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:

**Publish Your Case in Our Textbook**

- Hottest Retailers
- Concentration in Retail Industry
- Why Variable Pricing Fails at the Vending Machine
- Move It Along, Please
- Fostering a Loyal Workforce at Trader Joe’s
- As Malls Think Small, Boutiques Get Big Chance
- Blogging While Browsing, But Not Buying
- Fighting Big Time Crime
- Quest for Best Seller Creates a Pileup of Returned Books
- Shivering for Luxury
- Circuit City Rewires
- E-Tailing: It’s All About Service
- C-stores: Breaking the Mold

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

Hottest Retailers

A survey of 3,000 North American shopping center managers by the International Council of Shopping Centers reports five hottest retailers are Apple, Couch, Steve & Barry’s University Sportswear, White House Black Market (a clothing format of Chico’s FAS Inc.), and Williams Sonoma Inc. With its $10-or-less concept, Steve & Barry’s sells men’s, women’s and children’s clothing, including jeans, jackets and officially licensed college goods, in stores ranging from about 20,000 to 150,000 square feet, typically in second-tier malls.

Concentration in Retail Industry

During the last 10 years there has been significant consolidation in the retail industry. The market shares of three largest firms in each sector are shown below.

<table>
<thead>
<tr>
<th>Category</th>
<th>1986</th>
<th>1996</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Stores</td>
<td>39%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>Discount Stores</td>
<td>61%</td>
<td>77%</td>
<td>93%</td>
</tr>
<tr>
<td>Building Materials</td>
<td>11%</td>
<td>31%</td>
<td>34%</td>
</tr>
<tr>
<td>Consumer Electronics</td>
<td>15%</td>
<td>34%</td>
<td>41%</td>
</tr>
<tr>
<td>Drug Stores</td>
<td>18%</td>
<td>33%</td>
<td>46%</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>18%</td>
<td>14%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Jennifer Popovec, “The Ever-Expanding Retailer,” Retail Traffic, June 1, 2005

ABSTRACTS OF RECENT RETAIL ARTICLES

Why Variable Pricing Fails at the Vending Machine

Use with Chapter 15 Retail Pricing

The chief executive of Coca-Cola thought he had a great idea when he proposed raising the price of Coke when a thermometer embedded in their Coke vending machines recorded a hot day with a higher demand for a cold Coke. Unfortunately, this was not one of his smarter marketing moments. Quickly renouncing what they thought was a smart move, Coke assured customers they were only speaking hypothetically and were actually hoping to lower the cost of a drink.

Variable pricing is a fairly new phenomenon that can be seen all over the world. Airline tickets to electricity, restaurant meals to clothing use variable pricing to bring an increase in profit. Variable pricing can be a sticky business, however. Companies must be wary when they base variable pricing purely on supply and demand because of adverse customer reactions. Instead, companies must learn that if they decide to utilize the demand to obtain a higher profit, they must be able to give their consumers a benefit that they can relate to.

Typically, more expensive items and services are easier to markup, as customers have a harder time relating the value of an airline ticket, for instance, than a Coke. One trick that supermarkets have started to use is to decrease the cost of some products at the exact moment that demand for them jumps, simply because shoppers can be so resistant to price increases on staple items. For instance, beer is cheaper during the summer than the winter; tuna is cheaper during Lent, and so on. The cheaper prices on staple items make the shopper feel they got a steal, even though the shopper may have spent more on other items. Everybody feels like they win.

Discussion Questions:

What are the pros and cons of variable pricing from the retailers’ perspective?

Variable pricing increases profits because customers with a high willingness to pay are charged higher prices. Customers can react negatively to increased prices on a good where they can establish its value, but may not react at all to increased prices on expensive goods.

Why did it fail when used with vending machines?

Customers can intuitively sense what a soda should cost and felt exploited. Basically they this practice was exploitive and unfair.

Move It Along, Please

Use with Chapter 18, “Store Design” and Chapter 19, “Customer Service”


Customers are becoming annoyed at supermarkets and their outmoded ideas of how customers shop. Moms that work full-time and have always-hungry teenagers are confused about why supermarkets aren’t adding more express lines and offering more pickup items near the entrance to avoid having to run all the way to the back of the store just for a gallon of milk.

Grocery stores lack knowledge on how consumers work their way around a grocery store. Tracking devices on customers’ carts reveal that shoppers work their way around the store in a counterclockwise direction, not weaving, and rarely go all the way down an aisle. Convenient store layout is important to 93% of customers, and many value speed and convenience over bargains. A once-a-week stop to stock up on groceries is becoming a myth, whereas a quick-stop to grab emergency items or food for two days is becoming a reality.
Online retailers are able to see what people look at, choose to buy and delete. They can see customers walking through their web site while grocery stores only look at the purchases. The important finding is that supermarkets need to find a new approach to understand their customers’ buying habits and deliver what their customers need to make their shopping quicker, more convenient and accessible. Grocery stores need to throw away their passive attitude and develop a proactive approach to retailing.

Discussion Question:

Why and how should supermarkets change the design of their stores?

Customers are becoming frustrated with grocery stores’ lack of research and development to make shopping easier for customers’ and the shopping patterns of today. Supermarkets should make items like bread, milk, and dinner items like pastas and salads more accessible near the entrance.

Fostering a Loyal Workforce at Trader Joe’s

Use with Chapter 9, “Human Resource Management”

Len Lewis, “Fostering a Loyal Workforce at Trader Joe’s,” Trader Joe’s Adventure, June 2005.

Trader Joe’s happy employees, fun environment, strong relationships with suppliers and unique array of products all come together to help explain why Trader Joe is thriving while many larger food retail chains are struggling to survive. They have put together a wage and benefits package that has encouraged employee loyalty, and has allowed Trader Joe’s to become one of Fortune magazines’ best places to work. Trader Joe’s believes that happy employees makes for happy customers and hopes that by doing so, they will have a better shot at providing a unique shopping experience for people.

Trader Joe’s German parent company, Aldi, attempts to control labor costs, which can be some of the biggest expenses on any retailer’s profit and loss statement. Both companies take a bare-bones approach to the amount of labor needed in stores at any given time, but make sure that pay is not an issue. Aldi’s management-training program is one of the most tempting programs out there, with a generous starting salary of about $47,000 annually plus pension benefits, as well as an Audi A4 for new hires in its 12-month training program. The company recognizes that the key is to not be frivolous with its labor costs. Top executives fly coach, and cars are not available to all employees, just potential district managers. The car is as good to new college graduates as a bigger paycheck, and fosters loyalty for young hires looking for a better deal.

The Leadership Development Program that Trader Joe’s has put together isolates tasks and experiences to develop the right employee environment. Trainers conduct off-site university classes at every stage of an employee’s professional development. The company does not just work at making their managers happy, however. They offer about $6,329 to the employee’s retirement fund for even first-year novitiates or managers-in-training making $40,150 annually, and offer part-time employees an average of $21 per hour, compared with an average of $17.90 at union operations.

It appears to customers and critics that it’s no coincidence that nonunion stores are also great places to work. Trader Joe’s focuses on making the individual happy, and then encouraging the team to come up with new ideas and work together, and this working from the inside out is what helps Trader Joe’s be so successful.

Discussion Questions:

How does Trader Joe’s build employee loyalty?

By offering great benefits, salaries, bonuses and treating each employee as an important part of the team.
What are the benefits to Trader Joe’s in building employee loyalty?

*The company is one of the best places to work in America and is successful in a deteriorating industry. They believe that happy, loyal employees translates to happy, loyal customers.*

**As Malls Think Small, Boutiques Get Big Chance**

*Use with Chapter 7, “Retail Locations”*


As America’s malls are embracing independent fashion boutiques, large department stores slowly suffer along the sidelines. Boutiques help malls diversify and increase traffic and are able to offer better service and quirkier takes on designers and clothing lines – things a department store just can’t do. As in every retail industry, success can be seen in the retailers that are able to adapt to new consumer trends. Shoppers are quickly turning away from big chains and homogenized assortments stocked in chains and department stores and are fancying the ever-growing boutique sensation that hosts savvier clothing and clientele.

Because boutiques are making such a boom, General Growth Properties is pushing temporary leasing programs that encourage new concepts developed by independent retailers rather than chains. The company owns 209 malls in 44 states, and hopes that by allowing this type of leasing, merchants will be able to test the retail waters.

Boutiques are hardly taking over the retail landscape, however, and are actually finding it hard to stay afloat at times. Only 311 retailers with 500 or more employees in the U.S. own 80% of the mall real estate, while there are about 65,000 accessories and clothing stores with fewer than 20 employees trying to make a stand. The key for their success seems to stand in what hot designers they can offer that department stores can’t. And the key to getting one hot line is another hot line.

**Discussion Questions:**

Why are mall developers courting small, independent specialty retailers?

*Independent boutiques offer variety, perspective, style and service that department stores are unable to provide, due to their sheer size. Although smaller, boutiques offer expensive name brands that can mean an enormous profit if they prove successful.*

From the developers’ perspective, what are the pros and cons of these new tenants?

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity to differentiate offering from other malls</td>
<td>Risk of giving space to an unpopular concept</td>
</tr>
</tbody>
</table>

**Blogging While Browsing, But Not Buying**

*Use with Chapter 2, “Multi-channel Retailing”*

To give their web-stores a little something different, online merchants are welcoming an online diary called a blog onto their sites. By doing this, merchants hope that customers will visit the website even if they aren’t in the mood to buy.

On the blog, merchants may choose to put up pictures of their employees, pictures of what the company is about, etc, and in turn, humanize their online company. Blogs could be a potential threat to their business, however, as analysts foresee possible backlash from readers who see inappropriate language or scorching reviews. Editing would prevent this, luckily. Also, a potential problem is that users use the blogs as a one-way ticket to websites whose links are posted on the blogs.

Right now, most merchants agree that the blogs they have set up are temporary to see how they affect sales in the coming months. Although they seem to be popular, it’s really the effect on sales that merchants are waiting to see. Ultimately, blogging is extremely inexpensive, seems popular with consumers and can help define a company. Only time will tell if it’s a fad or here to stay.

Discussion Questions:

From the retailers' perspective, what are the pros and cons of having blogs on their websites?

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Builds brand image</td>
<td>Loose control of content</td>
</tr>
<tr>
<td>Attracts eyeballs</td>
<td>Distraction from shopping</td>
</tr>
</tbody>
</table>

Fighting Big Time Crime

Use with Chapter 16, “Store Management”


To combat shoplifting and employee theft, the FBI and the National Retail Federation have formed a retail loss prevention intelligence network database. Retailers and law enforcement officials will be able to electronically transmit information regarding theft to a national clearinghouse which will help law enforcement to track and collect organized retail theft crimes and allow the FBI to quickly deploy agents to “hot spots.”

“Boosters” are today’s shoplifter. They don’t just steal for themselves, they steal to resell and gain profit. And they are dangerous. Organized retail theft costs the retailer industry a staggering $15 to $30 billion annually. Baby formula is an exceptionally large craze among “boosters” as it has a high steady demand and high cost. Boosters assemble a team of shoplifters and provide them with a list of specific brands of infant formula. The shoplifters are paid, the formula is repackaged and resold, allowing a profit for everybody involved – unless they are caught.

Most disturbing is the fact that Texas authorities discovered eight cases involved fences of Middle Eastern descent with ties to countries that promote terrorism. Ill-gotten goods may put consumers’ and babies’ health and safety in danger, they pose an economic threat and they are a potential source of material support to a terrorist organization.

Discussion Questions:
How are criminals getting more sophisticated in stealing merchandise?

The “boosters” aren’t stealing just for themselves. They are stealing to resell the product and coming up with alarmingly clever ways of stealing and reselling.

What effect does theft have on retailers? Consumers?

Theft costs retailers massive amounts of money in lost goods and poses a disturbing threat to consumers’ health by affecting expiration dates, tampering with proper storage of goods and possibly linking to terrorist countries. Theft has a direct negative impact on the bottom line. Retailers may pass their losses onto customers in the form of higher prices.

Quest for Best Seller Creates a Pileup of Returned Books

Use with Chapter 14, “Buying Merchandise”


For publishers in the book industry, returned books are the kiss of death. Returns represent the dark side of the book world, and make it more and more important for publishers to pick best-sellers the first time around to avoid the fatal word: return. Unfortunately, the more books that publishers ship hoping for the jackpot, the more books the stores are forced to send back.

Statistics show that more than one in three adult hardcover books that publishers edit, print, distribute and market was returned to publishers in 2004. That’s about $801 million in book dollars. In most other industries, manufacturers aren’t under any obligation to take back products that don’t sell. However, during the Depression, publishers told struggling bookstores that they could return unwanted book as long as they kept ordering new titles. The system has yet to be altered, to the publishers’ chagrin, no doubt.

The system hurts everybody, as well. Authors don’t make money on unsold books, publishers are forced to send books all over the country to sell at distressed prices and pay the trucking bill too. The most unfortunate and costly downfall yet is the positive feedback loop that has stemmed from the failing system. Publishers are raising prices to compensate for the anticipated lost revenue. More expensive books make books harder to sell which creates more returns.

As book chains have grown to gargantuan sizes and leading discounters have emerged as book powerhouses, the shelf life for bestsellers has been drastically reduced. Best-seller lists have been cut in half, and publishers are publishing more books than ever in search of hits. This helps attribute to the fact that returns are becoming an escalating problem.

Never fear. A few solutions have been generated, although not yet implemented. Barnes & Noble CEO suggests that B&N start marking down books and selling them on the spot. Customers would love the bargains; publishers would cut costs and generate more sales. Publishers are the ones who stand in the way, however, and they are leery of change. They don’t want customers to expect discounts and refuse to buy anything at full-price. The decision will ultimately have to include everybody’s thumbs-up.

Discussion Questions:

How do publishers (vendors selling books) have different terms of purchase than apparel manufacturers?
*Book publishers take back unsold products, while most other vendors do not.*

**What are the pros and cons of this different policy for retailers?**

*Retailers do not bear inventory risk but can get stuck with excess unpopular items taking up space in stores and warehouses.*

**For book publishers?**

Get more space in retail stores, but assumes the inventory risk.

**For book consumers?**

*Popular books are generally in stock but pays more for books because the costs are greater due to inefficiencies in system.*

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**Shivering for Luxury**

*Use with Chapter 18, “Store Design”*


For businesses selling luxury goods, the key to success seems to be freezing temperatures. An experiment was conducted in Manhattan involving various commercial corners of Manhattan and a thermometer, the higher the prices, the colder the air.

The store temperature may be set with the employee in mind more than the customer. Sixty-eight degrees does sound inviting during summer months in New York, but not while wearing a t-shirt and shorts. The cold air may drive customers out if they feel too cold for comfort, and studies suggest that customers spend more the longer they are in a store. However, some customers feel that the cold air shows that the store has more to offer the customer, and may be dressed more appropriately for the colder temperatures.

In early 20th-century movie houses, managers would often keep the front doors open to allow cool “advertising air” to spill out onto the sidewalk to attract sweltering passers-by, and it appears that the air-conditioning boom shortly followed.

The truth is, there is no “perfect temperature,” for the retail industry. Each customer and employee needs and wants specific temperatures, humidity levels, air circulation and sound levels, which proves another trick in retailing successfully. Colder air is enticing in sweltering summer heat and is a type of status symbol. Should a retailer choose this route, it may prove beneficial. But more energy consumption does not automatically equal more customers’ consuming what you’re selling.

**Discussion Questions:**

**What is the best temperature from the retailers' perspective?**

*There is no perfect temperature as every customer needs something different. A cooler temperature may heighten the status atmosphere of the store. If the store isn’t too cold for comfort, it may induce customers to stay longer and try on or try out more things. But retailers should not set temperatures to best suit the needs of employees.*
Circuit City Rewires

Use with Chapter 5, “Retail Strategy”


Circuit City is trying desperately to reclaim its number one position in the electronics retailing market, but Best Buy is unwilling to forfeit its new-found fame and fortune. Circuit City is relying heavily on data in its many efforts to improve its business – from developing more effective promotions to deciding which products should be displayed at the ends of aisles in stores. Circuit City is chastised for its executives’ lack of change as Best Buy moved forward, and some doubt that Circuit City will ever catch up.

Circuit City faced adversity in the 1970s, but the CEO at the time, Alan Wurtzel, was just able to pull the company out of bankruptcy. The company’s proprietary POS system built in the 1980s triggered its success and gave the company a competitive edge throughout the 90s. The POS system supported the company’s commission-based compensation structure by keeping track of which associates landed which. This system worked well until 2000, when the company started introducing new store formats that allowed consumers to select more merchandise on their own. The Internet also gave consumers more power of choice, and salespeople became less important. The POS system inevitably aged, caused more crashes and hold-ups and Circuit City was forced to upgrade the POS in 2001. The funding was prolonged as well as the project by a strike against Circuit City.

Real estate was another obstacle Circuit City ran up against during its ill-fated POS upgrading stage. It had chosen second tier locations for its superstores during its expansion era figuring customers would drive a little ways out to reach them. This may have worked for awhile, but as Best Buy grew, it located stores in busy shopping centers, and took Circuit City’s traveling customers away.

To help itself, Circuit City has sold off all of its noncore businesses to focus on consumer electronics, changed the pay structure for in-store employees, began relocating stores into better locations, and hired new management. The turnaround has proved impressive. The company has a much more successful customer-focused strategy that has affected the store from the inside-out. A new Linux-based POS system from IBM is planning on being installed to support the new customer service strategy and multichannel commerce capability, all features that should only help the climbing business. Ultimately, total sales for the fiscal year 2004 rose slightly, which indicates that Circuit City is improving, but is still far from being free and clear.

Discussion Questions:

How did Best Buy overcome Circuit City’s lead and become the largest and most profitable consumer electronics category killer?

*Best Buy located stores in the most profitable real estate near busy shopping centers to attract the most customers. They also had a competent leadership team that was pro-active and helped keep the company up-to-date.*

What is Circuit City doing to regain its former position?

*The company is turning into a customer-focused business that delivers a personalized experience to all of its customers. They are installing a new POS system to support the new customer service strategy. Finally, they are building an IT infrastructure to make sure that access to information is not a problem.*

E-Tailing: It’s All About Service
It’s sad to say that less than 5% of people visiting a Web site ever turn into a paying customer, according to Jupiter Research. Ninety-five percent of us are what frustrated online-retailers have dubbed “dumb surf.” To encourage more dumb surfers to become buying customers, online-retailers are incorporating customer service into their websites—a new dimension to e-tailing.

LivePerson, which makes customer-tracking software, is being used by some top online-retailers like Hewlett-Packard and Estee Lauder to offer specific help to specific customers based on what the customers are doing and searching for.

LivePerson is an expensive and obvious way of offering customer service to turn dumb surf into buyers. Other online-retailers are trying more discreet ways of reaching the customer and making the most out of their websites by watching how people navigate a site and testing out what pages or promotions work best.

The major problem rests with the buyers who often feel violated by companies that use tracking programs without their consent. In a physical store, studies suggest that shoppers prefer to be approached and talked to about products. In the virtual store, it’s exactly the opposite. Customers want to be left alone until they need to search out help themselves. If online-retailers can find a way to offer customer service without being intrusive, they may find a way to help their sales.

Discussion Questions:

How can and are retailers providing better customer service in their electronic channel?

*Online retailers must walk a fine line between offering service and being intrusive. They are able to offer better services with customer tracking devices that tells them what a customer is looking for, how they’re navigating the site, and the problems that might arise for them.*

**C-stores: Breaking the Mold**

*Use with Chapter 18, “Store Design”*


The convenience stores of yesteryear are hardly adequate for today’s shopper. There are three adjectives that no retailer wants to be, but describes the typical convenience store: out of date, antiquated, or old. What convenience stores have working for them is gas. They have it, it is profitable, and attracts customers. Look inside the store, however, and sales are dragging way behind.

DDI’s annual Design Challenge this year invited retail design firms, Avila Design, MillerZell and TRIAD Architecture and WD Partners, to rethink the convenience store with high-value convenience, facilitative technology, and flexible shopper options in mind.

Avila Design’s concept uses modern design and curves with a rectilinear building shell that is cost-effective. The inside consists of two stores; the smaller portion is a sandwich shop and the larger space is the main convenience store. Important for security is the fact that they’ve allowed for complete visual control of the sales floor and fuel islands by strategically placing the cashier. There is a richly detailed outdoor dining area to enjoy casual meals. There are also niches on the way to the restroom for an ATM, a lottery kiosk and community bulletin boards.
TRIAD Architects used the importance of state-of-the-art order-taking and transaction technologies to offer the most it can to its customers. Everything from reservations for automotive sharing, to a meal, to a bouquet of flowers could be ordered in advance and picked up.

For TRIAD Architects, the car wash is the main element. It has a glass enclosed tunnel with exposed equipment to entice customers with lighting and music. The theme is “The Flow” to represent water’s ability to be fluid, dynamic, hi-tech, warm, cozy, friendly, inviting, quick and comfortable. TRIAD Architects hope that their design is all the things that water is, and The Flow is their theme.

WD Partners has centered their idea around the community and convenience to the customer by letting consumers stay within their vehicles while activating the refueling system with voice- or touch-activated stations, and allowing them to place orders for food and other items while the desired delivery or pick up time is scheduled. Within minutes, a product chute will open to deliver the desired items.

All designs offer what is most important to keep convenience stores open and successful: convenience, accessibility and speed. We can all look forward to a more convenient convenience stores in the future.

**Discussion Questions:**

**Why are convenience stores changing their design?**

*Convenience stores are incredibly outdated and in need of a makeover. Their sales beyond gasoline and tobacco are falling exponentially and need a more convenient and modern way to reach today’s consumers.*

**What changes are being considered?**

*Design firms have been challenged to put their heads together to come up with new state-of-the-art ideas to reach customers and utilize technology, space and convenience. Among the proposed changes are an improved store layout, state-of-the-art transaction technologies, convenient new product and service offerings, and high tech car washes.*