April 2005

Dear Professor:

This newsletter offers an opportunity to publish a case you might have written in the next edition of Retailing Management and the following abstracts of articles for class discussion:

- Ace Hardware Evolves To Stay Competitive
- Animal Shelters Upgrade Creature Comforts
- Amazon.com Knows, Predicts Shopping Habits
- Questioning Eziba’s Decisions
- More Help Wanted: Older Workers Please Apply
- Supermarkets Try a Fresh Approach

The articles in this and past newsletters are sorted by chapters in Retailing Management, fifth edition. If you are interested in the text book please visit www.mhhe.com/levy04. Simple registration is required to gain access to the newsletters and other instructor materials.

If you would like to see this newsletter and the previous editions, go to http://www.cba.ufl.edu/mkt/crer/research/publications.asp

PUBLISH YOUR CASE IN OUR TEXTBOOK

We are beginning to prepare the Sixth Edition of Retailing Management. The textbook contains about 20 short (3 to 5 pages) cases. We would be very interested in considering cases you have written for publication in the Sixth Edition. We are particularly interested in cases that deal with location, store design, branding, merchandise management, store management, global retailing, information systems, CRM, customer service, and supply chain management. If we select your case for publication, your name will be prominently displayed as the case author. Please email your cases to bart.weitz@cba.ufl.edu
ABSTRACTS OF RECENT RETAIL ARTICLES

Ace Hardware Evolves To Stay Competitive

Use with Chapter 5, “Retail Strategy”


The steadily growing Ace Hardware serves as a buyers’ co-operative for 2,800 independently owned hardware stores. If the stores in the cooperative were one company, it would be the nation’s 21st biggest U.S. retailer.

Ace Hardware stores are owned by younger, well-educated, wealthier entrepreneurs. As the more impersonal Hoe Depot and Lowes grow and independents go out of business, Ace Hardware may be well positioned for the future.

The coop is in the process of encouraging its members to remodel, install better lighting and create wider aisles, as well as have more informed and helpful employees on staff. The goal for the coop is to change customers’ misconceptions of hardware stores. Ace wants to be the hardware store that is not a man’s man store, hard to maneuver or old-fashioned, but adapt a brand position as the “Most Helpful Hardware Store on the Planet.”

As women become more and more visible in the do-it-yourself projects, Ace Hardware has attempted to keep up. By incorporating a female buyer in plumbing recently, they realized the small touches needed to keep women involved and willing to make their purchase decision Ace Hardware. The retailer is moving quickly into the international market and is staying up-to-date by transforming many of its stores into supercenters by offering jewelry and high-end cutlery, only a jump away from paint and faucets.

Because Ace Hardware’s retailers are independent entrepreneurs, the company suffered some resistance when it introduced incentives to coax its retailers into adopting 15 measurable standards of training and lighting, for instance, to match its brand promise. The company hoped to have 1,100 stores signed up the first year and ended up with 1,870. With a loss of only 30 owners as a result of the growth repositioning strategy, the company clearly sees the members who do not support the repositioning as a minor hindrance.

Discussion Questions:

What has changed in the hardware business over the past decade?

The hardware business is not just a man’s sector anymore. Women, the purchase decision-makers are becoming more involved in the area, hardware stores must stay up-date by offering the right finishes, displays and home decorating quizzes to keep them enlivened as well as great advice without a condescending air. Hardware stores also can be seen as a type of super center by offering more than hardware for its on-the-go customers.

How has Ace changed in the past few years?

Ace has transitioned from a wholesaler to a retailer and has adopted a brand position as the “Most Helpful Hardware Store on the Planet.” They have encouraged their retailers to remodel and install better lighting, create wider aisles and become more knowledgeable in the disciplines of retail to offer the right goods to its customers.
**Animal Shelters Upgrade Creature Comforts**

Use with Chapter 7, “Locations” and Chapter 18, “Store Design”


Say goodbye to the days of dark, smelly animal shelters with cats and dogs crammed in steel cages, and say hello to the “Kitty Cottages” and “Puppy Palaces” inhabiting the posh new animal shelters of today. Soft music within, innovative architecture and cafes that serve the ever-famous Starbucks coffee are all little extras to help show off why the animal shelter is the place to get a new pet.

Shelters recently changed to a pro-sterilization outlook and a “no kill” policy, which means that animals are staying in the shelter as long as it takes until adoption. This new policy creates incentives to increase the number of adoptions. Obviously the traditional steel cage atmosphere will do the trick no longer.

San Francisco’s Maddie’s Pet Adoption Center in 1998 was one of the first facilities to step out of the box and into the doggie condo. The $7 million facility took their adoptable animals out of cages and housed them in more than 80 condos and apartments where they could enjoy the creature comforts of TV, couches, natural lighting and art. Although not cost-efficient, there’s no denying that more old and ugly animals are finding homes through the renovations.

For the San Antonio pet shelter, the building began with location. The shelters were placed in a more desirable location; between popular retailers with lots of foot traffic. Architect Billy Lawrence designed two canine pavilions to house dogs by glass and tile with two to three in a room with blankets and toys. Each kennel opens to a yard for the dogs to exercise and relieve themselves. In the feline pavilions, cats are behind plexiglass in communal rooms where they can watch birds through huge windows. Billy Lawrence specifically designed the main building to hold the oldest and thus least adoptable animals near the entrance, while the popular pets remain in back.

By building mini-apartments for the animals, shelter workers can asses the problematic behavior the animal may display, such as soiling or chewing, and begin to remedy it. Disease prevention has been a major concern as well, so the shelter has two front entrances to separate the surrendered animals from the adopted animals. Also, surfaces in every room are nonabsorbent and easy to clean, a costly endeavor.

The shelters have generally been able to fund their renovations and relocations through fund-raising campaigns and private donations, as they struggle to avoid increasing fees to offset their improvements. Some employees are even taking payroll deductions to compensate.

**Discussion Questions:**

**How have retailing principles helped the humane society accomplish its goals?**

*The Humane Society has used the grocery store idea of keeping the milk (the puppies) at the back of the store to force customers to walk by the items they didn’t intend to buy (the older animals), and has taken book stores’ ideas of offering coffee in convenient cafes to help turn the shelter into a cozy place that people want to enjoy. The shelters have also spent more money to turn lengthen the shelf life of their buildings, a common retail goal.*
Amazon.com Knows, Predicts Shopping Habits

Use with Chapter 3, “Multi-Channel Retailing” and Chapter 11, “Customer Relationship Management.”


Amazon.com Inc. is leading the way in tracking customer habits so it can increase customer satisfaction and loyalty. Despite its efforts to use the information it gathers to maintain a loyal customer base, privacy advocate’s fear that Amazon may be approaching Big Brother status with their knowledge of credit card numbers. In 2000, the company changed its privacy policy to allow sharing of personal information with companies it buys or partners with. Along with the change came more enemies and privacy advocates that disagreed with the company’s new policies.

Amazon has collected detailed information about what its customers buy, considered buying, browsed for but never bought, recommended to others or even wished someone would buy them. With this information, Amazon has established more sophisticated tools to recommend more purchases, direct searches toward products the customer may consider buying, and help avoid re-purchasing the same item.

Recently, Amazon has launched a Web search engine called A9 that remembers and shares information, as well as a Web site called 43 Things that links people with similar goals.

However, as customer tracking becomes more detailed, analysts feel that Amazon and other companies should start to ask customers for their permission when gathering certain information. Amazon locked horns with privacy advocates over a patent on technology that aims to track a shopper’s gift-giving habits, including the recipient’s age and preferences. The technology, however, may violate a federal law that limits the gathering of information on kids under age 13. Amazon insists it would not violate the guidelines.

Despite the fears that go along with customer tracking, advocates and enemies alike must agree that customer tracking has it’s upsides. Amazon seeks not only to help the customer enjoy more convenient shopping, they are in the business of building communities to bring people together with similar interests. Despite their alleged good intent, government-backed restraints will be forced to play a bigger role so that technology’s brainpower is kept at bay.

Discussion Questions:

What are the pros and cons of tracking Internet shopping behavior?

Tracking customers’ shopping habits can make shopping easier and more convenient. It provides good feedback and recommendations to enhance the shopping experience. However, the knowledge that companies can hold onto and share may prove dangerous in the future as technology becomes smarter. There’s no denying that tracking customers’ habits invades privacy and may need government monitoring.

Questioning Eziba’s Decisions

Use with Chapter 14, “Buying Merchandise.”


Hen Eziba was an online retail that built a considerable business by selling hand-made goods from local artisans through catalogs, stores and its own Web site. It declared bankruptcy last year, leaving hundreds of its suppliers unpaid. Eziba broadly publicized the benefits it bestowed on vendors around the world, claiming it
paid $10 million to groups like Rwandan basket weavers, among others. When the company spotted financial problems looming, it decided to pay off a $500,000 bank loan instead of paying hundreds of artisans more than $100,000 it owed them.

Bankruptcy law specialists and critics of the company are questioning Eziba’s decision to forgo payments, despite Eziba’s claim that paying off the loan was the best business practice. After paying the loan, the company entered a voluntary liquidation process in hopes of paying off creditors. The creditors then petitioned for Chapter 7 bankruptcy proceedings after a liquidation attorney told them that a bankruptcy trustee might be able to recover the $500,000 payment to pay the credits and artisans more.

Overstock.com stepped up to the plate, paying $500,000 for Eziba’s assets from the bankruptcy trustee and announced that it would pay the artisans in full, despite no legal obligations to do so. Many of Eziba’s former executives agreed to help pay the artisans out of their own pockets until they were finally paid.

Eziba’s former chairman and co-founder, Richard Sabot, defended the company’s decision to pay back the loan before the artisans by claiming that the company had to repay the loan at the height of Eziba’s post-Christmas cash reserves, otherwise the bank could claim Eziba’s cash and other assets. The terms clearly stated that if the assets of the company were not enough to pay off the loan, the bank could raise the rest by claiming personal assets of Mr. Sabot, Bill Miller, Eziba’s chief executive, and Michele Gilbert, the company’s vice president of marketing.

Mr. Sabot strenuously objected to the suggestion that the company might have paid off the loan to protect his personal assets, and those of Mr. Miller and Ms. Gilbert, and said that paying vendors first instead of a secured creditor would lead to a preferential payment, or a payment made to creditors who may not have as valid a claim to the company’s assets as others. To Mr. Sabot, he was making a decision in the best interest of the vendors, protecting them from possible litigation. Bankruptcy law specialists don’t buy Mr. Sabot’s reasoning, however, claiming that legally, Eziba was not entitled to pay the bank first. That decision was preferential, not legal.

The fact still remains, however, that for every basket the Rwandan widows sold to Eziba for $18 (which Eziba sold for $55), the widows could feed a family of six for two weeks. Who would you have paid first?

Discussion Questions:

Did Eziba’s management behave ethically?

Eziba’s management behaved in a way that saved itself and its assets. Unfortunately, it left the widowed Rwandan basket weavers unpaid while it dealt with protecting itself first.

More Help Wanted: Older Workers Please Apply


More and more retailers are encouraging older workers to work for them through various incentives, because older workers prove to be a more reliable asset to the company. The attraction to older workers stems from their lower turnover rates and often better work performance. Wal-Mart, Home Depot and Pitney Bowes are three retailers encouraging older workers to apply for work by offering them incentives and perks.
AARP, the advocacy group for older people, put 13 “featured employers” on its Web site links that are offering incentives such as health benefits, training and flexible work schedules. Home Depot even offers winter work in Florida and summer work in Maine. Older workers are able to fill a labor shortage a decade from now for Home Depot. By building relationships with groups like AARP, Home Depot hopes to help people like military retirees find jobs in the future.

Although older workers may use more sick leave and incur more medical bills, the overall costs have proved to be fairly equal across the age groups. Training and recruitment costs are much lower for older people, evening out any increased costs in missed days or medical problems.

In a world where the cost of turnover per worker can reach a startling $2,335 on average, a reliable older worker could mean annual savings in the millions of dollars for large employers. Luckily, for retailers seeking to utilize this statistic, older workers are a willing audience, as more are seeking work for extra cash and health benefits or simply a way to keep up a normal routine. According to AARP, almost one in three workers will be 50 or older within five years.

Discussion Questions:

Why are retailers hiring more older workers?

*The training and recruitment costs of older workers are much lower than for younger workers. Older workers also have lower turnover rates and typically better work performance. They tend to catch on quicker, work harder, and are less likely to depart after a few years.*

Supermarkets try a fresh approach

Use with Chapter 5

*Thomas Lee, ‘Supermarkets try a fresh approach,” Minneapolis Star Tribune, April 4th, 2005.*

If Wal-Mart Stores Inc. can beat traditional supermarkets on price, surely they can't beat supermarkets quality too, right? Wrong. Supermarkets are desperately searching for angles to stay on top the ever-mounting success of Wal-Mart by offering the freshest perishable foods like fruits and vegetables. Unfortunately, most supermarkets are still losing market share to Wal-Mart, despite soaring produce sales intended for healthier diets.

Supermarkets’ distribution practices are where the problem may lie. A Supervalu Inc. of Eden Prairie launched W. Newell & Co. recently in an attempt to focus exclusively on selling fruits and vegetables to supermarkets across the country. Their hope is to speed the delivery of a wider variety of fruits and vegetables. If all goes well, Supervalu may be able to reduce delivery time by a couple of days; an eternity when it comes to produce.

As Americans strive to meet dietary guidelines that encourage the consumption of more fruits and vegetables, the popularity of organic foods can only increase. Luckily, some smaller chains have been able to supply their stores with locally grown produce to attract customers, something that Wal-Mart cannot typically do. Locally grown produce also takes less time to transport from farmer to store. Unfortunately, if a supermarket wants to offer consumers a larger variety of ethnic and organic fruits and veggies, they are going to have to reach further than their own towns to provide it, as different crops are available in different states.

If W. Newell & Co. succeeds in cutting delivery time by 2-3 days, they will need a marketing plan to enhance their image and draw customers in. Telling customers why they should shop at W. Newell & Co. and how doing so will provide them the freshest produce may just be what the doctor ordered to keep Wal-Mart at bay.

Discussion Questions:
How can supermarkets compete against Wal-Mart supercenters?

Supermarkets can offer the freshest produce available, either from a local producer or simply by an efficient supplier with an even more efficient marketing plan. As Americans strive to eat healthier, quality produce may be the key to a successful future for supermarkets.