FOUR MISTAKES RETAIL MARKETERS MAKE
&
THE BEST MARKETING PRACTICES

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Abstract:

Retailers make four major mistakes when developing and implementing marketing strategies resulting from centralized management of the marketing process and little control by local retailers. Best practices can be concluded from case study analysis of three retailers, wherein local control of the marketing process with support from the national/regional retailer produces winning results.

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Executive Summary

The emergence of discount retailers, bombardment of consumers with advertising and dwindling ability of traditional media to reach target audiences has revealed local marketing by retailers to be the best strategy for retailers today and in the future.

However, retailers are slow to react to changes and make common mistakes when trying to drive local sales. In a study of twenty retailers across various retailing industries including general retail, apparel retail, home goods retail and consumer electronics, the four most common mistakes encountered were:

1. Retailers too often ignore the relationship between individual store inventory and the focus of local advertising
2. Retailers and their local stores focus on "gimmick" promotions to get customers in their stores instead of building relationships with customers through meaningful local advertisements.
3. Local advertisements lack a relevant message between the retailer and the brand(s) being advertised.
4. Retailers quickly resort to coupons or dramatic price reductions to attract customers.

Each of these problems reflect the fundamental misunderstanding that local advertising cannot be high quality and retailer advertising must be centrally executed: there is a better way.

A. Allow local retail store managers to make advertising decisions based on local market factors, especially inventory and competitor price.
B. Give the local advertisers the tools and creative support to get their message to the local market in an effective and high-quality manner.
C. Retailers must create events/promotions/coupons that will effectively attract or retain customers as well as allowing local managers' initiative.

Ultimately, these solutions can be implemented through effectively using technology to link retailers, brands and local managers unlike ever before. Web-based solutions and ad building technologies hold the keys to leveraging the power of brands and retailers while giving local decision makers the ability to build customer relationships.

Position

In a study of twenty retailers across various retailing industries including Ace Hardware, Bed Bath & Beyond, Best Buy, Circuit City, Dillard's, Family Dollar Store, J.C. Penney, Kmart, Kohl's, Linens n' Things, Lowes, Macy's, Nordstrom, Sears, Target, The Home Depot, True Value and Wal-Mart, every retailer surveyed followed a traditional marketing strategy of increasing brand awareness through national efforts like television, newspaper and limited online advertising. However, many local retailers have been reporting decreasing same-store sales. While some would be quick to dismiss this as nothing more than consumers cutting back on spending, when examined, the retailers appear to be using ineffective marketing strategies that fail to reach their intended consumers.

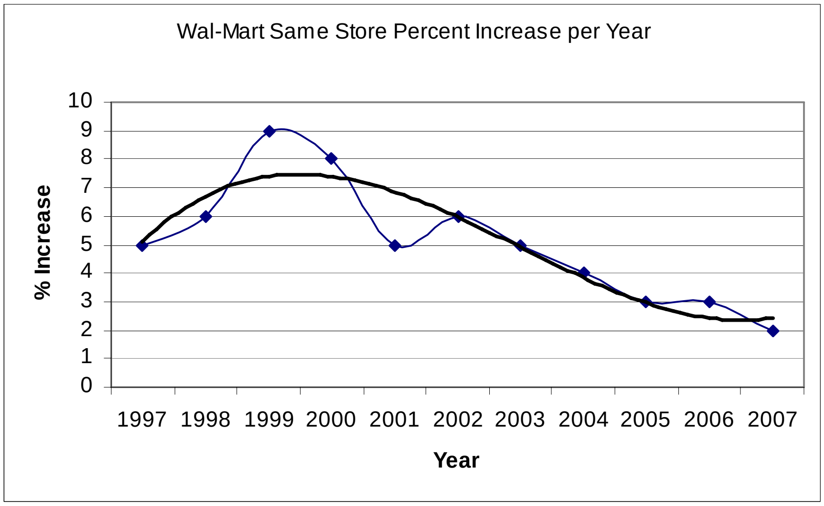
Can we attribute the sluggish same-store sales to the overall economic performance of the United States? When looking at retailers as a whole, national retailers who focus on national branding with less local input fared dramatically worse than national retailers who allowed their local branches to control their own marketing. (Alpine Consulting, 2007) However, a recent study has shown that many consumers have a less favorable view of local advertising because they associate it with loud used-car salesmen rather than with national retailers establishing a relationship with them. (Richmond Solutions, 2007)

Retailers and the brands they sell have always faced the problem of creating brand and store awareness with only a generic message that raises a consumer's awareness but fails to influence a customer's store and product selection. With declining national newspaper subscriptions and devices like TiVo allowing viewers to bypass commercials, advertisers must evaluate where they will receive the best return on their investment. Studies suggest that local marketing is an effective strategy because localized or specific messages provide consumers with a sense of communication "with" them, not "at" them. (Meyer Associates, 2007)

Three retailers that illustrate the use of ineffective marketing methods are Wal-Mart, Macy's and True Value. Each retailer uses traditional, centrally controlled strategies that fail to take into consideration the local conditions at each store.

Case Study: Wal-Mart

While once Wal-Mart was the envy of discount retailers across the United States, today the image of the company has been hindered by ethics scandals, grass-roots backlash and negative public perception of employee treatment. Moreover, some analysts view Wal-Mart's moving away from Sam Walton's "hometown identity" philosophy to a national brand message as the underlying cause of Wal-Mart's recent slowing.



Sam Walton believed strongly in local store control over advertising because as Walton wrote in his autobiography, “The secret of successful retailing is to give your customers what they want.” He believed that only the local store manager was in the position to understand his community and know not only his customers but also what goods they were looking for. When Walton was managing his first store, he frequently went into his competitors store to research his prices and inventory in an effort to provide better goods at better prices. After Walton’s death, Wal-Mart has focused on building up “Wal-Mart Brand” products and raising the recognition level of Wal-Mart in consumers’ eyes.

However, consumers have given Wal-Mart’s branding strategy mixed results. While some consumers purchase the low price Wal-Mart brands, others prefer national brands because they feel they are higher quality regardless of the higher price. Moreover, other discount retailers like Target and Sears have altered their business practices to lower costs to be more competitive with Wal-Mart.

Interestingly, Wal-Mart was originally founded on the principle that local store managers should have control over local advertising. Since the death of Sam Walton in 1992, Wal-Mart’s advertising executives have taken control away from store managers and put it in the hands of national marketers. This has resulted in items advertised in FSI’s to be grossly out of touch with local store inventories. Although Wal-Mart touts its advanced inventory tracking as providing unparalleled levels of response to market forces, many times Wal-Mart’s marketing materials make promises local stores cannot reasonably deliver upon.

It is hard to believe that a local manager would choose to advertise an item if he knew he had a severely limited quality and demand was high. This results in a “gimmick” to get consumers into a local Wal-Mart only to have them disappointed. Ironically, this is a situation Sam Walton sought to avoid when he described his view on being a customer, "You love it when you visit a store that somehow exceeds your expectations, and you hate it when a store inconveniences you, or gives you a hard time, or pretends you're invisible."

Ultimately, it is difficult to see how Wal-Mart's strategy can be effective when their main competitors Target, Sears and Kmart are maneuvering to "out Wal-Mart" Wal-Mart by focusing their advertising efforts on establishing relationships with customers. While Wal-Mart may have low prices, they will certainly face fierce competition from their rivals who focus on creating customer relationships and exceeding expectation.

The further irony in Wal-mart's current situation is that a strong brand and localized decision making CAN co-exist in today's marketer with available advertising technologies. Wal-Mart's centralization of marketing decisions did not have to occur at the expense of all of the retailing principles of Sam Walton that helped Wal-Mart attain its dominating growth.

Case Study: Macy's

Month (2006-07)	Sales (mil)	# of Stores	% Change, Same Store
October	1,862	857	7.7%
November	2,382	860	8.5%
December	4,995	860	4.4%
January	1,782	858	8.6%
February	1,801	858	1.2%
March	2,286	859	2.3%
April	1,834	863	-2.2%
May	1,974	863	-3.3%
June	2,317	863	-2.7%
July	1,601	863	-1.4%
August	1,786	864	2.4%
September	2,271	866	-2.7%
October	1,849	866	-1.5%

When Macy's re-branded the roughly 400 former May Company retail stores they acquired on September 9, 2006, Macy's touted their accomplishment claiming:

> "We hosted downtown block parties, sponsored major sporting events, toured the famous Macy's Thanksgiving Day Parade, triggered spontaneous dancing in the streets … and made millions of customers very, very happy as we introduced Macy's in a way they had never before seen."

However, Macy's same-store sales, while at first increasing steadily, have decreased seven of the last eleven months in 2007. April through July saw decreases in sales comparing the national Macy's brand to the variety of brands present in 2006. In

September and October 2007, same-stores sales continued to decline more than a year after unifying under the single Macy's brand.

The best explanation for this decreases in same-store sales is that while Macy's has focused heavily on national branding and awareness, their efforts to get customers to purchase goods in their local Macy's have fallen short. (Klein Partners, 2007)

Instead of resorting to nationwide marketing campaigns and drastically cutting prices to generate volume sales, Macy's should focus more of its marketing efforts on focused advertising at a local or targeted level. First, Macy's introduced a loyalty program for their credit card holders to reward them for shopping and to send them special coupons for merchandise they purchase. While this is a start, Macy's should share this customer information with their local store managers who can more effectively reach their local customers.

A flaw in Macy's national marketing strategy is that it cannot respond to localized market forces that a store manager may encounter. On any given day, a local store manager may face competition from specialty stores or other national retailers that are trying to increase sales with savings or coupons. Store managers do not presently have any ability to reach their local communities to counter changing inventory or prices. Like Wal-Mart, almost every Macy's advertisement warns the consumer in fine print that selection may vary at their particular location.

Overall, the national branding of Macy's appears to be a mixed result. On the one hand, a national brand strategy allows Macy's to compete on the national stage with retailers like JC Penney, on the other hand, however, without allowing local managers access to the power of the Macy's brand, local managers cannot respond to local conditions like inventory or the prices of competitors. Moreover, local managers do not have the ability to target their best clients with tailored messages or special offers only for their loyalty.

Case Study: True Value

True Value Earnings per Quarter (in millions)

	2006	2007	% Change
Q1	$496.60	$488.50	-1.6%
Q2	$597.00	$594.40	-0.4%
Q3	$497.90	$478.50	-3.9%
Q4	$458.50	*	*
Totals	$2,050.00	$1,561.40	-1.9%

True Value is a nationwide hardware cooperative composed of independently owned retailers. In 2006, they posted earnings of $2.050 billion, but recently have encountered negative trends in their earnings. While one may be quick to explain True Value's decreases on discount retailers Lowes or The Home Depot, True Value appears to be performing more efficiently than either of its larger competitors.

Lowes	2006	2007	% Change	Home Depot	2006	2007	% Change
Q1	$840.00	$739.00	-12.0%	Q1	$1,500.00	$1,000.00	-33.3%
Q2	$919.00	$1,002.00	9.0%	Q2	$1,900.00	$1,600.00	-15.8%
Q3	$716.00	$643.00	-10.2%	Q3	$1,500.00	$1,100.00	-26.7%
Q4	$613.00	*	*	Q4	$925.00	*	*
Totals	$3,088.00	$2,384.00	-4.4%	Totals	$5,825.00	$3,700.00	-25.3%

Unlike Lowes and The Home Depot, True Value has experienced steady, but small decreases in the past three quarters. While all three would agree that lagging home construction and lower spending on home improvement, only True Value, which has independent owners free to make their own marketing and inventory decisions appears to be weathering the poor construction market.

However, besides independent owners, True Value has added powerful online software to the tools available to its retailers allowing ordering merchandise, returning unsold merchandise and basic in-store marketing functions to be performed online. Providing this online support to owners allows True Value to control their national branding while allowing the local retailer to customize their store to their local community.

True Value has also implemented a national marketing campaign focusing on raising awareness of True Value's specialization on in-store expert advice to customers. This strategy is effective because market studies have shown that most customers associate "quality expert advice" from a local True Value hardware store rather than Lowes or The Home Depot. (Kruger Marketing, 2006)

Although brand awareness and positive image are important to True Value, there are some drawbacks to the co-op system True Value has implemented. First, local retailers, while having the support of the True Value brand, are limited in what types of media and creative assets they have available. Marketing campaigns spanning different media and targeting customers is well beyond the current True Value system. Second, because most local retailers are not experts in marketing, they routinely fall into the trap of having low quality ads that use the True Value brand name, but fail to leave consumers with an overwhelming positive impression. Third, because of the independent ownership of the stores, there is little, if any, ad money for local stores to draw upon to run advertisements.

Overall, while home improvement retailers have faced leaner earnings because of a weak housing market, only True Value appears to be weathering the storm because of its continual focus on a message of expert advice provided by locally owned and operated retail stores.

Analysis

Four basic mistakes are prevalent in the retail marketplace today. **First, and most serious, retailers ignore the relationship between the local store and the consumers**. This strategy creates strong brand awareness but results in national retailers saying, "Shop at X." Although national retailers may strive to attain uniformity across all their retail locations, looking at Wal-Mart and Macy's, both corporate bodies stress their commitment to and understanding of the needs of local customers. How can that truly be their focus when their advertising strategy stresses strong national brand awareness?

Many times, retailers only focus on communicating their brand message to the consumer and to their local stores, forgetting the importance of the relationship between the local retailer and the customer. This especially includes the national brand ignoring the actual inventories or local preferences of a particular community. From the case studies, this is a major flaw in Wal-Mart's marketing plan. The national retailer controls the message at every level allowing very little opportunity for local flexibility. This has also been the new marketing strategy at Macy's, which has had mixed results. Only True Value does not follow the trend and has a strategy that has the national brand augmenting the locally advertised message.

The second major mistake that retailers make is focusing on gimmick promotions instead of targeted campaigns to get customers into their retail stores. From the case studies, this is another symptom of Wal-Mart and Macy's misguided marketing strategies. Both offer "mega-sales" to cut prices that attract consumers looking for a seemingly great bargain. However, in many cases, the number of items in inventory is extremely low or there is a bait-and-switch element. In either case, neither of these situations helps the store or brand effectively builds a relationship with the customer. In fact, instead of fostering a relationship, the gimmick practice reinforces the idea that a customer should only shop at a retailer because they have a special one-time only deal. This undermines any brand building and drives retailers further into gimmick promotions – a self-perpetuating situation that drives retailers into even more difficulties.

The third major mistake that retailers make is the overuse of coupons to lower prices or present the customer with the appearance that they are saving money or being granted a "good deal". This is a mistake because coupons, only when used correctly, are an incentive for consumers to purchase more goods. Frequent coupons or sales only create a relationship with a customer in which the customer only purchases goods from a retailer when they receive a special offer or a sale is running. This is especially a problem at Macy's where sales volume can be increased by offering multiple discounts. However, this can create a gimmick situation where a customer has received many coupons but may only use one for a purchase. Ultimately, coupons may only serve to reinforce the message that a retailers prices are too high and must be lowered to attract customers.

The fourth major mistake that retailers make is the lack of a relevant message in a retailer's local advertising. This is best exemplified by Wal-Mart and Macy's; both retailers have marketing strategies that focus on national brand awareness with limited control of the marketing process by store managers. While brand awareness is important to consumers, frequently, the mediums used in national campaigns have seen reductions in their ability to reach consumers. Many television viewers, especially those in the 18-34 demographic use TiVo to skip commercials. In addition, many consumers listen to satellite or internet radio to avoid listening to commercials. Finally, newspaper circulation has seen steady decline recently with an increase in online news sources being used for primary newsgathering. In the coming years it will be hard to dispute that traditional advertising mediums will yield a lesser return on investment.

Overall, through an analysis of Wal-Mart, Macy's and True Value we can see that all three claim to have the highest national priority placed on the local success of each store, it appears only True Value has made significant strides in establishing local relationships with customers. While Wal-Mart and Macy's make extravagant claims of locally focused retailing, they present little evidence besides helping local charities to demonstrate their understanding of the community and market they compete in. It is also important to note that although these are only three examples, these trends carry forth in general studies performed across retail chains in a variety of industries.

Best Practices:

From the four major mistakes that retail marketers make, we can develop three best practices for retailers to implement to effectively reach their customers, while forging a long-lasting relationship.

First, retailers must allow local store managers to make and execute marketing plans based on local market forces, especially local inventory and local competitor's price. While this may seem crazy, it worked for Sam Walton's entire career and presently has a strong example in the True Value system. Moreover, logically, we must conclude that if centralized national control is less effective in reaching customers, then decentralized local control must be more effective.

Only local retailers understand their marketplace, who their customers are and how they make purchases. While computers can help managers gather and interpret data, it takes a human being to be able to understand what the data means. Sam Walton did not visit his competitors' stores because he was "just looking"; he knew that he needed real-time data on their inventory on the floor and how much they were charging. The same should apply to any retailer today. While the store manager need not necessarily visit every competitor, they should have knowledge of regional pricing and inventory trends as well as a deep understanding of their own product and industry.

However, even the best retail managers can only get results if they have the tools to implement them. **The second best practice for retailers to adopt is giving local advertisers the tools and creative support to get their message to the local market in an effective manner**. National retailers and the brands they work with should focus on using technology to streamline the advertising process in reduce the cost of creating ads and spend more on purchasing more and diverse media.

In a hypothetical situation, would a brand rather have a high-quality television commercial that will either be viewed hours or days before a purchase or get passed by TiVo altogether, or a high-quality brand standardized advertisement running locally where it will be noticed shortly before purchase? The answer is clear: any retailer would rather say to a consumer, "Shop at my store in Yourhometown" rather than "Shop at the Brand X near you". Retailers and brands build relationships with customers when they interact locally. This is the lesson learned from Wal-Mart during Sam Walton's tenure: Walton did not build a national retailer, but a local retailer who had locations nationally.

In conjunction with powerful advertising tools, retailers must also have the creative assets to make an effective impression on consumers. High-quality images, audio, video and web content are the cornerstone to affecting a consumer's ability to recall advertised products. Moreover, in-store advertising is an expanding field where customers can immediately act on in-store flyers or video they encounter. This can be extremely effective for store managers to use because 40% of all customers make decisions to purchase products they see advertised in the store. (Klein)

Looking to our case studies, we see that this is the major fault in the True Value system. Although the local stores have complete control over their marketing efforts, in most cases, the owners lack marketing savvy and produce traditional local advertisements that appear to be of lower quality and with little brand coordination. This serves to perpetuate the idea that local advertising is low quality and low impact. Retailers need to embrace technological changes in advertising that can dramatically increase the quality of local advertising.

All of these ideas can be implemented by relying on technological advances to reduce inefficient advertising and marketing practices. *First, retailers should work with their advertising agencies to ensure they have the best creative ideas and assets for their local retailers to work with. Second advertising agencies should be able to supply retailers with efficient and easy-to-use ad building tools, preferably web-based*. This has benefits for retailers and agencies because more ads can be produced for lower costs to both sides. *Third, retailers should provide aggressive advertising goals and incentives for their local managers to maximize the national retailer's investment*.

Therefore**, the third best practice to be implemented is to allow local store managers to create events, promotions and coupons that they feel with most effectively attract or retain their customers**. While national retailers may wish to maintain control over the main events or promotions they offer customers, local promotions can allow store managers to truly establish long-lasting relationships. This is critical because 67% of customers reported that invitations from local store managers were more effective than coupons or offers from the national retailer, even with greater discounts, in affecting their decision to purchase goods. (Klein)

This is one of the strong points of the True Value model, while the national retailer gives advice to the local stores; each owner decides how and when they will execute sales and other events. Macy's also has the start of a good model with their loyalty rewards programs for their credit card holders. By tracking the purchase of certain goods, customers can earn rewards or free merchandise. This is a good initiative from the national brand, but should be augmented by data sharing with the local manager. Local managers should be able to tap into centralized databases to tailor custom messages to their best customers or to try to get past customers to return.

Overall, the best practices described here are merely extrapolations of the fundamentals of retailing described by Sam Walton, "Each Wal-Mart store should reflect the values of its customers and support the vision they hold for their community." This statement should apply to the core values of every retailer and permeate their marketing strategies.

Summary

The case studies of Wal-Mart, Macy's and True Value all reveal four significant mistakes retail marketers make. First, retailers ignore the relationship between the local store and the consumers. Second, retailers focus on gimmick promotions instead of targeting customers to drive sales. Third, retailers overuse coupons to lower prices or present the customer with the appearance that they are saving money or being granted a "good deal". Fourth, retailers lack relevant messages in their local advertising.

These mistakes lead to inefficient marketing strategies that fail to establish relationships with their customers. Retailers spend vastly on their national marketing campaigns and receive a poor return on their investment because most forms of national media can be bypassed by customers today. In order to overcome this growing obstacle, retailers must adopt new best practices.

The first best practice retailers must adopt is to allow local store managers to make and execute marketing plans based on local market forces, especially local inventory and local competitor's price. The second best practice for retailers to adopt is giving local advertisers the tools and creative support to get their message to the local market in an effective manner. The third best practice to be implemented is to allow local store managers to create events, promotions and coupons that they feel with most effectively attract or retain their customers.

These new practices will surely distress traditional marketers, but the changes will inevitably help retailers adapt to a changing marketplace. Instead of slow-to-react centralized control, nimble local retailers can adapt their message as they perceive the need. Overall, consumers will be harder to reach and influence as traditional forms of advertising wane and others emerge. Only retailers with the foresight to understand the nature and influence of local advertising will be able to effectively and profitably change their practices to adapt and grow.