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Retail Management: A Strategic Approach

Thirteenth Edition, Global Edition

Retail Management

A Strategic Approach

THIRTEENTH EDITION

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Chapter 4

Retail Institutions By Ownership

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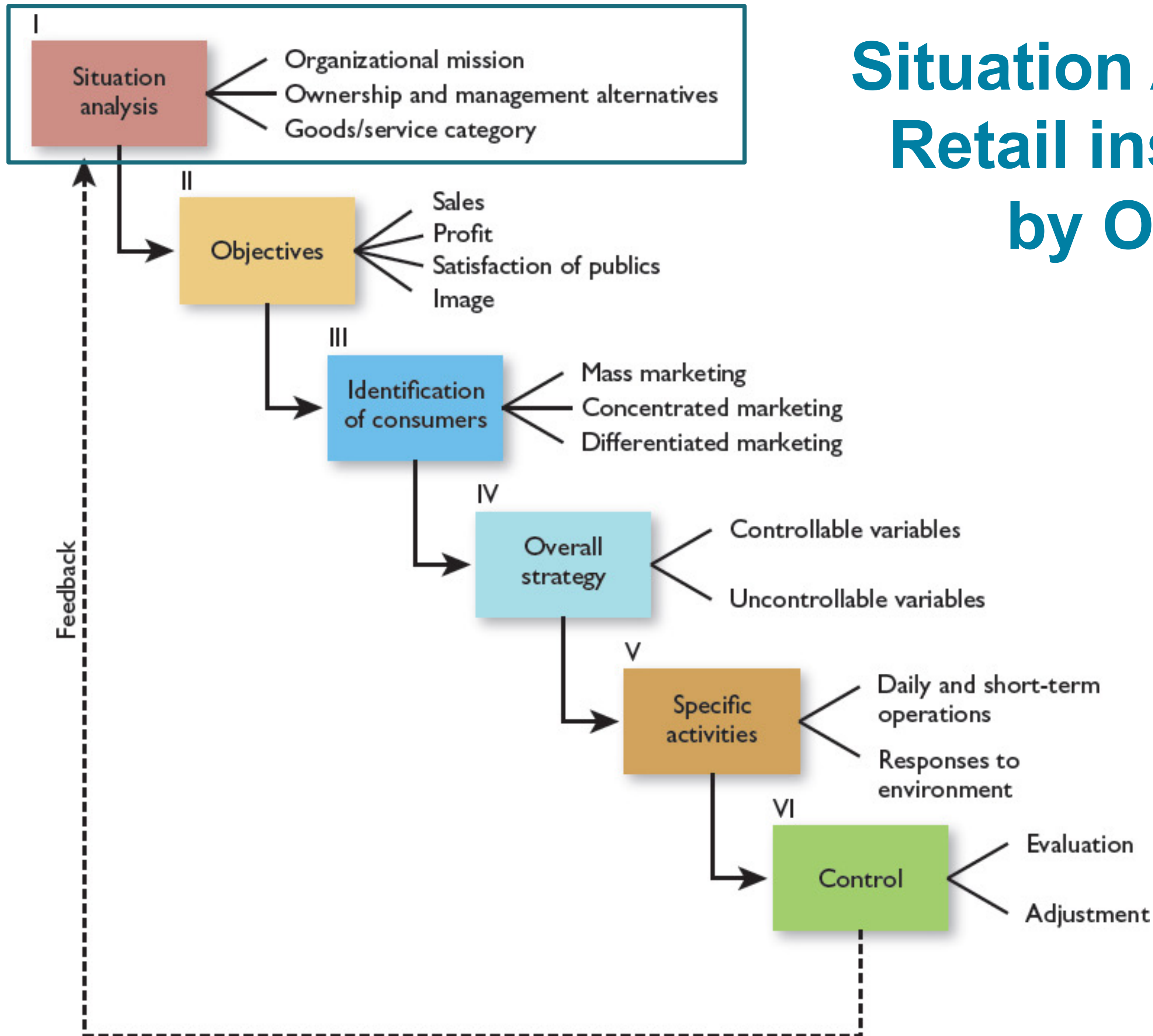
Situation Analysis: Retail institutions by Ownership



Retail Institutions

Retail institutions could be examined from 3 perspectives:

- **Ownership** (chapter 4 – today)
- **Store-based strategy mixed** (chapter 5 – optional)
- **Non-store based, electronic and non-traditional retailing** (chapter 6 – next week)

Ownership Forms

- Independent
- Chain
- Franchise
- Leased department
- Vertical marketing system

Independent Retailers

An independent retailer owns one retail unit

Advantages

- Flexibility in formats, locations, and strategy
- Control over investment costs, personnel functions, and strategies
- Personal image
- Consistency and independence
- Strong entrepreneurial leadership

Disadvantages

- Lack of bargaining power
- Lack of economies of scale
- Labor intensive operations
- Over-dependence on owner
- Limited long-run planning

Chain Retailers

A chain retailer operates multiple store units under common ownership; it usually **engages in** some level of **centralized** (or coordinated) **purchasing and decision making.**

Advantages

- Bargaining power
- Cost efficiencies
- Efficiency maintained by computerization, warehouse sharing, and other functions
- Defined management philosophy
- Considerable efforts in long-run planning

Disadvantages

- Limited flexibility
- Higher investment costs
- Complex managerial control
- Limited independence among personnel
- Excessive standardization due to extreme concern for bargaining power

Franchising

- A **contractual agreement between a franchisor and a retail franchisee** that allows the franchisee to conduct business under an established name and according to a given pattern of business
- Franchisee **pays an initial fee and a monthly percentage of gross sales** in exchange for the exclusive rights to sell goods and services in an area

Formats

Product/ Trademark

- Franchisee acquires the identity of a franchisor by agreeing to sell products and/or operate under the franchisor name
- Franchisee operates autonomously

Business Format

- Franchisee receives assistance: location, quality control, accounting systems, startup practices, management training
- Common for restaurants

Factors for Prospective Franchisees to Consider

COSTS: In exchange for the right to use the franchisor's name and benefit from the franchisor's assistance, you will pay various costs.

- Initial franchise fee and other expenses
- Continuing royalty payments
- Advertising fees

FRANCHISOR CONTROLS: To ensure uniformity, franchisors often control how franchisees do business. These controls may restrict the ability to use your own judgment.

- Site approval
- Design or appearance standards
- Restrictions on goods/services sold
- Restrictions on method of operation
- Restrictions on Sales Area

CONTRACTUAL OBLIGATIONS: Contracts last for the number of years stated. You can lose the right to your franchise if you don't comply with the contract.

- A franchisor can terminate the agreement for a variety of reasons.
- Renewals are not automatic. The franchisor may decline to renew or offer a renewal that doesn't have the same terms as the original contract.

Competitive State of Franchising

Advantages

- low capital required
- acquisition of well-known names
- operating/ management skills taught
- cooperative marketing possible
- exclusive rights
- less costly per unit

Disadvantages

- over-saturation could occur
- franchisors may overstate potential
- contractual confinement
- agreements may be cancelled or voided
- royalties are based on sales, not profits

From the Franchisor's Perspective

Benefits

- national or global presence possible
- qualifications for franchisee/operations are set and enforced
- money obtained at delivery
- royalties represent revenue stream

Potential Problems

- potential for harm to reputation
- lack of uniformity may affect customer loyalty
- ineffective franchised units may damage resale value, profitability
- potential limits to franchisor rules

Potential Conflicts Between Franchisor and Franchisee

- **High power of franchisor relative to franchisee**. Franchisee needs franchisor approval to sell business, and to extend franchise. Lease is generally in name of franchisor
- **Franchisor obtains profit based on gross sales, not on franchisee's profitability**
- Franchisor requires goods and services to be purchased from itself or approved vendor
- **Franchisor can break up territory of existing franchisee, reducing its sales and profitability**

Leased Departments

- A department in a retail store that is **rented to an outside party**
  - The proprietor is responsible for all aspects of its business and **pays a percentage of sales as rent**
  - The department store sets operating restrictions to ensure consistency and coordination

Benefits

- provides one-stop shopping to customers
- lessees handle management
- reduces store costs
- provides a stream of revenue

Potential Pitfalls

- lessees may spoil store image
- procedures may conflict with department store
- problems may be blamed on department store rather than lessee

Vertical Marketing Systems