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BUS348: Retail Management

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Module 2 Assignment

Short Answer (4 to 5 sentences)

1. Briefly define an independent retailer and provide an example from your local community. Will independent retailers disappear from business as chains get bigger (no right or wrong, but support your opinion)?

Independent retailers are individually owned and operated businesses that may have no affiliation with other stores. They are characterized by their ability to provide a personal touch, customization, and individual service. Independent retailers often have a loyal customer base that values their personalized offerings and presence in the community. My parents are running an independent retail business and so far, we are able to stay on the market as we have our own customers since many years. According to that I would say, that independent retailers have a chance as long as they have their loyal customer base.

2. What is franchising? Provide an example using a major company. What are some advantages and disadvantages of franchising?

Franchising is, when a chain offers you to buy their company name and run it for them. That means, franchising as a form of distribution characterized by a franchisor seeking independent entrepreneurs who, with their own capital investment, offer goods or services provided by the franchisor. A well-known example is McDonalds. McDonalds offers independent entrepreneurs to open a restaurant under their name. However, the entrepreneur must provide the equity and give part of the profit to the main McDonalds company. The advantage of this is that the name of the restaurant is known and customers can expect the same quality. Accordingly, the establishment of such a franchise is quite simple. On the other hand, the entrepreneur has no own decisions on the company. The main company sets the rules, which must be followed without exceptions. Accordingly, the entrepreneur is very limited in his freedom of decision and can hardly make decisions himself.

3. Describe the wheel of retailing as shown in Figure 5-1.

Figure 5-1 shows three strategies which are referred to as low-end, medium, and high-end strategy. Now, according to this theory, when a retailer enters the market, initially its prices are low and the store has limited facilities and services. In addition, they have price-sensitive consumers at the beginning because the store does not yet have a high status. Now the business grows and thus they expand their product range and services, improve their store formats and

increase their prices. Accordingly, they then also change from Broader base of value- and service conscious consumers to Upscale consumers.

4. Briefly describe the retail life cycle.

The retail life cycle is a model or concept from business administration that represents the various phases of a product from its market launch to its removal. The five phases are called Development, Introduction, Growth, Maturity, and Decline. It assumes the development and success of a product on the market by recording sales or turnover over time. With the help of a product life cycle analysis, companies can gain insights into the life of the product and consequently introduce appropriate adaptation measures. Retail life cycle theory was developed specifically to help companies maximize profits. Therefore, it can only be applied to products and is poorly transferable to services.

5. Describe two ways that retail companies are evolving.

Companies are evolving as they know they must adapt their individual strategies to the competition as customers demand lower and lower prices and as a result, profit margins are shrinking. Companies are now responding with mergers, diversification and downsizing, as well as cost containment and value-based retailing.

On the one hand, diversification is very popular with companies. Retailers are starting to sell goods that don't actually fit their assortment. One example is Bed Bath & Beyond, which sells Christmas trees during the holiday season.

On the other hand, companies are starting to downsize more and more in order to have fewer costs. Various locations are being closed because they are no longer profitable enough to cover costs. Thus, companies are trying to focus on fewer locations and eliminate unnecessary locations. This trend is on the rise.

6. Compare and contrast single-channel, multichannel, and omnichannel retailing.

In the beginning, retailers often relied on single-channel retailing. This is a retail strategy where the retailer operates through only one medium. For example, the company focuses on either a physical store or an e-commerce website. As the company grows, it often switches to multichannel retailing. Now the retailer optimizes the buying experience by operating on multiple channels. Accordingly, the company now focuses not only on the brick-and-mortar store, but also offers customers the opportunity to make purchases through e-commerce and catalogs. The goal is to offer customers multiple ways to visit the retailer and make purchases. Finally, to optimize efficiency and improve the customer experience, retailers are embracing omnichannel retailing and offering a consistent, uninterrupted and seamless shopping experience regardless of channel or device. Here, the retailer integrates all channels and, for example, offers customers to order their product online and pick it up in-store.

In summary, single-channel retailing is limited to one sales channel, multichannel retailing uses multiple channels, and omnichannel retailing provides a seamless and integrated experience across all channels.

7. Electronic retailing continues to grow. How do you think the Internet and Web will continue to alter the retailing experience?

I think, that e-commerce and therefore electronic retailing will take over the whole market. You are already able to order groceries and any kind of goods online. When I was talking to my chef about that topic, he said, that there wont be any physical markets anymore where you can buy fresh food and anything else. We will see a change that everything is getting ordered online and is being delivered within a day to your door. I actually hope, that this wont be the case but unfortunately, it does look like we are going to do it that way.

Long Answer (8 to 10 sentences)

1. Find some company that offers franchising and discuss what the franchising details are. For example, how much do you need to spend to get a retail store or gas station? What are some of the 'rules' to follow? Etc.

McDonald's is a well-known company worldwide. There are numerous branches in small and large cities, so it is usually not difficult to find the nearest McDonald's restaurant in the area if needed. Since long ago, McDonald's has been franchising, which means that the branch operators get the right to implement the McDonald's concept in exchange for a fee. First of all, a working company concept is the key to success for any business. But there are other factors as well. For example, one important factor is that McDonald's makes sure that its stores are not too close to each other, so that there is no internal predatory competition.

Moreover, McDonald's pays for all construction and development costs. For the entire process of producing the sales products in the restaurant and the services, McDonald's supplies a comprehensive work concept that specifies in detail exactly how a McDonald's restaurant must be run. This eliminates much of the work that an entrepreneur normally has to do laboriously in the early years. McDonald's concludes a contract with the franchisee that stipulates a commission based on net sales. The usual rate is 5 percent. In addition, McDonald's charges a fee for leasing the restaurant. The amount is also determined by net sales.

In addition, each franchisee is required to invest 5 percent of its net sales in advertising. The "Advertising Fund for National and Regional Sales Promotion" receives part of this sum, which it uses to finance national TV advertising, for example. Furthermore, the contract usually runs over 20 years, which can give a security but also a risk, if the business is not doing well.