pressure on yield) in an internet channel.
- The pure players (the lower left quadrant) do not have it easy either. Their sales have grown considerably, but not all of them are able to make sales profitable. There are two major causes for this:

  Marketing costs

  – *The marketing expenses.* Due to the unfamiliarity of the consumer with (new) pure players, it takes a great deal of time, effort and money to attract visitors to the internet site. As a result, the marketing expenses, and therefore the break-even point, are extremely high. Because the reliability aspect weighs so heavily, these internet providers also have to advertise relatively much to gain the trust of consumers. Major brands generally have a higher degree of trust compared to lesser known brands. It often happens that the 'per order' marketing costs of a pure player exceed the margin that is earned on the order, and obviously this is of no help at all. In short, selling over the internet requires a rather substantial investment in the brand of the seller and building a new strong brand takes a great deal of money. Companies like Amazon.com, Bol.com and eBay will manage, but many other companies will not make it or have already disappeared.

Fulfilment costs

– *The fulfilment costs.* It often appears that new pure players are indeed able to organise the internal store systems. But when it comes to dealing with the external operations (home delivery etc.), they nevertheless appear to often misjudge the matter: the lack of fulfilment and the high costs that can be involved, often prove to be an obstacle on the road to success. This is certainly the case where these costs cannot be passed on fully to consumers. Where the pure player is able to minimise the inventory costs, by either having no inventory or by having a very limited inventory with good and fast replenishment systems, this will have a positive impact on performance. In the near future this may lead to better scores on the performance indicators.

- The *multichannel*, providers, or rather the *cross channel* providers, appear to be the winners for now. In all instances their *key performance indicators* appear to be more favourable than those of the pure players, at lower costs, although the efficiency of the internet operation is often still lower than that of the store operation. The marketing costs are significantly lower than those of the pure players, because the cross channel providers are able to profit from the brand value and the trust that they have already earned in the market with their existing store operation, while they can usually rely on the support of their existing infrastructure for fulfilment. The latter applies specifically for multichannel providers who already have a 'home delivery infrastructure'. In the early years it was specifically the mail order companies that were able to benefit most from the new marketing methods, but most of them have already become pure players.

1.6 Marketing and retail marketing

This paragraph will first discuss the concept of marketing. We will then immerse ourselves in consumer marketing as part of marketing.

1.6.1 The marketing concept

Marketing is that part of the business process that deals with the marketing or sale of products. There are many definitions of the term marketing, often quite different in nature. Kuhlmeijer (1990), the founder of the commercial economy in the Netherlands, defined *marketing* as follows:

Marketing

> Marketing involves all activities of organised economies which serve to satisfy the needs, desires, aspirations or expectations of individuals by preparing and effectuating the exchange process effectively and efficiently.
>
> Source: H.J. Kuhlmeijer and B.A. Bakker, *Commercial policy*, Stenfert Kroese, 1990, p. 4

Kotler defined marketing as follows:

> Marketing serves as the link between a society's need and its pattern of industrial response.
> Source: P. Kotler *Principles of Marketing*, Prentice Hall, 2007

Thus, both definitions depart from a completely different angle, where Kuhlmeijer's definition seems to fit in with the old business chain, in the sense that the process is seen from above (marketing as *goods producing process*), while Kotler's definition seems to fit in more with the new business chain, in the sense that the process is seen from the consumer (marketing as *demand satisfying process*).

We see the very same movement with the American Marketing Association: after more than twenty years, the definition has changed. The old definition was:

> Marketing is the process of planning and executing conception, pricing, promotion and distribution of goods, ideas and services to create exchanges that satisfy individual and organisational goals.
> Source: American Marketing Association, 1985

The new definition is:

> Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.
> Source: David L. Kurtz, *Principles of Contemporary* Marketing, 2008

Despite these clear differences, the definitions do have something in common: marketing is equated to the process control of the flow of goods from the manufacturer to the consumer and no specific function is assigned to retail in the production process. With Kuhlmeijer, retail functions act as an aid for the manufacturers with the distribution of goods (retail = outlet channel of the manufacturer). With Kotler, retail mainly serves as conduit of information from the consumer to the manufacturer (retail = information supplier for the manufacturer).

In practice we see that this passive interpretation of retail is incorrect. Retail plays an increasingly more independent role in the process management of the flow of goods from the manufacturer to the consumer, as such that in some cases the production process already begins with retail. HEMA (see example 1.5) began as one of the first retail companies with its own product development.

EXAMPLE 1.5 HEMA

In imitation of the English Marks & Spencer, HEMA started its own product development at a very early stage: the company developed its own production line according to its own specifications. These specifications were always aimed at creating high quality products that could be sold at low prices. In other words, HEMA instructed the manufacturers how they had to manufacture, and at what price the products should be provided to the consumer. Nowadays, HEMA (basically) does not sell any 'known' brands, though some manufacturers of these known brands were not afraid to deliver to HEMA, given the sales that were involved with deliveries to HEMA. As a result, HEMA was one of the first retail companies in the Netherlands that did retail marketing independently. HEMA sold its store as an 'integrated product' and not as a place where a number of brand products were collected. The name HEMA acquired its own brand recognition: it was the first retail company of which the store name was also the brand name.

At the moment there are many examples of retailers who fully or partially develop their own product range. An important part of the sales at Albert Heijn is realised through its own brand. Albert Heijn even opted for a threefold division of its own brand portfolio: in addition to its own brand, AH Basic (previously called Euroshopper) is positioned at the bottom and AH Excellent at the top. The latter brand is often positioned above or equal to an A-brand. The total product range of Aldi consists of own fancy brands (manufactured under responsibility of the parent company Albrecht GmbH). Fashion stores like M&S Mode and C&A at the bottom of the market, and ZARA, WE, Hennes & Mauritz and Claudia Sträter in the middle and higher segment develop their product range in-house using their own styling and product developments, and deliver all their products under their own label.

This development shows that the supposed passivity of retailers in process control is no longer consistent with reality and that the two definitions discussed do not do justice to the role played by retail in the practice. In many cases, retail has taken control of the chain. The Institute for Marketing Studies uses the following definition for marketing:

> Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.
> Source: UK, Chartered Institute of Marketing, 2002

This definition is different from the previous definitions, because marketing is regarded as a management process and no longer as a flow of goods process. Marketing in this concept therefore involves all parts of the production process and not just an individual function. In the concept of the Institute of Marketing Studies, it is also possible for the location of the marketing function to shift in the business chain, for example from manufacturers to retailers. Finally, it is explicitly included in the definition that it is all about profit.
For retail, with a low added value, this is a useful addition to the previous definitions.

1.6.2 Consumer marketing

Today we recognise several specialisations within the overall field of marketing, such as industrial marketing, business-to-business marketing, service marketing, non-profit marketing and consumer marketing. For the topic of this book, it is mainly consumer marketing that is important. A brief definition of terms follows below. We will then elaborate on the differences between trade marketing and retail marketing.

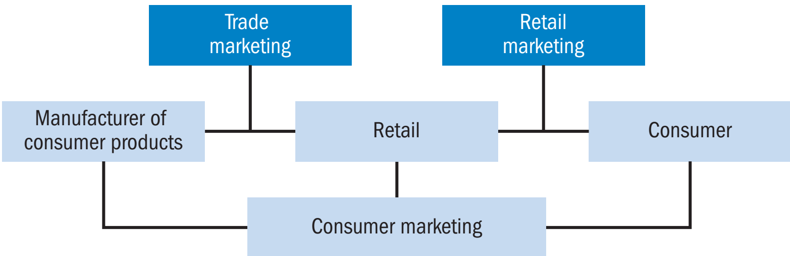
Definition of terms

Consumer marketing

With *consumer marketing,* we mean all marketing efforts aimed at the satisfaction of the final consumer. Following the philosophy of the business chain, but duly taking into account the specific nature of marketing in the various sections of the business chain, we distinguish within consumer marketing between trade marketing (focused on sales from manufacturers to the middleman and retailers in the merchandise sector) and *retail marketing* (focused on the sales from retailers to the final consumer) (see figure 1.8).

Retail marketing

FIGURE 1.8 Consumer marketing



Differences between trade marketing and retail marketing

Although trade and retail marketing both fall under consumer marketing, there are several significant differences (table 1.1). Several of these differences, mentioned in table 1.1, are discussed in more detail below.

TABLE 1.1 Differences in retail marketing and trade marketing

Characteristic	Retail marketing	Trade marketing
Supply chain	Horizontal	Vertical
Business process	Demand driven	Product driven
Target group	Anonymous	Known
Product range	Wide/Very wide	Small
Demand relationship	Assortment driven	Product driven
Place	Consumer leading	Costs leading
Expansion	Once-off	Rearrangement

TABLE 1.1 Differences in retail marketing and trade marketing (continued)

Characteristic	Retail marketing	Trade marketing
Price	Surcharge calculation	Cost price calculation
Promotion	Store oriented	Product oriented
Marketing mix	8 P's	4 P's
Purchase	Primary activities	Support activities
Time horizon	Short term	Long term
Marketing function	Purchase	Sale
Returns criteria	Return on sales	Return on investment

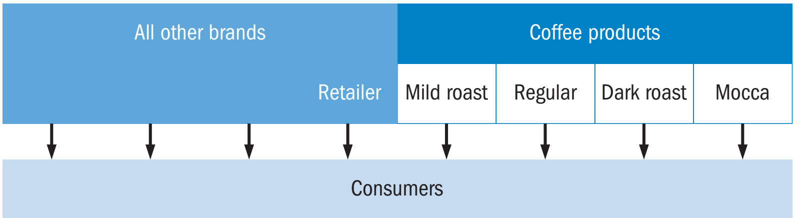
Supply chain

A manufacturer of consumer products can generally only manufacture a limited product line. For example, a coffee manufacturing industry can manufacture espresso coffee beans, ground coffee, coffee pads and instant coffee, but cannot manufacture magazines using the same production machines. The supply from manufacturers to retail therefore always involves small product lines, of which the range is determined by the production process technique. In order to ensure its sales, the manufacturer will try to give these small product lines image components that appeal to certain target groups under the consumers. This results in the image of the seductive Nespresso drinker George Clooney, the 'be yourself' Kanis & Gunnink coffee, the warm feeling that comes with Douwe Egberts (you will find each other while drinking Douwe Egberts) or the passionate Nescafé drinker dancing the tango in her mind.

But a retailer needs more than just Douwe Egberts, or Kanis & Gunnink or Nescafé in its product range. He needs various different brands, because the people living in his catchment area are attracted to both the warm image and 'be yourself' image. In fact, the product line in the coffee shelf in the supermarket, even within such a limited product group, is so much wider than the product line of the individual suppliers.

The supermarket does not try to attract just one type of customer, but a multitude of types. And that is also necessary; otherwise he would not generate a profitable sales volume. The marketing of the retailer is therefore horizontally focussed, in the width, while the marketing effort of the supplier is vertically oriented (see figure 1.9).

FIGURE 1.9 Marketing horizontal/vertical



Business process
Consistent with the above, the business process in retail – other than in industrial businesses – is generally more driven by demand. This is logical, because industrial companies, once they have selected a specific product and the relevant production process, are stuck with it for a very long time. In retail, because of the relatively low investment associated with changes in the product range, it is much easier to follow consumer demands.

Product and product range
In general, a manufacturer of consumer products will not have any difficulty in defining his product line: Campina is in dairy, Douwe Egberts in coffee and Heineken in beer. When manufacturers speak of expanding the product line, this often takes place through other brands: Under the brand name Pickwick, Douwe Egberts is a tea supplier. In retail, this is not quite as easy: the product supplied by retail cannot be defined as a single product. In its most limited sense, the product supplied by retail consists of the product range and, as we know, that always consists of a multitude of different products, grouped around a specific consumer demand. This customer-driven product range is what gives retailers their added value for the consumer. Even Aldi, with a very limited product range in terms of retail-trade, still carries a product (in the limited sense of range) that is composed of more than nine hundred products. That is much more than all types of Douwe Egbert's coffee put together. This means that the retail product can never be described in simple terms, but that there are always aspects of a 'portfolio' in play. The art is to build up the product range portfolio as evenly as possible. This requires constant attention from the retailer: the product range consists of a mix of products that all have their own operational characteristics with regard to sales rate, margin, laborious nature and service. Controlling this mix is exactly what makes retail so difficult, yet so fascinating.
In addition to these operational aspects of the product range control, technical market aspects also play a role in the control of the product range portfolio: consumer preferences change over time and this should be responded to by adjusting the portfolio. If it remains constant, it eventually becomes contaminated, because products slip in amongst the product range that are good for sales, but it negatively affects the store concept because certain parts of the product range do not catch on with the public and are left on the shelves for too long.
It is important to ensure that the lead in the sorting of the product range is maintained with regard to the competition.

Sorting per range

The *sorting per range* is therefore an extremely important element of the marketing mix of the retailer. Sorting per range traditionally takes place through buying. This is why (as crazy as it may sound) the marketing function in retail is often incorporated in the purchase function and not, as is normal in trade marketing, in the sales function.

Store concept

In the broader sense, one should understand the retail product as the retail formula or the *store concept*. This refers to the balanced composition of the marketing mix, as such that a distinctive store image originates for the consumer. This is clearly a much broader understanding of the product term than just the product range: a beautifully composed product range can go entirely wrong if the presentation principles are not completed, the wrong location is selected for the store, an incorrect price level is set or an incorrect advertising method is used.

Location
An industrial entrepreneur will only occasionally have to make location decisions. In making this choice he is, moreover, primarily guided by cost considerations. Once he has chosen a location he will be stuck with it for a long time, given the high investments associated with production facilities. This is different in retail. First of all the necessary investments for opening a store are relatively small compared to the investments for industrial businesses. This allows a retailer to change its location much faster and with less divestment. In practice this also happens: retailers are constantly busy rearranging their establishment, expanding and reorganising, depending on the developments in the catchment area of the stores. When choosing the location, the retailer would rather base his decision on sales maximisation than on cost minimisation (although the latter also plays a role). Finally, trade marketers tend to interpret the L of location not only as a once-off location decision, but often also as the *outlet channel*. However, retail itself is the outlet channel and this difference in interpretation leads to a very important difference in marketing approach.

Outlet channel

Marketing mix
As stated, trade marketers tend to interpret the L of location as the outlet channel. Once they have supplied to the outlet channel (often retail), they have realised their sales. The big difference is that retail itself is the outlet channel. The goods that the trade marketer has already sold must then still be sold by the retailer to the consumers.
In trade marketing, a customer is a customer. In retail, this is not always the case: visitors who walk into the store do not always walk out as customers (as a visitor that purchased something). Especially in the area of recreational shopping, it often happens that the visitor comes for a look around, but buys nothing. This is why, in retail, the marketing mix consists of two parts: *external marketing mix*, aimed at generating interest for the formula, and *internal marketing mix*, aimed at converting the generated interest into actual purchase behaviour.

External marketing mix
Internal marketing mix

The external marketing mix focuses on the (brand) reputation and image of the formula. It is focussed at generating interest. The external marketing mix consists of the P's and L from Public (target group choice), Product (product range), Location (location), Price and Promotion.
The internal marketing mix focuses on the effectiveness of the outlet as a selling machine. It is thus an attempt to realise a transaction. The internal marketing mix consists of the P's from Presentation, Physical distribution, Personnel and Productivity.

Pricing
A very important difference between trade marketing and retail marketing lies in the way the price is established. Pricing should preferably take place by means of *cost price calculation*, where a profit margin, which can vary depending on the market situation, is imposed on the calculated cost price. Most suppliers of retail therefore apply cost price calculation. They can do this because the products produced are often supplied for an extended period of time and the number of products produced (the product line) is limited. But this is not the case in retail. The number of products here is often exceptionally large. De Bijenkorf, for example, carries about three hundred thousand different products, while the product range also changes very quickly. In this case, cost price calculation per product is very difficult. That is why, in retail,

Cost price calculation

Surcharge calculation

Sales price

surcharge calculation is generally used instead of a cost price calculation: the purchase price is accepted as given and a surcharge is applied to this purchase price, again varying depending on the market circumstances. Multiplication of the purchase price with the surcharge factor results in the *sales price*. A purchase price of €10, on which a surcharge of 100% is applied, results in a sales price of €20. The margin (calculated on the sales price) then amounts to 50% ((20 – 10) / 20 = 50%). The interesting part now is that the retailer does not know in advance whether the applied surcharge will be sufficient to cover all his costs: if the surcharge is too high, it can mean that the company's prices are too high in the market when compared to competition. If the surcharge is too low, it can mean an anticipated loss.

Conclusion

It can be concluded that most of the differences mentioned above between the trade and retail market can, with further consideration, be traced back to the difference in the size of the product range. This applies for the vision on the business chain, the target group approach, the pricing, the dual marketing mix etc. It is therefore not surprising that precisely the size, structure and composition of the product range are the most commonly used criteria with which a great variety of retail forms can be classified. In this classification one distinguishes between the range (how many different consumer needs are covered by the product range?) and the depth (how much choice does the retailer offer within a single category of need?). By comparing width and depth to each, you get a matrix as in figure 1.10a and b.

Depositary

The lower left side of the matrix contains the *depositary* or agencies, often companies that offer a limited product line from a single supplier. Actually, this is more of an extension of the producer than 'real' retailers, for example the brand dealers from a car manufacturer.

FIGURE 1.10a Retailing: the forms

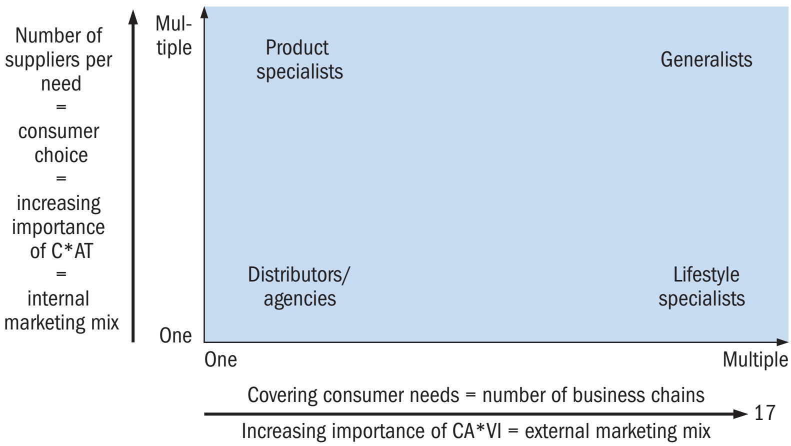
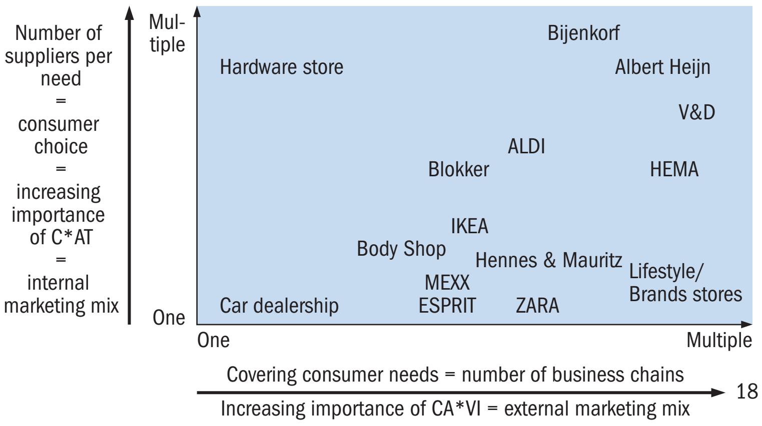


FIGURE 1.10b Retailing: the suppliers



Top left shows the product specialists: multiple choice in usually one or only a few product categories, for example the shoe store, the bakery or the hardware store.
The bottom right shows the businesses that cover a (large) number of different needs, with only a small choice within the needs. Often, these are businesses that try to fill the needs of a particular target group with only a few selected suppliers. They are also known as lifestyle specialists, because the brands of the selected suppliers represent a specific lifestyle, for example Gucci (sunglasses, handbags, clothing, shoes, watches etc.).
Finally, the top right shows businesses that offer both a very wide and very deep product range. These are called the *generalists*. In the non-food sector, these are department stores and for the food sector, these are supermarkets. **Generalists**

From e-commerce to e-strategy

Many traditional retailers succeed only with difficulty in properly developing their e-commerce activities. These are often barely profitable activities, or even projects. Especially in the early years of Internet, the e-commerce activity started as a project of either the IT-department or the marketing department. Sometimes this still happens today, fifteen years after the first internet bubble. We believe, however, that the impact of the rise of the internet is much larger. E-commerce is neither the beginning, nor the end of this. The internet changes ‘customer journeys’, the journeys made by consumers from incentive to purchase. Consumers are increasingly drawn to online offers and special deals. Once online, they head to the store where they like to see, try and experience the product. Purchasing follows on site or once again online. The consumer does expect service in the store. This ‘customer journey’ finally ends back on the net by giving feedback on the product or the service provided by the seller. Just a transaction based e-commerce strategy is no longer sufficient for a retailer. E-strategies are therefore important for two reasons: (1) any retailer that does not actively use an e-strategy, runs the risk of losing the customer to a competitor that does use one, and (2) successful e-strategies lead to lasting customer relationships and customer value. Successful e-strategies address the need for efficiency and convenience.

For example, choice, convenience and speed are increased by reducing search effort. In many branches, online purchases are preceded by consulting one or more reviews. Online reviews are also used more and more often for physical store visits, this is no longer just the case for online stores. More than half of the consumers indicate that, for both online and offline stores, the final purchase decisions were based on these reviews. Reviews are therefore the new form of word of mouth advertising, regardless of through which channel the sale takes place.
Providing additional propositions is another source of customer value. For example, between products and services and between online and offline channels. In the travel industry, consumers can compile full packages online. For example, when an airline also makes hotel reservations and car rental possible, and provides information on local activities, and all of it automated. If one still prefers advice, there is always the travel agency. Consumers seek information and reduced uncertainty in their purchase process. Online, products cannot be grasped and tested. Well performing e-strategies therefore leave much room for product features. In doing this, they enter the purchase funnel of the consumer for the actual conversion and do not linger on influencing awareness. Later in this book we will come back to this new purchase funnel (see paragraph 19.3).
Finally, a successful e-strategy locks-in customers. For example, by creating switching costs for loyalty programs, or by customisation and creating a valuable network of customers. With a good e-strategy and database marketing, large groups of customers are once again individuals or become known and accessible in small segments. Some companies engage customers in online communities active in their brands and propositions. Mooney and Rollins (Mooney and Rollins, 2008) also call these brands ‘open brands’.
Other companies pass product development on to the customers. Last, but not least, companies can engage their customers in word of mouth advertising through review marketing. Lego is a good example of an ‘open brand’. Lego involves customers with its products by having them put together their own sets. In addition, Lego customers can join a network of likeminded users. They assess each other’s works and designs, which Lego can ultimately take into production. Lego also offers the possibility to order even the smallest missing pieces, through to missing building instructions.
In short, an e-strategy changes consumers from large amorphous groups in shopping streets back into known and accessible individuals with whom you can maintain a valuable relationship. However, developing a successful e-strategy is not an easy task. Successful e-strategies require a fully coordinated multichannel and multi-perspective approach, in other words an actual cross channel approach.
Only if the propositions and brand experience across all channels are coordinated and if all business disciplines work together smoothly, will an e-strategy realise its maximum value.

From multichannel to cross channel management

In literature, we use the term multichannel in two capacities. On the one hand, in the situation where a retailer has different sales channels, such as stores, a website and a catalogue (door to door).
This variation with three channels is often seen in the US. On the other hand, we use the term multichannel in marketing. Multichannel marketing is described as the development and implementation of marketing strategies

to interact with customers in more than one channel. However, we prefer using the term cross channel management as an overarching concept of strategy formation, through branding and marketing communication to actual sales, after sales service, sharing and finding information and giving feedback in different channels. Cross channel management is a young part of the field. But at the same time, cross channel management is quickly gaining relevance. Research indicates that by 2015, most consumers will be so-called 'cross channel buyers' (see sub-section 2.6.5). It also appears that cross channel buyers will spend significantly more than single channel buyers. With cross channel management, a well-considered strategy is determined for the channels that you want to use for the biggest impact on the top and bottom line, the performance of the company. For one retailer this would mean online sales, for other retailers this would mean communication and interaction with the end user. To anticipate this correctly, it is necessary to understand the customer journeys of the target group, but also the current and future supply chain and the business model. As with all other strategies, the chosen strategy should regularly be assessed and adapted if necessary. Cross channel management is considerably more complex than classic marketing. It requires integration of strategies and implementation, integration of systems and coordination across all channels that previously functioned relatively independently. Many traditional retailers struggle with the use of a real cross channel approach. This is because their existing strategies are based on branding and creating traffic and conversion in physical stores. In an environment dominated by purchasing and logistics, the introduction of a cross channel strategy, also called e-strategy, is a major operation that affects almost all parts of the company. Therefore a successful cross channel strategy is not only multichannel, but also multi-perspective.

Multiple perspectives are essential for successful cross channel management.

Sometimes the e-commerce team is housed at commerce, or at IT, in a separate department or even as temporary project. The risk of housing the cross channel strategy at commerce is an overreliance on sales and numbers. A correct focus, but without a smooth operation and cost efficient delivery and IT, quickly leads to an unprofitable e-commerce practice as a whole, and therefore not to a successful e-strategy. Especially traditional retailers that practice e-commerce in this way, often stumble into this pitfall. Housing at IT may solve integration issues of e-commerce in the overall IT landscape for purchasing, logistics and reports. The IT department should be strongly commerce oriented, in order to offer the correct mix of flexible development, costs and maintenance. E-commerce as a separate project seems especially attractive to e-commerce starters. Set a fast pace and we will later see where the activities lead. This can work well, except that 'we will see later' can be very disappointing and still lower or destroy the returns of the quick start.

Due to its transparency, lots of e-commerce is associated with relatively low margins. As a result e-commerce and large investment programs do not mix well. The investments in marketing communication, IT and intricate logistics with return flows have to be compensated for by margin growth combined with lower than average operational costs. Successful e-strategies also require an intricate and transparent financial monitoring.

In a cross channel strategy, logistics is fundamentally different than in traditional retail. The traditional model is based on large-scale purchases and transporting large volumes from production locations, through distribution networks to individual stores. In the store, the products are removed from the shelves by consumers individually. E-commerce is based on direct distribution from central locations to individual consumers. In addition, different varieties are often ordered online, of which one or more are returned. A part of the stock and the operating capital invested therein is therefore out in the market. Finally, the logistics should be designed for returns, which traditional retail logistics is not.
In many cases, the staff component within a cross channel strategy is also underestimated. In traditional retail, the purchasing discipline is dominant. It is still said that retail makes its money on purchasing. In a cross channel world the customer comes first, and thus marketing and commerce. In practice this results in interesting frictions between different disciplines in the organisation.
A cross channel strategy can only reach its maximum value in a double integrated approach: integration of all channels (multichannel) for customer touch points and integration of all relevant business disciplines in the organisation (multi-perspective). Moreover, the introduction of a cross channel approach in organisations is a relevant change and requires change management (adaption article Haasloop Werner and Quix, 2010).

Summary

Under retail marketing we understand all business management activities that focus on the direct sales of goods and services to consumers, provided that these are paid out of the net income of the consumer.
The goods sector of retail expenditures is generally equated to retail expenditures. In retail, under the influence of environmental changes and the associated shift of power in the business chain, there has been a change of function: from goods producing process to demand satisfying process. Partly because of this, there was a division in the consumer marketing. This involved, on the one hand, marketing by manufacturer to retailer (trade marketing) and on the other hand marketing by retailer to consumer (retail marketing). In practice there seem to be big differences between trade marketing and retail marketing. An important second aspect of the change in the business chain is control. In many branches the retailers have taken over control in the chain, in which they do not necessary produce themselves, but simply control the chain.
After a hesitant start around the millennium, internet has acquired a permanent place and should be fully embraced by retailers.
To a retailer, internet means a lot more than just e-commerce and should be taken up fully within a cross channel strategy.