

# THE EVOLUTION OF RETAILING: IMPACT ON RPM

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# MILESTONES IN RETAILING

- Mom/Pop: individual one store, one owner / operator: Chief Cook & Bottle Washer, circa pre- 1950s
- Emergence of chains: multistore operations; circa 1950s thru 1960s
- CHANNEL SYSTEMS / VERTICAL MARKETING SYSTEMS\*: circa 1960s >
- CATEGORY CAPTAIN MANAGEMENT\*: circa 1970s >
  - Technology driven
  - Merchandising based on segments and profitability analytics
- Multiple Channels: circa 1990s – Present including:
  - ATMs, Kiosks, Vending Machines
  - online

# Ex of Nautilus Bowflex

- Direct marketing via tv ads / 800 – number
- Inbound / outbound call centers
- Internet
- UPS delivers
- Local service contracted out
- & commercial, retail & specialty channels

# Ex of Apple Stores

- Dumb idea, right?
- Manhattan showcase store:
  - Sales per sq ft = \$4000 compared to
    - Tiffany's = \$2600
    - Best Buy = \$930
    - Saks = \$362
  - Frustration with retail service

# CHANNEL SYSTEMS / VERTICAL SYSTEMS

- Conventional channel of distribution:
- VMS acts as a unified system
- Not one business unit vs another unit, rather, network systems go up against each other
  - Corporate VMS
    - Sears
  - Administered VMS
    - GE Healthcare
  - Contractual VMS
    - Cooperatives
      - TruValu
      - IGA
    - Franchising

# MOTIVATING / INCENTIVIZING CHANNEL MEMBERS

- Coercive
  - Threaten to terminate
  - Withdraw resources
- Reward
- Contractual
- Expert
  - Mayo Clinic
- Referent
  - Caterpillar

# CHANNEL SYSTEMS: KEY CONCEPTS

- Value Added
- Sustainable Competitive Advantage
- The Ties That Bind
- Switching Costs
- Customer Intimacy
  - Treacy & Wireman
- Channel of Distribution vs.
  - Channel System

# SHIFT OF POWER TO RETAILER

- Wal-Mart accounts for \$9 bill of P&G, or 28% of P&G's revenue
- P&G \$9 bill account for ~ 4% of Wal-Mart Sales
- Private label: ~ 19% retail vs 14% 10 yrs ago
- Europe even stronger
  - UK around 43%
  - Ove Haxthausen 2008 "Customer Focus" Marketing Management (July/August), 39 - 44

# CHANNEL SYSTEMS / CATEGORY CAPTAIN MGMT.

## **McKesson: present at the creation:**

- \* Display: labor adds 10% to Display Cost
- \* Automated Inventory Analysis
- \* Collect & Analyze Market Data
- \* Shelf Mgmt Plan: Margin & Turnover Analysis
- \* Role of Safety Manager
- \* Group Coop Purchasing Power
- \* Coop Advertising
- \* Feasibility & Site Analysis

**Seymour Freedgood: “The Reluctant Dragon”**  
**Fortune 1962**

# Everything Impacts: Income Statement & Balance Sheet

- COGS down
- Gross Margin up
- Marketing costs down, focus on fewer, larger customers
- Selling costs down, focus on niche markets.
- Administration costs down via consolidate
- Sales to assets drops (excess inventory)
- A/R: collect sooner
- Bad debt expense down

# Ex of Mid-Sized Supermarket Chain

	<u>SPLENDID</u>	<u>NEWGUY</u>
• Price	21.6% MU	20%
• Stock Buy In	None	\$50000
• Salesmen	Salesmen	Merch Counselor
• Rebate	Flat 5%	4 to 6%
• Ship/Delivery	any time:	1/Wk:
• LTL LCL	LTL LCL	TL/CL
• Seminars	none	4x/Yr
• Inventory	38000	24000
• GM/S x S/Invent =		GM/\$1 per invent.
• Minimum Purchase	none	\$10,000/month

# NEW MODELS OF BUSINESS INNOVATION

- Changing the Rules
- Business Model Innovation
- Business Week (April 24, 2006), 63 – 76
- Innovation:
  - IKEA; Apple; Wal-Mart; Southwest Airlines
- Process Masters: remake the supply chain; Toyota works with suppliers, not just obsession to reduce costs
- Revolutionizing business models: NetFlix; Virgin Airlines; Amazon.com
- “Innovation does not have to have anything to do with technology” (Prof V Godindarajan: Tuck)

# NEW MODELS OF BUSINESS INNOVATION

- Microsoft CEO Steve Ballmer:
  - No longer thinks of his competition as other firms, rather, the competition is alternative business models
- Jay Desai, CEO of Institute of Global Competitiveness:
  - Business model innovation is harder than product innovation. It's harder to visualize & the scope is larger and more complex
    - Hamm & Symonds 2006 "Mistakes Made on the Road to Innovation" IN (Business Week) November, 27 - 31

# TACTICS V STRATEGIC

- Sustainable Competitive Advantage
- Strategic assistance that develops and strengthens partnerships & relationships
- Prof. James Narus: Wake Forest Univ.:
  - Supplier ability to reduce distributor customers' costs to serve his consumers
  - Ability to align with customer solutions
    - Institute for the Study of Business Markets.  
[www.isbm.org](http://www.isbm.org) 2008

# CATEGORY CAPTAIN MANAGEMENT

- A supplier-retailer process for managing entire product categories as SBUs & customizing them on a store by store basis to produce enhanced business results thru adding customer value;
- A category leader takes on a significant role in the retail management of the category, ***including the brands of competing suppliers*** (emphasis added)
  - D Desrochers, G Gundlach & A Foer 2003 J of Public Policy & Marketing

# Ex of Kraft Foods

- Supermarket chains give Kraft control of their supermarket aisles, including making shelf space decisions on Kraft competitors
- Kraft has responsibility for planning strategy / marketing for an entire group (SBU) of products
- Kraft has only assignment: **MAKE MONEY FOR THE RETAILER**
  - Copple 2002 Forbes (April 15)

# Ex of Kraft Foods

- Three-step Category Builder:
  - Take category apart: analyze data
  - Create a management plan in 2 days (vs usually takes 200 hours)
  - Which product to move to eye level & end of aisle
  - Where to position in-house brands
  - Price analysis for each brand
    - Copple 2002 “Forbes (April 15)

# Ex of GE

- How much capital tied up in equipment?  
(affects Sales to Assets, or asset mgmt)
- What are yield numbers on plant floor?
- What are my biggest operational problems?
  - Downtime
  - Plant capacity
- How much capital tied up in trucks & logistics

# THREE WAYS TO MAKE \$

- Margin Management: Profit to Sales
- Asset Management: Sales to Assets
- Financial Management: Debt to New Worth

# POWERFUL STRATEGIC STATEMENTS

- Cardinal: “our goal is to be an essential partner with our customers & help them solve their most pressing issues”
- Problem with focus: bonuses and career advancement too much tied to how much we can sell, not how much we can help our customers
  - Business Week (Oct. 13, 2003)

# POWERFUL STRATEGIC STATEMENTS

- “We definitely believe Coke is a source of competitive advantage for us”
- Wendy’s about Coca Cola:
  - Understand the nuances of Wendy’s business
  - Coke power in joint marketing campaigns
  - Understand different market segments
    - SOLVER
  - Fast food or Slow Food? 20 : : 80
    - S Lorge 1998 “The Coke Advantage” Business & Marketing Management (December), 17