January 2005

Dear Professor:

This newsletter has the following abstracts of articles for class discussion:

- Can Toys 'R' Us Stay in the Game?
- Fears of an Identity Crisis for Lands' End at Sears
- Web Store Scores With One-Item Only
- When Exclusivity Means Illegality

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

Live Chat: The New Reality of Online Customer Service

Use with Chapter 3, “Multi-Channel Retailing” and Chapter 19, “Customer Service.”


Live chat, a way of communication that not so long ago seemed to be exotic technology, is now a way of life for the growing age-range of web users. Today’s young people, the “internet savvy” population, will become tomorrow’s consumers, a fact that retailers cannot ignore. One of the most popular means of communication for the 12 – to 25-year old group is live chat, and for some young consumers, the only way to communicate within the retail sphere. Some even say that without live chat as an option, retailers may lose the younger demographic.

Although current research suggests that only 1.4% of customers use live chat more than once a week, it is surprisingly consistent across age groups, reflecting the potential to appeal to older consumers as well as to the natural market of young consumers. For companies like 24-7 InTouch, only 2% of its revenue currently comes from its live chat offerings. They expect that proportion to grow to 40% in the next three to five years, a significant increase that demands attention today to be successful tomorrow.

The purpose of live chat as an online tool is to provide better customer service and subsequently sell merchandise. Retailers are jumping on board and learning how to use live chat to better their chances for satisfying their customers. Some suggest that the key to successful use of live chat as a sales tool is escalation – and matching the right customer with the right means of communication. A high margin product may be better served by access to a chat channel, whereas a low margin item may be best helped over e-mail.

Another benefit to live chat is the cost savings it has shown. By decreasing e-mail interactions, one agent can handle many chats at a time. Productivity may double or even triple over telephone calls. Websites are actually becoming reluctant to give out their phone numbers on their websites when phone support is as expensive as it is in relation to some products’ cost.

To be successful at live chat, agents must have different skills from call center agents. A good call center agent has good verbal skills, knows how to control the length of a call and possesses typing skills for order entry. The good chat agent is skilled at multi-tasking, not only for handling multiple customers at one time, but for executing different tasks for customers at the same time. Personality must shine through. Customers want to chat with a person, not a machine.

Discussion Questions:

What are the pros and cons of offering live chat?

Live chat is cheaper and more efficient way of helping customer service compared to telephone contacts. As technology grows, live chat is expected to become the preferred way to communicate with retailers, so retailers must recognize that now and begin offering it on their websites, a way to exploit a customer touch point. As the computer-savvy youth of today grows up, they will become tomorrow’s consumers, another fact that retailers must be aware to predict changes and updates they may need. At the same time, the older population may not know how to work live chat or may find it impersonal, so retailers risk affecting the younger or older population when deciding how to incorporate the newest means of communication. Finally, offering live chat might be more expensive in the long run because customers will take advantage of the opportunity more than they would making a telephone call.
What about offering live chat for just high price, more complex merchandise?

This might be more productive use of live chat, but the problem is limiting customers use to those products without upsetting customers.

Can Toys ‘R’ Us Stay in the Game?

Use with Chapter 2, “Types of Retailers,” and Chapter 5, “Retail Strategy”

David Kiley, “Can Toys ‘R’ Us Stay in the Game?” Business Week, January 10, 2005

Toys “R” Us, the once popular Toy store, announced in November that it plans on separating its global toy business from the Babies “R” Us chain that is much more profitable. Although once dominating the toy industry as a “Category Killer”, discount stores like Wal-Mart and Target have snuck up from the end of the line and surpassed the Toys “R” Us in sales. Wal-Mart sits at a comfortable 20% share of the market, with Target at 18% and Toys “R” Us pulling up the rear at a measly 17%. Toys “R” Us is experiencing the same problems specialty retailers have been facing all over with the phenomenal success of discount retailers like Wal-Mart and Target.

It’s hard to believe that the toy store is performing so poorly, when images of New York’s Times Square at Christmas portray customers literally lined up outside the doors, waiting for a piece of the action. The pictures are a bit deceptive, however. Not only is that particular Toys “R” Us at the shopping epicenter of the United States, the store also draws in customers for reasons completely unrelated to buying toys. The store boasts a four-story indoor Ferris wheel and a life-size, automated Jurassic Park-style dinosaur.

Toys “R” Us is going to have to remake their stores and promote brands as attractions in their own right. They may also find it beneficial to change their name. Kids want experiences, not just things. Store-as-destination seems to be the answer for most specialty retailers these days, but one problem still exists: growing beyond a chosen niche. It’s a plunge that Toys “R” Us may have to take to figure out how to stay in the market.

Additionally, Wal-Mart and Target have mastered the combination of low prices with convenience shopping and broad assortments, to attract both parents and kids. Toys “R” Us’ assortment might be providing a confusing image with an ill-defined target market with high chairs and car seats at one end of the store, and toys at the other. Even Best Buy and Circuit City have mastered a more stimulating environment for kids with their gaming wares.

Toys “R” Us staff went through extra training this year in a program called Joy Maker to improve customer service and ensure clean and neat stores. For a specialty retailer, customer service is vital. Customers may be willing to pay the extra one or two dollars for assurance that the toy on their list will be in stock and that there is friendly help ready should they need it.

The painful revamp during the first half of this year could result in the closing of hundreds of stores. Toys “R” Us may be worth more broken up than it is at the moment. Potential buyers include toy sellers as well as investment groups. The one thing still working for Toys “R” Us is the fact that their stores appear better stocked than rivals’ and its prices are competitive, though not rock bottom, on many of the most popular products.

So far a new “Joy” theme is the newest experiment to keep the specialty retailer in the game; New York and Los Angeles being the guinea pigs. 30- and 60 second television spots will be shown that discuss the magic of toys in a child’s life while sweet images of children playing float by on the screen. The giraffe, Geoffrey, bids farewell, as well as the beloved “I want to be a Toys “R” Us kid” jingle.
Discussion Questions:

Toys “R” Us had a difficult time competing with Wal-Mart and Target, while other category specialists like Best Buy have not had the same problems. Why has Toys “R” Us faced greater competition?

Toys “R” Us relied on the fact that it dominated the market through the 1990’s by emphasizing relatively low prices and broad assortments but little customer service. The advantages were easily duplicated by discount chains with even low costs and prices. On the other hand, consumer electronics are more complex and require more customer service – service that category killers can provide but discount stores can not.

What can Toys “R” Us do to compete more effectively?

The store may want to cull and reformat the surviving stores, change the name, change the image, and focus more on making the store a destination and experience with amore exciting atmosphere.

Fears of an Identity Crisis for Lands’ End at Sears

Use with Chapter 5, “Retail Strategy”


Lands’ End, a catalog retailer based in a small Midwestern town, is more than a clothing retailer for many shoppers. Lands’ Ends’ is a longtime catalog seller, pioneer in Web-based apparel sales, and seller of high-quality merchandise like Squall parkas, cashmere sweaters and down vests in a wide range of sizes, with above satisfactory customer service. A great fit for Sears to upgrade their apparel image. Great opportunity fo Lands End to have its apparel in 1,000 Sears locations. Not so fast.

Sears has muddied things up a bit when introducing the Lands End clothing line. The clothes are poorly positioned in the stores, and the merger with Kmart means a huge step down for the line, into the rough-and-tumble blue-collar consumer image that Kmart has working for them.

The problem with Lands’ End’s newfound home in the Sears/Kmart stores is that its losing its exclusivity. The brand is instantly available, and you can buy it on your way to the dishwashers. It loses the brand image and experience customers felt with the brand.

The future is uncertain for both the stores and the clothing line. The fear is that Sears and Kmart are going to have enough problems defining new brand messaging, determining which stores stay open, and which merchandise mix will be right for this new entity, without needing the worry of how much to order and where to place the clothing so that it reaches the hard-line appliances shopper. Only time will tell.

Discussion Questions:

Why did Sears acquire Lands’ End?

The general idea was to take the higher-income demographic that purchases hard-line appliances and integrate them into the soft-line apparel. Lands’ End benefits by offering their clothes in most malls, a step above their main competitors, purely catalog L.L. Bean.

Why has the Lands’ End acquisition not realized Sears’ objectives for it?
Customers are feeling more offended by the brand they knew to be exclusive than relieved they can find it in shopping malls. Additionally, the merger with Kmart pulls the brand image that much further down. Some loyal customers feel more betrayed than excited.

Web Store Scores With One-Item Only

Use with Chapter 2, “Types of Retailers.”


Woot.com, one of the newest Internet sellers with an innovative vision, sells just one item each weekday, starting at midnight local time in suburban Dallas, where the company is based, until it sells out. The trick is that the retailer doesn’t tell its shoppers when it sells out, it just sells what it has in stock, and when the item is gone, there is no more selling until midnight. Fanatics ensue.

Woot – short for “Wow! Loot!” – has been successful because they offer a different approach than sites like Amazon.com, or even eBay. Their limited-supply, lottery-like nature of the sites makes it exciting, and that’s what keeps consumers interested.

The low prices lure customers in. Most Woot specials are consumer electronics, while others are discontinued or overstocks. Woot has only seven employees. They call manufacturers in a constant search for hot items. Finding one means a lot size range from 50 to more than 1,000. The founder, Matt Rutledge, remarks that the core demographic is the 20-something crowd on the prowl for the latest gadgets. That means an internet-savvy crowd that wants to shop on a site like Woot.

Success with innovation and a get-it-while-its-hot approach are not the only things that have kept Woot afloat. They have a consistency in their products which keeps customers coming back. They also offer a good outlet for liquidators while successfully reaching the Internet community. Overall, Woot.com will probably reach $5 million in revenue for this year. Imitators are expected to follow suit.

Discussion Questions:

Why do consumers find Woot’s offering attractive?

The demographic that Woot is trying to reach is the 20-something internet savvy group of the population that spends 23 hours a day on the Internet, and lives for the up-to-the-moment gadgets. By being able to compete for the best deals and not knowing how much time they may have left to get the electronics, consumers are drawn into the frenzy.

How does Woot build competitive advantage?

To sustain their position, Woot needs to establish relationships with suppliers of overstock merchandise and relationships with customers interested in good deals. The founder plans to boost revenue by selling more advertising on the site and running contests, but the one item a day approach has proved tried and true. While others may be imitators in the sense that they offer daily specials, only Woot offers the midnight madness selling approach.

Would you suggest that Woot open stores and become a multi-channel retailer?

This is a prototypical Internet retail business. Restocking stores everyday would be impossible.
When Exclusivity Means Illegality

Use with Chapter 14, “Buying Merchandise.”


Retailers cannot express enough “exclusive merchandise” in today’s cutthroat business environment. Retailers are looking for merchandise unavailable anywhere else, and thought they understood the idea that exclusivity = domination, all until Federated Department Stores Inc. was hit with a perjury charge. Stores may re-evaluate their idea of “exclusives.”

The Charge: Chairman of Federated, James M. Zimmerman, was indicted by a grand jury on charges he allegedly lied under oath to conceal evidence of possible antitrust violations. The charge stems from investigations by New York Attorney General Eliot Spitzer’s office of whether Federated and May Dept. Stores conspired to dissuade Waterford Wedgwood and Brown-Forman unit Lenox Inc. from selling products to Bed Bath & Beyond in 2001. The companies agreed to settle the antitrust allegations by coughing up some dough, no pointing fingers, no name-calling; Zimmerman pleaded not guilty and was freed on bail of $50,000.

Spitzer’s reputation has revolved around “Open secrets,” industry practices that may seem legitimate because “everybody’s doing it,” but may in fact be illegal. What does this mean for other retailers holding exclusive deals with vendors?

Exclusivity wasn’t born yesterday. They have been a part of the retail experience for years, and engender shopper loyalty and offer crucial differentiation between retail competitors today, yesterday, and most likely, tomorrow. The 1980s designer boom brought big designer names like Yves Saint Laurent and Donna Karan to chains like May Dept Store’s, Marshall Field’s, Saks Inc’s, Saks Fifth Avenue and Neiman Marcus Group by way of perfume and fashion. The do’s and don’ts of exclusivity can be touchy and burdensome to a weaker retailer. Retailers and vendors have the right to establish exclusive arrangements where a vendor’s goods are only available through one retailer, as long as the vendor has agreed unilaterally to do so. Three possible scenarios which may ensue are what catch the antitrust investigator’s eye.

First, if an agreement comes to pass between “Horizontal” (businesses that compete directly against each other) competitors. Secondly, the exclusive producer, distributor or retailer of a dominant product is involved in an exclusive arrangement. Thirdly, if the sole purpose is to fix prices. Otherwise, all aboard the exclusivity train.

Discussion Questions:

Why do retailers seek exclusive merchandise?

Exclusives engender shopper loyalty and offer crucial differentiation between retail competitors, and have been a part of retailing for decades.

When is it illegal to make exclusive arrangements?

Three scenarios catch the attention of antitrust investigators: an agreement occurs between “horizontal” competitors; if one of the parties is the exclusive producer, distributor or retailer of a dominant product; if any part of the arrangement suggests that they exist in order to fix prices.