November 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:

- Buy It As You Sell It
- Eating, Drinking, Cooking and, Oh Yes, Driving, Too
- Day Laborer Battle Runs Outside Home Depot
- Home Depot Skimps on Gifts
- Wanting the Old Main Street Back
- An Identity Crisis for Supermarkets
- Teenagers Shop For Art of the Deal
- Wal-Mart’s Health Care Struggle Is Corporate America’s, Too

The articles in this and past newsletters are sorted by chapters in Retailing Management, fifth edition. If you are interested in the textbook please visit [www.mhhe.com/levy04](http://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](http://www.cba.ufl.edu/mkt/crer/research/publications.asp)
ABSTRACTS OF RECENT RETAIL ARTICLES

Buy It As You Sell It

Use with Chapter 10, “Supply Chain Management and Information Systems.”


The first test of scan-based trading (SBT) was in 1997. SBT is an inventory information process in which the retailer is paid for merchandise based on POS scanning data, rather than invoices from suppliers. The supplier owns the inventory right up to the point where it is scanned through POS at checkout. The Grocery Manufacturers Association convinced H.E.B., a Texas supermarket operator, to test SBT. The procedure involved using daily POS data to manage payment, promotion and replenishment within the store. Direct-store delivery suppliers like Anheuser-Busch, Coca-Cola, and Frito-Lay, among others, participated in the 20-week pilot at three H.E.B. stores in San Antonio to test three specific areas of the supply chain process: elimination of backroom check-ins; paperless data flow in the receiving process; and seamless replenishment by suppliers based on POS sales data. The project was a success. Inventory investment declined by 10-12%, corporate return on assets improved, and they were able to keep an accurate perpetual inventory, an accurate perpetual inventory.

The process essentially allows suppliers to deliver product when and where they want to. This gives them much greater flexibility in scheduling their deliveries. All the replenishment, shipping, receiving and billing is done through electronic data interchange (EDI). Some of the more sophisticated retailers are moving toward Collaborative Planning, Forecasting, and Replenishment (CPFR). Consumers also benefit from SBT because merchandise is fresher and there are fewer stock outs because the suppliers have control over how the merchandise flows into the stores.

Today, many retailers and their suppliers are using SBT. Among the retailers are Meijer, Target, Ahold USA, SuperValu, Rite Aid, and Winco Foods. Suppliers like Anheuser-Busch, Procter & Gamble and Dreyer’s ice cream are also involved in SBT programs.

Discussion Questions

What is Direct Scan-Based Trading?

SBT is an inventory information process in which the retailer is paid for merchandise based on POS scanning data, rather than invoices from suppliers. The supplier owns the inventory right up to the point where it is scanned through POS at checkout.

What are the benefits of SBT?

Retailers benefit because they don’t own or buy the products until they are scanned through the POS terminal. As a result, their inventory investment is significantly reduced. It also reduces paperwork. Since vendors have more control over when they deliver merchandise, it is fresher and there are fewer stock outs, thus improving the experience for consumers and improving sales.

Eating, Drinking, Cooking and, Oh Yes, Driving, Too
Most would agree that a good deal of food eaten in cars is fast food. In the last year, nearly 90% of households bought food at drive-through restaurants, according to trade publication Restaurants and Institutions. Some establishments package the food to make eating in the car neater. In-N-Out Burger, a chain in Ariz., Calif., and Nevada, specially wraps burgers for convenient on-the-road eating and provides a placemat to cover its customer’s laps on the road. Retailers have apparently caught on to fast food restaurants’ attempts to make fast food more mobile. As such, there is a growing market to make it easier to eat, drink and heat meals in the car.

Familyonboard.com is a web site that is carries a variety of products designed to meet Americans’ growing demand to find symbiosis between eating and driving. There has recently been an increase in sales of 12-volt devices for in-car food preparation and coffee makers, as well as more unusual devices like a mini-refrigerator that also heats food.

Although almost every car nowadays comes with built-in cup holders for virtually every drinking and driving need, car manufacturers are still searching for the perfect mechanism to keep beverages at the right temperature without requiring drivers to port around a tiny fridge. Considering the amount of fast food eaten in cars, the Honda Pilot has created an armrest that folds down to reveal slots for fast-food dipping sauces.

Nobody is admitting that eating and drinking is a safe – or smart – combination. Infiniti equips some cars with a “lane departure warning system” which reads strips on the road and buzzes when drivers wander out of their lanes. Eating and driving can at least be made safer.

**Discussion Questions**

**Why are fast food restaurants providing special services for eating food in cars?**

*With 90% of households buying food at drive-through restaurants in the last year, and with the increasing amount of commuter traffic, there are more chance for a spill in the car to damage interiors and customers’ clothes. Fast food restaurants are packaging their food more conveniently to meet the growing number of eating drivers.*

**What are these services?**

*Some fast-food restaurants specially wrap burgers for the road, offer lap covers, and some are still testing different products to learn how to offer a less messy product.*

**What are other firms doing to tap into the increasing number of people eating food in cars?**

*Some retailers are providing products that make it easier to eat in the car. Car manufacturers are offering amenities that make it easier and safer to eat and drive.*

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**Day Laborer Battle Runs Outside Home Depot**

*Use with Chapter 1, “World of Retailing.”*
The Home Depot, known and loved for its ability to make hardware customer-friendly, is struggling to figure out what to do about the dozens of day laborers who gather outside its store everyday. The day workers are typically illegal immigrants from Mexico and Central America who hang around in case a contractor or homeowner needs an extra hand to paint walls or trim branches. The problem is that the workers are driving customers away.

States differ in their attitude about illegal immigrants. In Illinois, several Hispanic groups are angry with Home Depot because 40 day laborers were recently arrested for criminal trespassing, one by mistake. In California, a group called Save Our State has held protests at Home Depot accusing the store of aiding illegal immigration. In Los Angeles, Calif., a city councilman wants all new large home-improvement stores to build shelters with basic amenities for the day workers. In Texas, an immigrants’ rights group wants Home Depot to stop threatening day laborers with fines and arrest, and offer a grassy lot behind the store for them to congregate.

Many argue that the answer is not to arrest and fine the men, but to offer an area near the store for them to wait for work. Home Depot has helped finance shelters in Woodland Hills, Monrovia and Glendale, Calif., but are receiving pressure from groups against illegal immigration. Clearly, Home Depot is being hit with many different agendas. Until they decide the best course of action to take to help the company peacefully coexist with day laborers, their agenda will remain intact: to maintain a strict policy against solicitation, please customers and be a good community partner.

Discussion Questions

What is the dilemma that day laborers pose for Home Depot?

Day laborers congregating outside stores for work are upsetting customers and homeowners that see the workers crowding the parking lots, littering and harassing customers and passerby's. On the other side, day laborers have certain rights. Denying them the right to congregate in front of Home Depots, in essence, denies them the right to work. Different groups for and against immigration are pulling the company in different directions depending on their stance.

What can Home Depot do to resolve this dilemma?

Home Depot can build shelters to keep the workers away from the parking lots and sidewalks to wait for a contractor to come to them, or they can continue fining and arresting the workers to discourage them from soliciting.

Home Depot Skimps on Gifts

Use with Chapter 1, “World of Retailing.”

Home Depot’s CEO Bob Nardelli sees a company’s civic work as a way to increase sales, provide a public relations boost and show corporate responsibility. Mr. Nardelli, along with Home Depot founders Bernie Marcus and Arthur Blank, have helped the company build on an image of charity that Home Depot began working on years ago. Charity to some is based on monetary giving. Charity to Home Depot is based on social responsibility.

The second largest retailer, in comparison with other retailers, is lagging far behind in terms of monetary giving. Last year, for instance, the $35.5 million company gave less than five-hundredths of 1 percent of Home Depot’s $73.1 billion in annual sales. To Mr. Nardelli, however, giving is taking care of their people and giving back to the community.

Home Depot encouraged workers to volunteer about 2 million hours last year building playgrounds and fixing homes, according to the company. Other U.S. corporations donate extra money to nonprofit groups if employees volunteer for a certain number of hours. Some businesses even allow workers to volunteer company time. Analysts have questioned if Home Depot should take credit for volunteer hours that workers do in their own time. Others applaud Home Depot for supporting employees’ volunteer work. Giving monetarily is not required to be a successful business, although 86% of people polled in a 2004 survey said they were likely switch to a brand associated with a cause if it was about the same price and quality of competing brands. Many also felt their when deciding where to work and what stock to buy, their decision was largely affected by a company’s commitment to a social issue.

How much a company should give is variable. The Committee to Encourage Corporate Philanthropy suggests that giving programs should grow with increases in corporate profitability. Home Depot’s giving has actually gone down since Nardelli’s reign, from .46 of a percentage point to .39.

Home Depot does, however, give heavily to the American Red Cross and KaBOOM, a nonprofit that builds playgrounds for communities. Home Depot also plans on donating $2.5 million in cash towards Hurricane Katrina relief.

Discussion Questions

What are the pros and cons of a retailer making corporate donations to worthy causes?

Corporate donations can increase sales, provide a public relations boost, encourage customers to pick a product comparable in price and quality based on the company’s giving, encourage shareholders to buy stock and positively affect communities. Corporate donations can also liable to scrutiny by critics and analysts about giving amounts and causes and may not actually be effective in terms of a business’ social objectives.

Wanting the Old Main Street Back

Use with Chapter 7, “Retail Locations.”


Las Cruces, New Mexico, one of America’s most livable cities thanks to its warm, dry climate, has been trying to reverse the ravages of urban renewal for decades with little progress. In 1973, an urban renewal plan practically leveled Main Street, where residents remember beautiful buildings and streets with businesses and residences, perfect for taking walks and shopping.

The pedestrian mall that replaced Main Street in the ‘70s was a way to shore up downtown districts that were losing business to indoor malls. They thought making downtown more like a suburban shopping district would be a success. The 160 struggling businesses of the Main Street of yesteryear were tragically reduced to 90
after only three years of the mall being built. Now there are less than 10. More than 200 buildings were leveled and replaced by cheap construction void of Southwestern architecture, and six blocks of Main Street were closed to traffic. As the area was designated a city park, no bicycles were allowed, nor were the restaurants able to serve alcohol to outdoor tables. Drivers were encouraged to speed around downtown thanks to a one-way street that rings the mall in a large oval shape behind Main Street’s buildings. The pedestrian mall is, for the most part, deserted.

This summer, a master plan was finally passed to rip out the pedestrian mall and restore Main Street. Through years of public hearings, public comment and organizing of funds, the master plan has finally developed to include restoring two-way traffic through Main Street with street parking and landscaping, opening up most of the cross streets, creating a public plaza and building new commercial and resident space on empty parking lots.

To spur private development, an entertainment complex will be built with a movie theater and a restaurant on the north end, and a residential complex on the south end. Even some treasured historic buildings have been and will be restored. It’s true that 30 years of decline is working against Las Cruces, but residents are adamant about wanting a better city.

Discussion Questions

Why has the Central Business District in Las Cruces, and other small towns, died as a destination?

Poor planning projects have discouraged foot traffic by leveling historic districts, constructing cheap buildings without cultural appeal, and blocking off traffic. Malls have taken business away from CBDs.

What have towns like Las Cruces done to revitalize the Central Business District?

Strong leadership in Las Cruces has encouraged persistence through years of public hearings and debate to develop a master plan to reverse the damage caused by pedestrian malls. Restoration of two-way traffic, landscaping, opening up most of the cross streets and recreating a public plaza may help revitalize the CBD.

Why did making the Central Business District into a pedestrian mall fail?

The businesses on what used to be Main Street have virtually died off, as has beautiful authentic architecture and accessible streets to drive and park. Bicycles are not allowed in the area, nor is alcohol allowed while sitting outside restaurants. Cars can easily circumvent the CBD.

An Identity Crisis for Supermarkets

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


A growing number of shoppers have responded to the immense array of food shopping choices by shying away from the neighborhood supermarket. Instead, these shoppers visit discounters like Wal-Mart for rock-bottom prices or places like Whole Foods for specialized quality and service. Traditional supermarkets are struggling to survive now, but often wait to take some action until Whole Foods’, Wal-Marts’ and Targets’ expansion plans begin. For instance, Winn-Dixie filed for bankruptcy in February and Albertsons is exploring strategic alternatives with investment bankers.
Wal-Mart has become a dominant force in the grocery business, selling almost twice the amount of food and grocery items as Kroger, the country’s largest supermarket chain. Its employees are not unionized, which help it to keep labor costs down, and it has huge buying power and volume which help it to generate considerable profits.

Whole Foods is redefining what grocery stores should be offering and how to appeal to customers. That means fresher items, bigger produce sections and more selection for natural, organic and prepared foods.

To appeal to customers, supermarkets are adding more organic and natural food items, selling more prepared foods for quick lunches and dinners and cutting prices. Kroger, recognizing the need to provide a variety of shopping experiences, is building three alternative formats. One is Fresh Fare stores, which operate inside Ralphs stores, and offer a higher level of service and carry products like those at Whole Foods. Kroger’s Marketplace are twice the size of a typical grocery store and sells anything from electronics and kitchen appliances to home office furniture and dishes. Prices aren't as low as Wal-Mart’s, but the product selection is similar. The third format is its 142 Food 4 Less stores, which are no-frills warehouse operations to compete with Wal-Mart’s prices.

Food Lion is also making changes. They have a quick-stop area in front for shoppers who just want eggs, milk or something for dinner. They have wider aisles, lower shelves and no candy at the checkout aisles to cut down temptations for children. Promotional displays are also banned from the aisles as they clog cart traffic. Supermarkets are putting up a fight to keep customers that are drifting towards Wal-Mart’s prices and Whole Foods for specialized quality.

**Discussion Questions**

What are the competitive challenges facing traditional supermarkets?

*Traditional supermarkets are facing competition from the low prices of Wal-Mart and the specialty products at Whole Foods.*

How are traditional supermarkets dealing with these challenges?

*Supermarkets are adding more organic, natural and prepared foods, cutting prices, widening aisles, banning promotion displays to unclog cart traffic and offering different formats of grocery stores to offer a wider array of products.*

**Teenagers Shop for Art of the Deal**

Use with Chapter 4, “Customer Buying Behavior.”


The dollar-conscious teen shoppers of today are largely contrasted to their parents’ generation when it comes to the pursuit of material goods. It has become socially acceptable, if not encouraged, for teens to chase deals and shop at discount retailers.

Teenagers have been seen as naturally optimistic in their shopping habits, but it seems that reality may be setting in. Maybe it is escalating prices, but teens are beginning to appreciate the value of a dollar.

Teenagers are shifting their pattern of consumption. They are spending less on day-to-day expenditures like cosmetics, compact discs and clothing, but are unable to resist high-tech gadgets like iPod Nano, Motorola
Razr or Sony PSP. Considering these pricey replacements for fashion and beauty, teenagers are still spending about the same amount in total, but wising up about what they encourage their parents to buy for them.

For instance, a teenager might choose Kohl's over Abercrombie & Fitch or Chanel; Bed, Bath & Beyond over Crate & Barrel; or a thrift shop instead of the mall. One reason for this change in demand may be the Internet. As teenagers are part of the Internet generation and typically well-versed in Internet-lingo, they are able to compare prices. Web sites like eBay and Overstock.com are some of the more popular websites that teenagers choose when shopping online for junior apparel.

Teenagers have changed their value system and what they find cool. They are beginning to understand that they don’t have to dress like an idol to be cool; they can be someone else’s idol for finding a really fantastic deal.

**Discussion Questions**

What appears to be a new trend in the buying behavior of teenagers?

*Teenagers are shopping for deals in clothes and beauty, and instead are spending their money on high-ticket expenditures like Sony PSP’s, cable on demand or TiVo.*

What retailers are benefiting from this trend?

*Value-oriented stores like Kohl’s, Target, eBay and Bed, Bath & Beyond.*

**Wal-Mart’s Health Care Struggle Is Corporate America’s, Too**

*Use with Chapter 9, “Human Resource Management.”*


Wal-Mart discovered last spring that almost half of the children of its employees were covered only by government social-service programs like Medicaid or had no insurance at all. The relentless criticism that circulated accused Wal-Mart Stores of failing to provide affordable health care to employees and forced executives at the company to take a closer look at its out-of-control health costs. An internal memo by Susan Chambers, a senior executive, and her colleagues, was originally sent out internally to address some of Wal-Marts’ health care issues and blunt the criticism. This week it became public, and offered some startling insight into Wal-Mart’s struggle to contain health care costs and to appease its critics.

It’s understandable that Wal-Mart, as the nation’s largest employer, is entangled in an increasingly contentious debate over how best to provide health care to working Americans. Many of the company’s 1.3 million employees are unable to absorb the inflation in medical costs and frequently cannot afford health coverage. This may be due to various social and economic issues; for instance, low-income workers limited access to preventative medical care.

The Chambers memo showed that Wal-Mart is already spending $1.5 billion on health care, but is insuring fewer than half of its employees. It outlines some simple steps to expand coverage, including a “healthier, more productive work force,” and makes clear that the company’s health care costs are increasing at a faster rate than its revenues, threatening to engulf an increasing share of future profits. Wal-Mart recognizes that its work force, made up of a large number of low-income workers, is at an increased risk for health problems due
to obesity leading to diabetes and heart disease. This, again, might be solved with better preventative health care, but this spirals back to the issue that the lower-income population is unable to afford this luxury. Unfortunately, Wal-Mart’s health benefits are often what attract workers who want the job primarily for the health coverage.

Some of the solutions explored in the memo were: to require all jobs to include some component of physical activity, like making cashiers gather shopping carts; redesigning benefits to appeal to someone more interested in say, buying a home, than health benefits; disease-management programs; urging employees to go to doctors that provide good care at a reasonable cost; and even suggesting that Wal-Mart expand the customer health clinics at a few of its stores to provide care for employees. Four stores have opened these customer clinics which have appeared to be a popular alternative for uninsured people.

Discussion Questions

Why are health care costs such a concern for retailers like Wal-Mart?

*Health care costs, disturbingly inflated, threaten to engulf Wal-Mart as they are increasing at a faster rate than its revenues. Lower income workers, drawn to Wal-Mart for its health benefits, are typically unable to afford preventative healthcare and consequently are not as healthy, increasing Wal-Mart’s costs to insure them.*

What are the pros and cons from the perspective of its stockholders and customers of Wal-Mart proving better health care coverage for its employees?

*The threat of health costs taking Wal-Mart under may make stockholders wary about investing in the company. Customers may be drawn away from Wal-Mart if it is a host to mostly lower-income workers working there primarily for the health benefits. If Wal-Mart were to provide better health care coverage, they may be taken over by the enormous strain that it would place on profit.*