



Retail Segments and Formats

The retailing of goods can be divided into 6 main segments or formats - department stores, mass merchants, large format specialty stores, small format specialty, food and drug and home shopping. We will look at each of these formats in turn.

Department Stores

Department stores are one of the oldest formats in retail. They are usually located in malls or central shopping districts. Traditionally department stores in the US especially have been the anchor stores for shopping malls. Unfortunately, department stores are in somewhat of a decline in recent years and are no longer the only anchor stores in a mall. In some instances, mass merchants are starting to fulfil this role. Also, as shoppers have become more time stressed and the Covid pandemic has encouraged more consumers to shop online, interest in department stores is waning.

Department stores carry a wide product assortment, usually 250,000 to 2,000,000 stock keeping units (or SKUs) in several hundred merchandise departments. Most departments are seasonal, so they operate as merchandise management retailers in both processes and systems.

Most stores are large – around 50,000 to 1,000,000 square feet (or 5,000 to 100,000 square meters). The majority generally fall within the 50,000 to 200,000 square foot range and they have multiple floors. Store traffic is usually highest on the entry level floor and diminishes the higher up the store you go. Hence impulse departments are more often on the ground floor or close to stairwells and planned purchase departments like furniture are higher up. The customer services department is usually the most remote location in the store. All department stores have restaurants and coffee shops to encourage shoppers to dwell longer in the store.

Generally, display fixturing is expensive and the store ambience projects a higher quality than other stores. A typical department store may have 30 to 80 cash points and these are mostly dispersed around the store. The big flagship stores like Harrods will have a lot more registers, usually in the low hundreds. A lot of the cash points will only be open in the run up to Christmas when sales peak dramatically.

Department stores tend to trade at higher prices and have regular promotions. Therefore, they operate what is known as a Hi-Lo pricing policy. Hi(gh) in regular times and lo(w) in promotional times.

Although a store may have 200 to 400 departments a good number will be concessions or leased departments. These are run by the companies whose brand is displayed over the department. They buy the inventory and plan their own displays. They also employ the staff working in their space. The store takes their sales revenue and banks it, paying the brand their share, net of rent, some weeks later. Hence the department store retailer may only buy for and manage half the departments in the store. These are referred to as own bought departments. There are a few departments stores around the world that are now leased departments only and the store owner is acting as a real estate or property company, renting space to the concessions.



Department stores have a focus on customer service. They will usually employ several hundred staff per store, most of whom will be part time, except in countries with strong unions like Germany. Many extra temporary staff will be recruited for the Christmas season. This recruitment impacts both stores and warehouses.

Financially, department stores operate at higher gross margins and higher expense levels than other retailers. They operate a free form store layout, so shoppers can move between departments in any direction they like. One of their advantages is that they can flex their space allocations between departments more easily than other retail formats. For example, the space allocated to luggage can be expanded around Easter time and contracted at the end of summer. Toys will have a very small space allocation in the first half of the year, and it will expand significantly in September through December. The Christmas decorations department will only exist in the store for 3 to 4 months.

You can see an example of free form store layout in the Store Formats document in the Resources tab.

It can be very helpful to have a sense of the key numbers in retailing and you can download a guide comparing all 6 segments discussed here from the Resources tab.

Mass Merchants

Mass merchants are retailers that operate stores mostly between 80,000 square feet and 200,000 square feet of selling space, but they are all single floor stores and mostly in strip mall or edge of town locations, rather than city centers. They have ample car parking and easy access. They offer a wide assortment of goods, but not many of them stock designer merchandise. Target, in the US, is an exception. Some of them trade 24 hours a day.

Generally, they have a narrower assortment than department stores. Typically, they hold 100,000 to 200,000 SKUs. The mix of merchandise types is quite varied and mostly includes food, household goods, electrical and fashion. Hence, they are a mixture of category management and merchandise management in product, processes and systems. They operate a fashion area using similar display techniques to department and fashion stores, and they have food and housewares areas using fixturing and display methods common in grocery stores. Hence shoppers walk the stores in a more regulated way. Prices are usually lower than department store prices, which is made affordable because they trade from cheaper sites and have lower operating costs. This is evidenced by the supermarket style checkout bank at the front of the store, with anywhere up to about 50 registers in the largest stores, supermarket style gondolas for food and household product display and more self-service.

Mass merchants typically operate an EDLP (everyday low pricing) approach. They do offer promotions, but their prices are low outside of promotional times.

Financially, their lower operating costs means that they can trade with lower gross margins than department stores. A higher proportion of their merchandise is category management products rather than merchandise management products, so they have lower clearance markdown costs, less stock obsolescence, more sales history at SKU level and this enables higher accuracy in demand forecasting, which in turn means lower costs. Also, those that follow an EDLP (everyday low pricing) model, such as Wal-Mart, also have lower promotional markdown costs.



Mass Merchants tend to follow a grid store layout like supermarkets, but some do sell clothing and may have a free form layout in the areas that stock clothing.

Large Format Specialty

Large format specialty retailers carry very deep assortments of merchandise in a single category, like toys, electricals, home improvement and furniture. They are often called “category killers”. Some of them, like home improvement stores sell mostly year-round merchandise and are therefore category management retailers in terms of product, processes and systems. Some though, like toy retailers have much more marked seasonal profiles and therefore operate as merchandise management retailers. Large format specialty stores are mostly located in strip malls or edge of town locations, where they can get large sites with ample parking at a relatively low cost.

Large format specialty stores that operate more in the category management segment are generally EDLP retailers (everyday low price), though this is not always true. Those that operate in a merchandise management style are more likely to follow Hi-Lo pricing strategies, but again this is not guaranteed.

Depending on the business area, the number of SKUs can vary from 8,000 in office supplies to 120,000 in home improvement. Stores are large at about 50,000 to 100,000 square feet (or 5,000 to 10,000 square meters) so they can carry the width of assortment necessary to be a category killer. The sheer width of their assortments and their “authority” in their merchandise areas, coupled with ease of access, makes them a destination, rather than a store you pop in to because you are passing by.

Like mass merchandisers, they offer limited service, have supermarket style check out banks and either supermarket style fixtures and floor layouts or even warehouse racking style fixtures in the case of DIY or home improvement retailers, and warehouse clubs. Large format electrical retailers like Best Buy in the US and Currys in the UK fit somewhere in between in terms of display and also have to offer a higher level of service because the consumer often needs the retailer’s specialist product knowledge when deciding which model to buy.

Again, like mass merchandisers, prices tend to be lower than the same product in a department store and these retailers can run at lower gross margins because of their cheaper operating costs.

Most of these retailers are omni-channel operators, so consumers can order their products online and have home delivery or click and collect at the store (known as BOPIS in the US) or buy online, pick up at curbside in countries where parking makes it feasible.

Some of these retailers also provide specialist services where appropriate. For example:

- Home Depot in the US and B&Q in the UK also have separate trade counters where they sell at trade prices to professional small builders, carpenters and the like
- Home Depot provides short term truck rental at the store for taking the materials for a large project home
- Best Buy in the US and Currys in the UK provide Geek Squad style technical services for shoppers who don’t have the knowledge to configure technical equipment or need help with a maintenance or warranty issue.

Small Format Specialty



Small format specialty retailers are smaller stores carrying a narrow variety of merchandise in a single product area, such as clothing, accessories, shoes or jewelry. Stores are located in malls and town centers and are usually 2,000 up to 20,000 square feet (or 200 to 2,000 square meters). They typically carry 5,000 to 10,000 SKUs.

Whereas mass merchandisers and large format specialty stores are generally destination stores, small format specialty stores are destination stores for their loyal customers, but rely more on passing traffic, because of their town center or shopping mall locations, for a bigger share of their sales.

Fixturing and design standards are normally high and in line with the better department stores. Customer service standards are generally good too and they operate at fairly high gross margins. Examples include Gap and the Limited in the US, UK headquartered New Look, Scandinavian owned H&M and Spanish owned Zara. In general, small format specialty stores tend to be hi-lo price retailers, except for formats like dollar or pound stores.

Floor layouts are similar to department store layouts and allow easy movement around the store. Some stores use a loop layout instead of the free flow layout depending on their product mix. Unlike mass merchandisers and large format specialty stores, window treatments are considerably more important.

Many small format specialty stores were deemed non-essential retailers during the Covid pandemic and have suffered big drops in sales and profitability as a result of continuing Government lockdowns.

There is one kind of small format specialty store doing well in the current pandemic. This is dollar stores in the US or pound stores in the UK. These stores carry a wider assortment than other specialty stores, with more product categories and their specialization is sourcing and selling at a price. Poundland in the UK (also known as Dealz in Poland) is a good example.

Food and Drug

Food and drug retailers can be divided into three subcategories – supermarkets, convenience stores and drug stores or pharmacies. Many grocery chains operate both supermarket and convenience store formats and, in some countries, supermarkets also include pharmacies inside their stores. This is not legally possible in all countries. Hypermarkets are sometimes viewed as grocery by some people but are perhaps better viewed as mass merchandisers. Many hypermarkets carry similar product ranges to mass merchandisers like Wal-Mart and Target.

All grocery and drug store retailers are category management retailers in terms of product mix, business processes and IT systems. They typically use the grid layout floor plan except if they sell fashion as well, in which event they might use the free flow layout in addition.

Supermarkets are usually 30,000 to 100,000 square feet (or 3,000 to 10,000 square meters) in selling area and carry 18,000 to 50,000 SKUs. Their product offering is grocery, general merchandise, fruits and vegetables, dairy and non-grocery items, such as detergents, household cleaners, health and beauty and sometimes pharmacy.

They have between 5 to 50 cash registers per store.



Many larger supermarkets carry some basic clothing. Examples include Kroger in the US, UK headquartered Tesco and French owned Carrefour.

A rapidly growing sub-sector in the supermarket space has been limited assortment, aggressively priced supermarket chains, notably Aldi and Lidl, but also Netto in Denmark. These stores carry 2,000 to 8,000 SKUs and a typical shopping basket or cart can be 30% cheaper than the regular supermarket equivalent. Obviously, with this narrow a range, they focus on the best-selling lines for their target customers. When they first started expanding, their products were mostly unknown brands with variable product quality. Over the years they have improved the quality of their own brand dramatically and now their own brands regularly win product quality competitions. When they first launched, the big consumer goods brands would not sell to them because of the volumes they had at risk with the big supermarkets. They can no longer afford to take this view as Aldi and Lidl now have huge sales volumes and they continue to grow aggressively, while maintaining their low-cost model. It is evident that Lidl's store location strategy is to get as close to a big supermarket as they can. Thus, the customer can shop Lidl first and get the savings and go to the big supermarket afterwards for the products Lidl does not want to carry.

Regular supermarket chains are mostly hi-lo price retailers, while the limited range supermarkets like Aldi and Lidl are EDLP.

Convenience stores (or c-stores) carry similar products to supermarkets, but with a much shallower assortment. So, they typically carry 500 to 10,000 SKUs from stores that are about 2,000 to 10,000 square feet (200 to 1,000 square meters).

They have only a few cash registers, usually 1 to 8. C-stores may be stand alone or located alongside gas or fuel stations. Sometimes the fuel company operates these stores and sometimes it is the retailer. Examples are Spar in Europe, and Circle K or 7-11 in the US. C-stores generally have higher prices than supermarkets, because they don't sell the same volume of an SKU. A rough rule of thumb is that convenience stores will be 6 to 10% more expensive than a supermarket for the same item, though there are some known value items where the c-store cannot do this. Fresh milk in the UK would be one example. Hence, convenience stores are more hi-lo rather than EDLP.

Drug stores are generally smaller than supermarkets at 20,000 to 40,000 square feet (or 2,000 to 4,000 square meters). They typically carry 20,000 to 40,000 SKUs and offer a pharmacy, a full assortment of health and beauty products, greeting cards, some food, gifts and convenience items.

Examples are Walgreens (owned by Alliance Boots) and CVS in the US, Alliance Boots in the UK and Matsumotokikoshi in Japan. Drug stores get a very high percentage of their traffic from people either submitting or collecting their prescriptions or scripts. This can be over 40% of a drug store's sales. The pharmacy is normally at the back of the store, so that customers have to walk past the impulse purchases to get to the pharmacy counter and a percentage buy things they didn't know they needed until they saw them on the shelves.

Contrast this to supermarkets where they often put the pharmacy at the front of the store. This is deliberate because the supermarket customer shops groceries mostly to a set routine, say every Friday. But they go to the pharmacy the day the prescription is written because they need the medication, whether it's their grocery shopping day or not. When they get to the pharmacy and they ask how long the wait will be the answer is always something like 10 to 15 minutes. That's too



short to go home and come back later and too long to wait patiently. So, consumers browse the store and a percentage buy something else they didn't need when they left home.

Drug stores tend to be more hi-lo than EDLP, though this is not always the case.

Home Shopping

Home shopping started in the last century with the original Sears Roebuck catalog. This allowed people all over America, who lives too far from a trading post or store to buy from a paper catalog and get delivery via stagecoaches and freight wagons. Since then, it has transformed into a largely online business with next day delivery common for many people.

Home shopping evolved through several stages:

- Ordering by post from a printed catalog, receiving delivery eventually
- Provision of credit in the form of weekly payments to a local agent
- Ordering by phone through a call center
- Ordering online, paying by credit card and delivery to your home
- The gradual replacement of paper catalogs with online presentation of merchandise, though some companies still like to publish a paper catalog as well
- The introduction of delivery to your local store of choice instead of home delivery
- Delivery to a third-party pickup location
- With the advent of Covid-19, pickup at curb side, initially because non-essential stores were closed to the public. This is now rapidly becoming an expected service, even when stores are open.
- The introduction of assortment management strategies so that stores do not need to carry the full assortment. Instead, they carry the more popular lines, and the remainder of the assortment can be ordered online.

2020 has been a bumper year for the development of online retailing. Some countries are still at the beginning of their online retailing journey with online sales being as little as 1% of total retail sales. Other countries like the UK currently have 31.5% of all retail sales from the online channel and this will continue to grow. In fact, due to covid-19, online retail sales in the UK have taken an additional 10% of total retail market share in the last year, equivalent to nearly 50% annual growth!

The US has had a very similar experience and Jeff Bezos is now reportedly the world's wealthiest person. Amazon has delivered massive growth fueled by lock downs in so many countries.

Buried among the news in all this progress:

- Argo's publishers of the most widely distributed catalog in the UK announced that they will cease to print a catalog and focus on online publishing.
- IKEA, the global furniture retailer announced that they will no longer publish what was probably the most widely distributed catalog in the world.



So online retailing is continuing to grow, though there could be a temporary slip back in online market share once the richer countries have vaccinated enough of their populations against Covid. This is by no means certain but could happen.

Stores are changing in response to online shopping growth. More stores are closing as online share grows because they cannot all stay viable. Store roles are changing too. Larger stores are acting more as brand builders. Some stores are becoming smaller as part of the full assortment is sold by encouraging consumers to order online, often from inside the store. Some stores are becoming local hubs to deliver online order or act as collection points for online orders.

Apart from the growth in online market share, what will continue is the development of retailer's understanding of how to develop best practice with the vast reams of additional data that online retailing makes possible. Just to take one example, brick and mortar retailers only have relatively crude ways to estimate the true lost sales when a product is out of stock, because of the share of theoretical lost sales satisfied by product substitution. Online retailing, with the right systems support, allows much better estimation of the substitution effect and thus better predictions of true demand.

A recent challenge has been to track a consumer's progress on their shopping mission across the various channels they can use. Various emerging solutions are taking shape now to make this process better understood and to allow retailers to adjust their sales and service models accordingly.

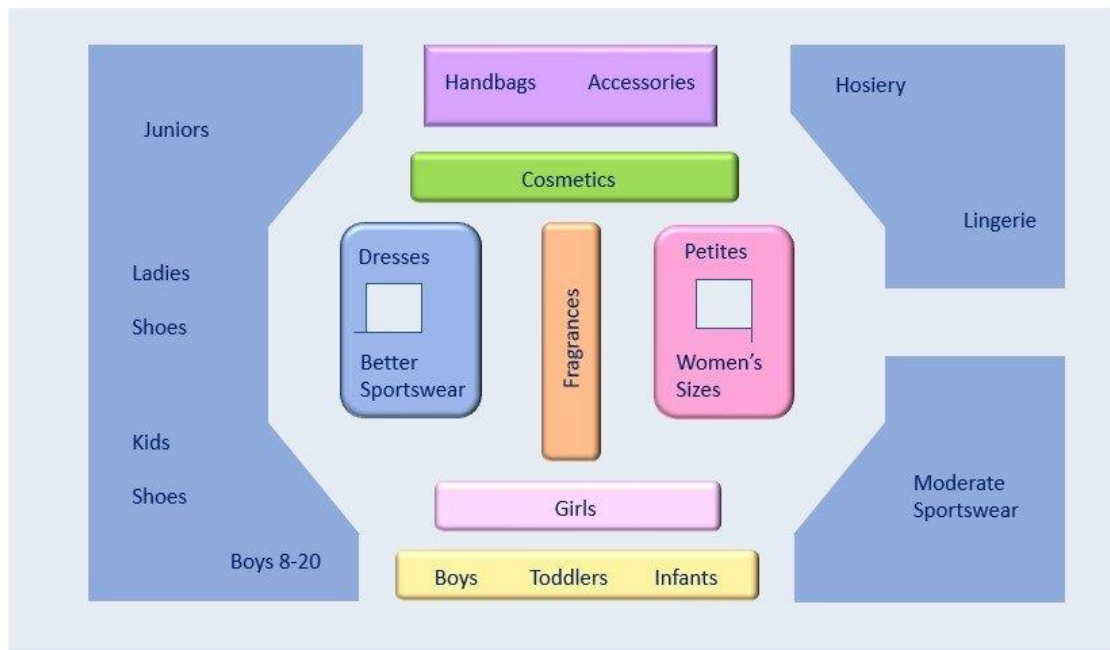
However, there are some disadvantages with online retailing, so retailers will need to develop their plans with these in mind.



Floor Layouts

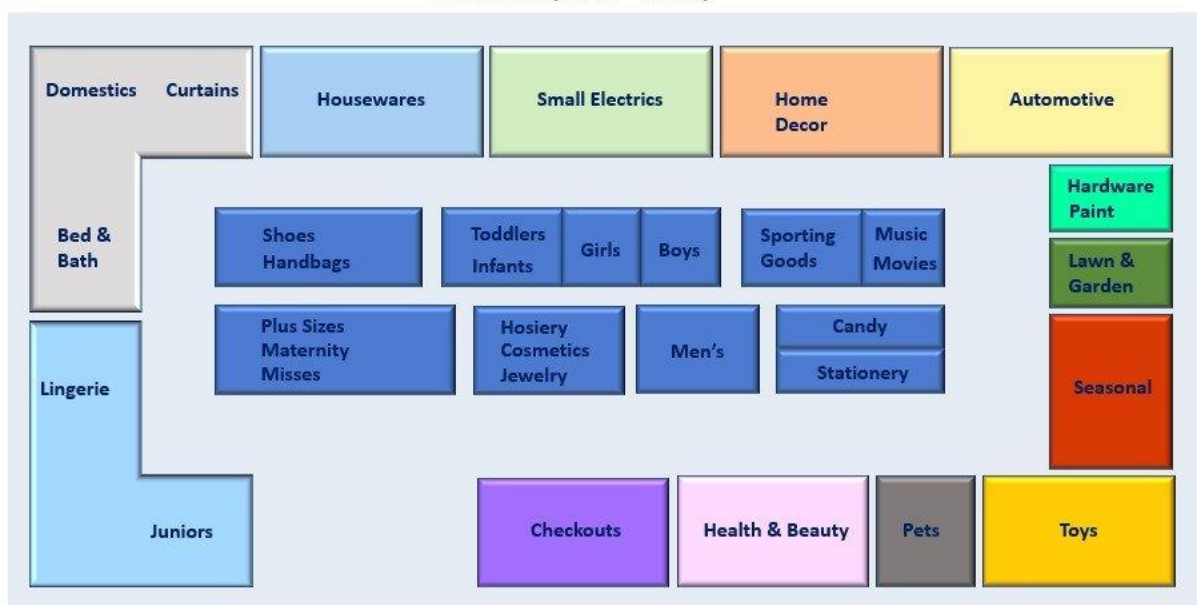
Free flow layouts allows shoppers to roam the store at will. It is the standard department store approach and may be seen in some fashion stores. The store has multiple entrances between the darker blue fixture areas.

Store Layout – Free Flow



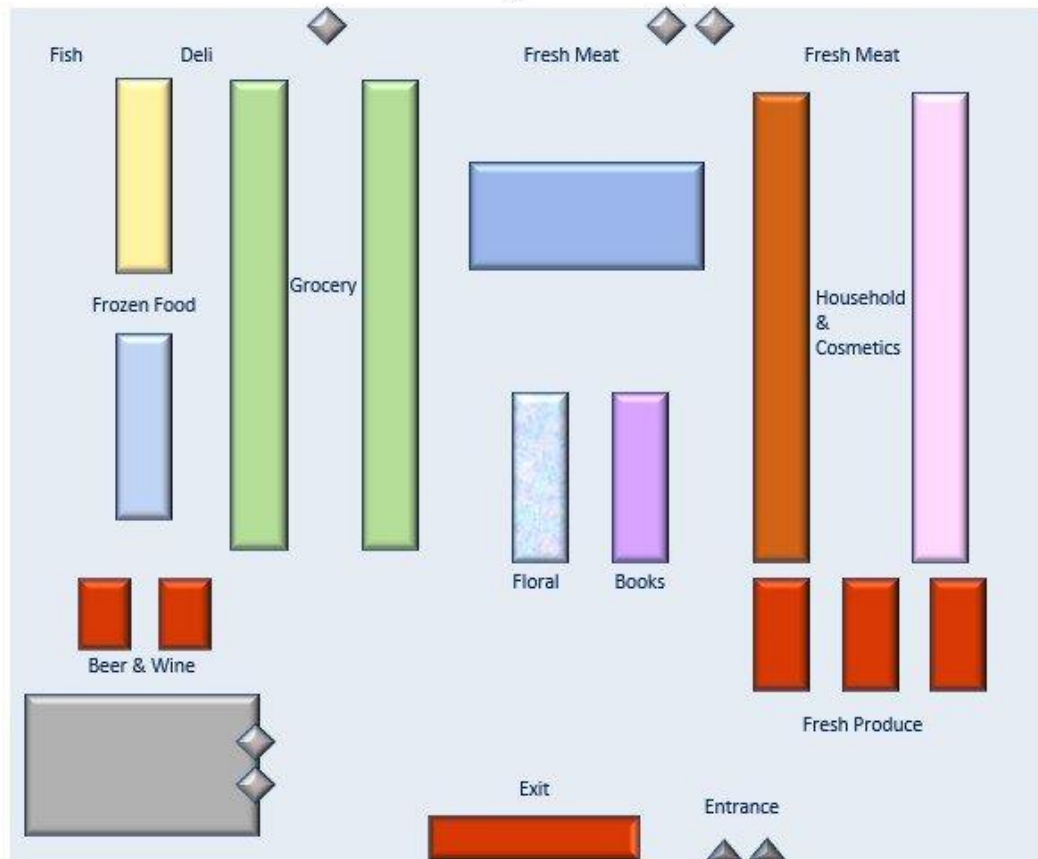
Loop layouts are used in a variety of small format specialty retailers, such as some fashion stores (especially if they do not sell fast fashion), gift stores and household goods stores, handbag shops, hardware shops, etc.

Store Layout - Loop



Grid layouts are common in grocery and drug stores, large format specialty stores and the non-fashion parts of mass merchandisers.

Store Layout - Grid



The layout below is common in stores that sell fast fashion merchandise or other products that have an 8 week season. The new collection comes into the store and occupies the window and the front half of the selling area, shown in red. The previous season's merchandise that was previously in red, has been sold down to a smaller quantity and it is moved back into the yellow area to carry on selling. What was in the yellow area has also sold down and is moved into the green area. What was in the green area has been sold down and the remnants are moved to the clearance rail at the back. Accessories are positioned near the register areas and basics in the grey areas.

