August 2005

Dear Professor:

This newsletter has a summary of a survey identifying the retailers that provide the best customer service and is followed by abstracts of articles for class discussion:

Make It and Take It
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Makeover in Cosmetics
What Consumers – and Retailers – Should Know about Dynamic Pricing
Saks Suppliers Want Records of Clothing Transactions
Steve & Barry’s Retail Revolution: The Price is Right
Technology and Shrink
The Great Wal-Mart of China

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
ABSTRACTS OF RECENT RETAIL ARTICLES

Make It and Take It

Use with Chapter 2, “Types of Retailers,” and Chapter 4, “Buying Behavior.”


One of the fastest-growing food trends in the country is “meal assembly” -- a phenomenon that is sweeping the nation. Businesses like Let’s Dish! in Maryland allow home cooks to gather in a commercial kitchen and assemble prepared raw ingredients, following easy recipes, for up to 12 meals. Customers then pack up the entrees they’ve put together to store in the freezer at home, ready to be used when needed. Customers can talk to each other, there’s snacks, music and drinks, and most importantly, it’s utterly convenient.

Although there are a few different chains, the process remains the same: Customers sign up online for a two-hour session, choosing either six or 12 entrees, each of which serves four to six people. Once the customers arrive, their fresh ingredients are already sliced and diced, ready to be measured at the various stations. The cost of 12 do-it-yourself entrees is just under $200, putting the meals at less than $2.80 a portion for six servings.

Although it may seem like an activity that working moms would choose, empty nesters, singles and seniors are also showing great interest. At Let’s Dish! particularly, it may be the convenience, or it may be the delicious gourmet food on the menu that’s drawing the crowds. For instance, July's menu held a mouth-watering chili lime grilled chicken with black bean salsa, salmon fillet with lemon and dill butter, and Cuban grilled pork tenderloin with chimichurri sauce. Once home, the meals take a mere 30-45 minutes to cook with zero prep time.

To stay as successful as they’re starting out, dinner assembly places recognize that they will need to attract customers who keep coming back. They need special events and other attractions to keep things creative. All-in-all, however, start-up costs are relatively moderate, a major draw for many entrepreneurs. With all the convenience and fun that goes into this new and exciting way of preparing meals, there’s really only one question left: who’s up for some chili lime grilled chicken?

Discussion Questions

Why is Let’s Dish!’s offering appealing?

People have less time and less inclination to prepare home cooked meals than in the past. Let’s Dish! is a convenient way for people to spend less time in the kitchen and more time at the dinner table with their families but still have a home cooked meal. The meals are relatively inexpensive and fun and easy for the participants to make. Additionally, there is a relatively low start-up cost which draws in entrepreneurs as well.

Reworking Work


Best Buy is like many other U.S. companies in terms of its struggle to meet the demands of doing things better, faster and cheaper than its competitors, while being more attentive to an increasingly stressed-out work
Women’s struggle to balance work and family life unfortunately has led them to accept the reduced pay and status of a part-time position but doing the same work so that they could achieve the flexibility that they needed. Last year, 44% of Americans claimed that they were overworked; rising from 28% in 2001.

Instead of launching another “work-life balance” program, Best Buy is thinking differently. Employees can work when and where they like, as long as they get the job done. The program started with only a sample set of 300 employees, part of a troubled division dealing with sinking employee morale. After the first three months of employment, turnover fell from 14% to zero, job satisfaction rose 10%, and their team-performance scores rose 13%. It was hard for Best Buy to argue with results like that.

Employees are enthusiastic, despite the program being merely 3-years old. They are more productive, are less hassled about the hours that they are putting in, and are frequently asked their attitude towards work. No one is forced into the results-oriented work environment (ROWE); teams sign up when they’re ready. This is not to say, however, that ROWE started up brilliantly and smoothly from day one. Employees worried if what they were doing was allowed and worried what people thought about them. To ease the worry, an online calendar was adapted where everyone entered exactly where they were at any given time. After a few weeks, the calendar was abandoned and the ROWE system now works on out-of-office messages and trust.

Baby boomers are greatly affected by the new ROWE system as they recognize what they had to give up getting ahead in the workplace. Often it was their families, but today it doesn’t have to be that way.

To help employees new to the program grow accustomed to their new work schedule and the jokes and comments it may bring, Best Buy begins deprogramming with “sludge sessions,” where an employee says “sludge” when they hear an offending comment. It keeps the new system light-hearted, and helps people to break their bad habits.

Although ROWE may not be for the very schedule-oriented and brings with it serious concerns about ROWE pushing more work into employees’ down-time or worries whether the person left in the office will receive the most work, it has proved highly successful. Best Buy isn’t just trying to help its employees; it’s trying to stay competitive. To expect more from its employees, Best Buy realizes that it must give more in return.

Discussion Questions

**What are the advantages and disadvantages of having flexible work hours?**

Flexible work hours allow employees to spend more time with their families, and typically boost employee morale. Employees’ productivity can be utilized at the hours of their choice, while their job satisfaction increases. Flexible hours are not for all employees, and have seen opposition by managers whose hourly workers are offered flexible schedules.

**How can retailers reduce the problems associated with flexible work hours?**

Early on, workers are given an online calendar to fill out exactly where they are at any given time, to reduce worry. Also, Best Buy protects its workers from snide remarks with its “sludge sessions.”

**Can flexible work hours be instituted in stores more easily than corporate offices? Why or why not?**

It is probably more easily implemented in stores where part-time employees and flexible scheduling is more common and accepted.
Drugstores are becoming desperate to win back makeup-buying customers they have lost to malls, department stores and other specialty counters. Studies show that consumers are willing to pay extra for products if they also receive some tutoring in the aisles about what products work best for them, which is apparently where drugstores lagged. To change the error of their ways, companies like CVS are stationing beauty consultants in their stores to help customers like any Clinique girl would.

Beauty experts aren’t the only addition companies like CVS and Walgreens are adding to their stores to help customers achieve the department store feel. Wider aisles and elevated counters have also been installed to let customers feel they are receiving the same personal attention they might receive in a higher-end beauty boutique like Nordstrom or Sephora.

Drug stores are also acquiring exclusive products and lines, like Walgreen’s IsaDora line, to draw in customers by offering lower prices on European lines.

Drugstores are utilizing technology of skincare at just the right time as superstores like Wal-Mart and Target try to find ways to attract the typical drugstores customer. Should drugstores find their footing and rise enough to compete with the big dog retailers, it will be a very interesting competition indeed.

**Discussion Questions**

**Why do women prefer buying cosmetics in department and specialty stores rather than drug stores?**

*Department and specialty stores offer beauty consultants and experts that are available to help the customer pick products best suited for each individual customer. Drugstores in the past have not offered personal help and attention to customers looking for skincare products.*

**What are drug stores doing to increase their cosmetics sales?**

*Drug stores are physically changing their stores to put customers in a department store mentality, taking on private-label cosmetics lines, and employing beauty experts in their stores to help customers get the attention they prefer.*

**What Consumers – and Retailers – Should Know about Dynamic Pricing**

*Use with Chapter 15, “Pricing”*


Dynamic pricing is one of the most controversial aspects of online and offline pricing. Dynamic pricing is when a retailer offers different prices to different people. A telephone survey of 1,500 adults unearthed the shocking facts that 64% of respondents did not know that it is legal for an online store to charge different prices to different people, and 71% did not know that stores on our streets can legally do the same thing.

Dynamic pricing has always been around, but some believe is ethically questionable. Haggling and bargaining have been around since the dawn of time, and used to be more common than fixed pricing. The use of a
Dynamic pricing strategy is prevalent in today’s marketplace: airline prices, student and senior discounts, telephone company start-up prices, credit card interest rates, and beer for the vacationer.

Right or wrong, dynamic pricing is all around us. Proponents of dynamic pricing argue that using a fixed pricing strategy leaves some money on the table since one customer may be happy to pay for an item at a higher price than the next customer.

They don’t know, however whether to offer a loyal customer a discount for their loyalty or charge them more because they are loyal. Drastic results can come from making the wrong decision.

Not all pricing strategies that allow offering different prices to different customers are legal. For instance, offering different prices based on race or gender is illegal.

**Discussion Questions**

Why do retailers engage in dynamic pricing?

*Dynamic pricing can result in increased sales and profits by charge customers a price equivalent to their willingness to pay.*

When is dynamic pricing most effective? Least effective?

*Dynamic pricing is most effective if customers are heterogeneous in their willingness to pay— their price sensitivity. It can backfire for retailers if customers find out they paid more than someone else for the same item.*

**Saks Suppliers Want Records of Clothing Transactions**

*Use with Chapter 14, “Buying Merchandise.”*


Saks is facing a few problems regarding payment to its suppliers, and is facing two federal investigations on its payment practice and at least two lawsuits from the suppliers. The problem is that Saks did not furnish records of when the clothes in question were sold, and for how much, when they were doing business with Onward Kashiyama, the Japanese company suing Saks Inc. and Saks Fifth Avenue. Onward Kashiyama’s lawyer noted that Saks brought between 2,000 and 3,000 pages to him, in what he sees as an attempt to cover up the missing records they owed the company.

Department stores have traditionally taken two types of deductions from the money they owe their suppliers. One is “markdown money”—funds provided by a vendor to a retailer to cover decreased gross margin from markdowns and other merchandising issues. The other is known as “chargebacks,”—funds deducted from invoices because of alleged mistakes vendors make in packing and shipping. Saks’ problems stem from…To know if department stores are right in taking these deductions, they must see detailed records of the reasons for the deductions. Because Saks had taken improper deductions, they now owe suppliers at least $21.5 million.

Unfortunately, in the world of department store retailing, business dealings usually involve oral agreements and only sketchy written summaries. When suppliers received their money from Saks, money was already subtracted for the aforementioned deductions without a stated rationale for the discounts.
Suppliers are fighting back. They have met to draft a “mission statement” to help fight what they call improper deductions by the stores. The wholesale prices of clothes are going up because suppliers are figuring the potential for these illegal deductions into their prices. If stores would start documenting both agreements and why deductions were taken, these problems would stop.

Discussion Questions

What are chargebacks?

*Chargebacks are funds deducted from invoices because of alleged mistakes vendors make in packing and shipping*

Why do retailers take them and vendors resist them?

*Some retailers take them because they are justified. Others believe that they need to take the deductions, whether warranted or not, to meet their annual profit goals. Vendors resist deductions when they believe they are unwarranted because it lowers their profit margin.*

Are they legal?

*Chargebacks are illegal if stores keep detailed records of the money deducted, and the reasons for the deductions.*

Steve & Barry’s Retail Revolution: The Price is Right

*Use with Chapter 5, “Retail Strategy.”*


The International Council of Shopping Centers members have Saginaw’s Steve & Barry’s in the top five for 2005 of all retailers they want in their centers. Why are they so keen on the new store? The foot traffic that comes with off-price clothing retailers is phenomenal, and mall owners are eating it up.

Barry Prevor and Steve Shore opened their first mall store in 1998. Today, they have 75 stores and plan to open 60 stores this year. They sell everything in their store for $7.98 or less, and are dedicated to cutting costs and keeping prices down for their customers. Steve & Barry sell an average of $6 to $10 million of clothing per store per year.

Originally, Steve & Barry was a chain of nine college campus stores. They are still able to sell the popular collegiate apparel as well as everyday chinos, polos, jeans and jackets for the whole family. The atmosphere is fun and customers are thrilled with the prices and the clothes. For moms, it’s a godsend. For kids, it’s cool clothes. Steve & Barry’s will hopefully have nowhere to go but up.

Discussion Questions

What is Steve & Barry’s retail strategy? Target market?

*Steve & Barry sell everything in their stores for $7.98 or less and spends their time thinking up ways to cut costs and keep prices down for their customers. They target young teens to college-age students.*

Why are Steve and Barry stores desired by real estate developers?
With Steve & Barry stores comes a huge volume of foot traffic. Others stores benefit from Steve & Barry’s success and reputation.

Technology and Shrink

Use with Chapter 17, “Store Management.”


Retailers are becoming more and more dependent on technology to assist them with controlling shrink (inventory shortages due to theft and errors in recording inventory). Companies are using their transaction logs to assist them in identifying customer service representatives with poor profitability that may be dishonest or may have been trained improperly. Today there is loss prevention technology tools for retailers to consider that may prevent managers from blaming employees with the most voids or fewest sales and instead recognize theft correlations.

First there is Data Mining, a component of identifying shrink and developing evidence for associate dismissal or prosecution. Beyond data mining, there is the possibility of keeping an electronic journal with query capability that will contain the ability to search the raw electronic journal data looking for activity that is stored in line item detail. This is a relatively unsophisticated loss prevention technology, but still useful. Next is transaction level profiling, a new sophisticated loss prevention technology that allows certain types of transactions to be assigned values. For instance, if an associate creates transactions that are suspect, the customer service representative’s value increases.

Lastly there is the use of cameras and electronic article surveillance. Technology has greatly enhanced the visual capability and storage of digital cameras and saves time for store managers by easily gathering evidence and data. Retailers and their employees must work together if they hope to reduce theft.

Discussion Questions

What are convenience stores doing to reduce inventory shrinkage?

Managers are being trained to recognize theft correlations and convenience stores are implementing data mining, electronic journals, transaction level profiling, cameras and electronic article surveillance to deal with loss prevention.

What are the advantages and disadvantages of these efforts?

No loss prevention strategy is a guaranteed solution to any company’s theft problems. Loss prevention technology tools help store managers by easily gathering data and creating reports.

The Great Wal-Mart of China

Use with Chapter 5, “Retail Strategy.”


To US consumers, analysts and businesspeople, Wal-Mart is no longer a celebrated and untarnished retailer that we welcome into our neighborhoods with open arms. The retailer is being scrutinized more and more for squeezing suppliers, crushing corner stores, busting unions, and driving down wages.
But in China, the new Wal-Mart is like a dream come true. Opening day on June 30th, 2005 was a day for the history books, as brass bands and traditional lion dances welcome and celebrate checkout lanes that are 15 customers long at any given time.

Wal-Mart must take on a more aggressive presence overseas as its growth rates in the U.S. must inevitably slow down. So far, Wal-Mart isn’t exactly booming in Germany and Japan, although Mexico is looking up. China, however, has long been viewed as Wal-Mart’s best bet for long-term global growth with its vast population and booming economy. With a slow start, Wal-Mart now has 43 stores in China, way off from its 3,719 stores in the U.S. One of the problems Wal-Mart is running into in China is finding qualified managers. Locating sites isn’t much easier, nor is competing with local retailers. France’s Carrefour is one of Wal-Mart’s greatest foreign rivals in China. Their prices for many items are comparable to those in Wal-Mart stores and their expansions have been rapid.

China consumers are very different than U.S. consumers, and these changes must be accounted for. Small refrigerators and heavy pedestrian traffic means buying in smaller quantities and making many trips. Chinese customers also want to put their hands on the merchandise and often are attracting to the clamor of restacking items.

Wal-Mart has daily activities for the elderly and provides space for local school groups to perform. The air conditioning draws in a huge crowd as well.

Although typical problems with suppliers and unions still remain, Wal-Mart hopes to open 230 stores in China by 2009. That’s less stores than it hopes to add in the U.S. this year, but they are piling up their chips, a typical Wal-Mart act, before they pounce.

**Discussion Questions**

**What are the opportunities and challenges for Wal-Mart in China?**

*Chinese customers have different needs and shopping habits than U.S. customers. The community has a different feel that requires Wal-Mart to try different approaches of savvy marketing to reach them, and local retailers and foreign retailers’ competition is always persistent. Wal-Mart is going to be forced to depend more on its international stores as its US growth slows.*