August 2006

Dear Professor:

This newsletter summarizes article abstracts for case discussions for the following topics:

- Is self-service a disservice or time saver?
- Tesco arms itself with Clubcards and information in the war against Wal-Mart
- New diamond website combines internet pricing and face-to-face service
- Whole Foods: Humanely stopping the sale of lobsters or an economical ploy?
- Gap returns to its roots with four in-store shops
- Staples’ uses its iconic easy button to align its retail strategy and communication
- Re-pricing items using store data, not company mandate
- Using the eye of the beholder to tap consumer trends
- Will a bigger and better Macy’s reinvigorate department store sales?
- Federated-May merger shifts power away from suppliers
- Teens adopt new fashions quickest for a fast profit

The articles in this and past newsletters are sorted by chapters in Retailing Management, sixth edition. If you are interested in the text book please visit [www.mhhe.com/levy6e](http://www.mhhe.com/levy6e). 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)

We have found some video links that may be of interest to your students:

- Grocery Retailing and Technology - [http://www.xr23.com/Archives/Videos.cfm](http://www.xr23.com/Archives/Videos.cfm)
ABSTRACTS OF RECENT RETAIL ARTICLES

SELF-SERVICE A DISSERVICE OR TIME SAVER?

Use with chapter 19 “Customer Service,”


People have pumped their own gas for years. But only recently have self-checkout grocery and hardware stores become common. Last year’s self-service transactions totaled $70 billion and by the end of next year the value is expected to reach $330 billion as people become more accustomed to the technology.

Meijer, Inc, a food and general merchandise store, has new picture operated self-checkout systems that eliminates the need for confusing product codes. The chain believes their customers value the option. In addition, it provides a psychological benefit. Customers are active instead of waiting impatiently for a cashier and the participation provides the perception that the process is faster. From a return on investment perspective, one supplier claims that the investment can be recouped in 9 months because it eliminates the need for cashiers. A four-lane checkout system and an attendant station costs $125,000.

Other industries are latching on to their customers’ willingness to serve themselves. Airlines, like Northwest, have kiosks that empower their customers. Travelers can check-in, print boarding passes, change seating assignments and alert the airline of baggage they will be checking. There is a strong correlation between those that use self-checkout lanes in grocery stores and those that use the self-check-in kiosks in airports. Young computer-savvy people have a greater propensity for self-service. Twenty-one percent of 19-35-year-olds use self-service in grocery stores. Where as only 5% of people 55 and older do.

However, not everyone loves checking themselves out. Newcomers may struggle to purchase a pound of kumquats which may cause pressure and harsh comments from people waiting behind them. Other businesses may not see cost savings, but rather increase their expenses. Some DoubleTree hotels have check-in kiosks, but they still have to have front desk attendants for customers that don’t want to interact solely with an uninviting screen. The common denominator is customers want shorter lines, even if just perceived, and what makes the customer happy can make the business money.

Discussion Questions:

What are the advantages and disadvantages of self-checkout from a retailer’s perspective? From a customer’s perspective?

Retailer: Advantages: The retailer can employ fewer cashiers. In the long run they will be able to recoup their investment and will operate more efficiently
Disadvantages: For some businesses, it doesn’t allow for a decrease of staff (hotel) and it adds a cost. It can frustrate customers who are not comfortable with computers or self-check-out systems, which will slow the line up and potentially cause a dissatisfied customer to not return.

Customer: Advantages: The customer can be active during the check-out period which can make the wait seem shorter. Also, customers do not have to interact with a person if they do not want to.

Disadvantages: Customers can become very frustrated if someone ahead of them slows the line up. If they are new to the process they can feel the pressure of those waiting in line behind them. Some customers would rather deal with a human than a machine.
TESCO ARMS ITSELF WITH CLUBCARDS AND INFORMATION IN THE WAR AGAINST WAL-MART

Use with chapter 11 “Customer Relationship Management,”


In Mexico, Canada and the U.S., Wal-Mart is a retail giant. In other countries it is struggling to compete against Britain’s Tesco. In the fight against low-cost, low-priced Wal-Mart, Tesco uses its Clubcard to gain and use information about its customers to gain market share. Tesco offers discounts in exchange for the information it receives from customers. The information garnered through the card has helped push Tesco’s grocery market share to 31% over Wal-Mart-owned Asda chain that has 16% in the U.K.. Tesco is able to tailor promotions to individual preferences and to analyze new product rollouts.

For example, when Wal-Mart purchased the Asda chain, Tesco was afraid its price sensitive customers would defect. In a proactive plan Tesco identified several hundred items that these shoppers frequently purchased. They then lowered the price of them, such as Tesco Value Brand Margarine to keep their business. It worked well. In that year sales jumped 17%.

Tesco has four different sized stores from convenience to super sized and attracts both affluent and bargain shoppers. Their line of high end items under the name Finest has includes products such as duck pate and was developed about when Clubcard data indicated that their higher spending customers weren’t buying wine and cheese from them. In addition, they also discovered that their affluent shoppers had an affinity for their international products. Tesco is now rolling out its World Foods line to 325 stores.

The Clubcard also allows participants to earn points which can be exchanged for video rentals, groceries or frequent flyer miles. Card holders received coupons for items they already buy in addition to products Tesco thinks they would like. Tesco coupon redemption rate nears 20% compared to a 2% industry average. While Tesco will not disclose how much they spend on their Clubcard program, they claim that it is well worth it.

Discussion Questions

How has Tesco used the information obtained from their Clubcard loyalty program to tweak their strategy?

Tesco has used their customer data to identify preferences and send targeted coupons. This strategy works well since their coupon redemption rate is 20% compared the industry average of 2%. In addition, by analyzing Clubcard data, Tesco discovered that its affluent shoppers wanted a higher-priced luxury product line. Also, Tesco was able to prevent price-sensitive customers from converting to Asda by identifying commonly purchased items and decreasing their prices.

NEW DIAMOND WEBSITE COMBINES INTERNET PRICING AND FACE-TO-FACE SERVICE

Use with chapter 3 “Multi-Channel Retailing,” and chapter 4 “Customer Buying Behavior”


Diamonds may be a girl’s best friend, but they don’t come cheaply or easily. Loose diamonds are
traditionally sold at higher prices in stores than online retailers. However, when buying them online, customers are buying them sight unseen. IJODiamonds.com is helping local merchants competitively price diamonds while simultaneously providing one-on-one service. At IJODiamonds.com customers can select the diamond they wish to purchase and then have it delivered to a local store. There they can personally inspect the cut, quality and color of the diamond.

The participating jeweler shares the profit with IJODiamonds.com, but it also gives the retailer an opportunity to develop a relationship with a customer that may not have come in otherwise. Other online diamond dealers such as Diamond.com and BlueNile.com sell their diamonds directly to their customers. There is a small, but growing group of people that prefers this method of buying before inspection. BlueNile.com believes this is because it decreases the pressure a consumer feels over making a decision about something they often don’t know much about.

IJODiamonds.com is spending $100,000 on the site’s debut. This does not include advertising on search engines. The company is heavily relying on its 850 participating retailers to advertise on their own sites. Some are worried that this may not be enough advertising dollars to compete with other online retailers. Another point of discussion is if the company has enough participating retailers to satisfy their customers who do not want to travel far to inspect and purchase their diamonds.

Discussion Questions

Will IJODiamonds.com be successful? Why or why not?

Sample Answer: I believe that IJODiamonds can be successful if its participating retailers push the website. If they offer this alternative method of buying diamonds to customers who come in, in addition to those who see their website promoting the partnership, then they can do well. This would be beneficial for the retailer even if they earn less profit because it shows good will and develops a trusting relationship in an industry where personal relationships can make or break a sale. I do believe that IJODiamonds.com will need to create more partnerships with stores, but not so many that they will begin competing for business on the site. There may be some pushback from traditional retailers who will see the partnership with IJODiamonds as a margin-lowering venture.

If you were in the market to purchase a diamond, would you use IJODiamonds.com?

Sample Answer: Yes, I would use this site because I like to both save money and enjoy the service of a face-to-face salesperson in choosing the setting for the diamond.

Whole Foods: Humanely stopping the sale of lobsters or an economical ploy?

Use with chapter 5 “Retail Market Strategy,” and chapter 12 “Managing Merchandise Assortments”


Humanity no longer refers just to the treatment of humans, but to the proper handling of our live food. As consumers become more aware of where their food is coming from and how it is processed, stores are eager to please them in hopes that it will benefit the bottom line. In mid June, Whole Foods chain announced that they would no longer sell live lobsters because they could not guarantee that the seafood delicacy was treated humanely on their ride from their native ocean habitat and Whole Foods tanks.

Proponents of the decision are praising Whole Foods. Many of them didn't like seeing the dozens of live lobsters crawling over each other anxiously waiting the next customer in line to choose them. While one
study recently showed some degree of awareness, others site that lobsters lack brains and have 100,000 neurons compared to a human’s 100 billion. Some believe that Whole Foods decision is a “ploy to generate the liberal consumer’s favor” and that political correctness has gone overboard. Safeway is also ceasing the sale of live lobsters, but they site unsatisfactory sales as their reason. This raises the question, however, why are people not buying them?

Whatever the reason for halting the sale of certain food items, the trend is catching on in other areas of questionable food products. In August, a ban was approved by the City Council of Chicago forbidding restaurants to sell fois gras. Translated to “fat liver”, fois gras is created by force feeding ducks through tubes until the liver is six times its normal size. Seemingly, this ban is creating less friction among consumers.

**Discussion Questions**

Are food retailers boycotting certain foods like lobster because it is ethically troubling to them and their customers or because it is just “good business”?

*Sample Answer: What is good for the world is good for business. Business needs to operate in a sustainable fashion and this includes treating animals humanely. Cities and food stores that make decisions based on ethics will eventually see a boost in their bottom line because consumers do care about how animals are treated, especially if they can still purchase these items at a reasonable price. If consumers are still demanding lobsters and others are worried about the treatment of them, then suppliers and stores will create a supply chain that will satisfy their customers and their bottom line and everyone will win.*

**GAP RETURNS TO ITS ROOTS WITH FOUR IN-STORE SHOPS**


Over the last few years Gap had changed the style of its clothing to try and be more trendy and professional. During the course of its trip, however, it alienated its core customers and lost its identity. Now, after slipping sales, it is returning to its roots and offering in-store shops focusing on its more traditional merchandise. There will be a jean section with more fits and washes, an active wear shop with a variety of sweatshirts, a t-shirt area and a slightly dressier, but still simple corner with black and khaki pants and knit tops.

Gap, Inc. which also controls Banana Republic and Old Navy, toned down its advertising in expectation of its new line of clothing and store format. Now it will return to using celebrities, but in its print and outdoor billboard campaign. Gap will be using stars like Mia Farrow and rapper Common.

Another change will be in its store front windows. In the past Gap changed its window display about once a season to represent their change in merchandise. Now, they will change their merchandise more often and the windows to advertise it.

In Gap’s return to updated classics it has admitted that it took its customers input to literally and lost their loyalty. The specialty store is hoping that they have found the right mix of merchandise and advertising to let people know they are back.

**Discussion Questions**
What is Gap doing to revive its strategy?

Gap has returned to its more traditional updated classics look. It has redesigned its stores into four in-store shops to represent its four core areas, active wear, clean cut clothing, t-shirts and denim. In addition, it will change both its merchandise and window displays more often. The advertising campaign will use celebrities in its print and outdoor billboards more than on TV commercials.

Do you believe it will be successful, why or why not?

Sample Answer: A return to its basic merchandise is what Gap needs to revive its sales. However, it’s advertising needs to let consumers know that they can once again go to Gap for white shirts, jeans and black pants.

Will you shop at the Gap as a result of its new strategy?

Sample Answer: I would shop at Gap for the exact items they are trying to sell, basic wardrobe items. These are the items that can be hard to find and if they are located in one store and fit well, then I will shop there.

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STAPLES’ USES ITS ICONIC EASY BUTTON TO ALIGN ITS RETAIL STRATEGY AND COMMUNICATION

Use with chapter 5 “Retail Market Strategy,” and chapter 16 “Retail Communications Mix”


In 2001 the office supply market was becoming crowded. The first mover in the field, Staples, no longer was the obvious winner with competition from Wal-Mart, Office Max, Target and Office Depot. In that same year, Staples was receiving eight times more complaints than compliments from its customers. Its slogan “Yeah, we’ve got that,” became a joke since many of its complaints were about out of stock items.

As VP of marketing, Shira Goodman held focus groups to uncover what it was Staples customers really wanted. It turns out that they wanted a simple and accessible shopping experience. Staples then began an internal overhaul to create that for its customers. Staples eliminated 8000 unnecessary items from its stores that its key demographics wouldn’t need. Small to medium sized business owners don’t need Brittany Spears backpacks, but they did want to test the desk chairs. The backpacks disappeared and the chairs came down off the rafters. Additionally they added larger, easier to read signs and retrained employees.

By the time Staples had reorganized its shopping experience to be easy, it was ready with a new tagline, “That was easy.” It was released in March 2003 and by the summer same store sales were up 5 percent. By January, 2005 Staples was ready to release a new ad campaign to reinvigorate the slogan. McCann-Erickson Worldwide came up with the now iconic Easy Button. During the Super Bowl, the new commercials ran. In one spot an emperor uses the easy button to build an instantaneous ball to block intruders.

The easy button campaign and tagline “That was easy” has taken off. Customer recall of the advertising is 70 percent, compared to an industry average of 40 percent. Customers have purchased nearly one million easy buttons turning themselves into walking advertisements. In addition, its share price has increased at a pleasing rate of 37 percent in the past year to over $26.6 by May 2006 and profit was up 18% in 2005.

Discussion Questions
How did Staples coordinate their retail strategy to be consistent with the Easy Button Campaign?

When Staples began to show a decline in its business, it went to its customers to find out what they wanted. They wanted an easier shopping experience. Instead of just changing their advertising to show they were easy, they changed their store to become easy. They streamlined its SKU's and made it easier to shop there. Then they released a new tag line “That was easy,” to demonstrate to its customers their new business model. After a few years, they developed a new ad campaign with a now iconic symbol to breathe life into its slogan again. They matched their advertising to their changes so that its customers would actually have an easier shopping experience.

RE-PRICING ITEMS USING STORE DATA, NOT COMPANY MANDATE

Use with chapter 15 “Retail Pricing”


Duane Reade, a pharmacy chain, learned that parents with newborns are much less price-sensitive than parents with toddlers. It learned this when it used a retail optimization program in which it entered all its data. After Duane Reade changed its pricing strategy on diapers, its baby care revenue increased by 27%. After this profitable lesson, Duane Read now has DemandTec’s retail optimization software calculating prices for two-thirds of its products.

DemandTec expects its sales to double this year to $50 million in a market expecting to grow 30%. Wal-Mart and Best Buy are realizing that homogenous pricing will not work in heterogeneous markets. Best Buy is using individual store data to determine the best pricing levels. It is beginning to investigate if they can change prices based on the time of day. Will post-work shoppers pay more for a camera than 10 AM customers?

Price optimization software utilizes complicated algorithmic functions. One grocery store chain inputted breakfast food data for 1,940 stores. The program generated 134 million coefficients for items such as shelf location and time of year. In addition, the grocer narrowed down goals such as profit and volume. DemandTec reminds clients that they still need to employ an intelligent person to oversee the software’s recommendations. It does not take into account new store openings in locales or fads sweeping consumers’ tastes and preferences.

Discussion Questions

How have retailers changed their pricing strategies as a result of pricing optimization software?

Retailers are able to use historical data to determine customers’ price sensitivity for different items. They can use data on a per store basis and create optimum profit instead of using prices that are heuristically determined at headquarters.

USING THE EYE OF THE BEHOLDER TO TAP CONSUMER TRENDS

Use with chapter 12 “Planning Merchandise Assortments”


When, or if, a company can spot a trend before the market becomes saturated, then it can tap into an incredibly profitable market. Trend spotting has become an expensive, but necessary event for many companies. Actionspeak is a company that uses cameras to document consumer behavior. They install
the cameras as unobtrusively as possible on the person and in fixed positions in the subjects’ environment. Young mothers are a demographic that many companies covet, and seeing through the eyes of a mother can provide a company more insight than asking the mother to describe her average day. On-the-go moms often invent products to make their lives easier and less stressful, but then forget what it is they need later when asked about it.

Some companies, such as ESPN, send their employees to a trend spotting school. It is an intensive program to help employees understand the youth demographic, their thoughts and what they are buying. As a result the trend spotters have identified products that are new and profitable trends such as organic items, personalized clothing and video games. The idea of trend spotting is to identify the market and to develop a quality product that people want so that you don’t have to push it on them. They pull it out of you.

Discussion Questions

What is trend spotting?

Trend spotting is a research technique in which researchers observe consumers with the objective of identifying the next big product or activity that consumers will spend money on.

Why are retailers and other firms using trend spotting rather than more traditional forms of marketing research like surveys?

Often consumers don’t remember what it is they want or thought of after they experience a problem or a new product. Trend spotting allows the company to view life through the eyes of the demographic they are serving. It gives them a more direct and accurate observation.

What are the disadvantages of using trend spotting?

Trend spotting is expensive. There is a time commitment to watch the tapes of all the participants and to train employees to spot trends. Also, trends can be quick moving and spotting the trend quickly will directly affect how much profit the company can make off it.

WILL A BIGGER AND BETTER MACY’S REINVIGORATE DEPARTMENT STORE SALES?

Use with chapter 5 “Retail Market Strategy”


Last year Federated Department Stores acquired the May’s chains for $11 billion. This September, 400 of those stores will be converted into Macy’s. It is Federated’s hope that they will be able to turn the sagging department store industry around with a bigger and better Macy’s. Critics wonder if they will be able to do anything but lose more market share to specialty stores.

To avoid the “McMacy’s effect” as some are calling it; Macy’s has brought on more merchandisers and planners to target regions and their preferences. All of the stores will share the same wide aisles, larger fitting rooms with TVs and exclusive merchandise, but product lines will vary from store to store. In locales where customers can’t afford such lines they will be able to find the more price conscious brands such as Karen Scott for women and John Ashford for men. In luxury-conscious neighborhoods, customers can find a high-end exclusive line by Martha Stewart.
Because of the large size of Macy’s they are able to negotiate exclusive lines with top designers, for example, an upscale sportswear line by Elie Tahari. During the transition away from May’s old, unprofitable brands, there will be signs assisting customers to similar brands carried by Federated. Macy’s is also looking to add more services to its repertoire in order to attract customers that might otherwise find a more convenient location for shopping. The modernized Macy’s will provide eye brow waxing and iPod vending machines.

The largest challenges a national department store will encounter are regionalizing its merchandise and attract youthful shoppers under 35. Macy’s is hoping its national advertising, economies of scale, and power to negotiate exclusive and fashionable lines will provide them with the ability to become a department powerhouse and not a “McMacy’s”

Discussion Questions

What is the Federated Stores doing to avoid the “McMacy’s Effect”?

To avoid the McMacy’s effect Macy’s is using its size to negotiate exclusive, more stylized lines for its store. In addition, it is employing more merchandisers to assign appropriate lines and products to regions. They are also adding services and updating Macy’s looks so that they are not all the same as other stores and are more inviting to the customer. The goal is to have a national brand, with national advantages, but regional merchandise.

FEDERATED-MAY MERGER SHIFTS POWER AWAY FROM SUPPLIERS

Use with chapter 14 “Buying Merchandise”


Since Federated purchased May Department Stores last year there has been a lot of transitioning. Hundreds of stores are being converted to support a new national Macy's brand. As a result of the transition, Federated has decided that suppliers need to carry some of the cost. As is traditional with a new store opening, Federated is charging its vendors a 5% fee for the opportunity to sell in a new channel. Vendors don’t agree that this is new.

Vendors are arguing that these are not new stores and don’t carry the same expenses such as furnishing, building and creating operations from ground up. Vendors claim that Federated is just changing the name place on the front door. A federated spokesman stated that renovations were included in the new-store openings vendor fee policy. Recently, vendor allowances have been investigated by Securities and Exchange Commission. Saks, Inc agreed to repay vendors $48 million for improperly collected markdown allowances.

Discussion Questions

Do you believe Federated’s policy of charging a “new-store allowance” on merchandise sold to stores being integrated into the Federated fold is an ethical business practice? Defend your position?

Sample Answer: This is not ethical because it creates an unfair advantage to larger suppliers. Only those vendors that can afford to provide for the allowance can successfully compete against other product lines and sell their merchandise in Macy’s. In addition, it is Macy’s obligation to minimize the costs of renovating new stores. Transferring the cost to their suppliers does not create an incentive to minimize
expenses. It is merely shifting the burden of payment while they control expenses.

**TEENS ADOPT NEW FASHIONS QUICKEST FOR A FAST PROFIT**

Use with chapter 4 “Customer Buying Behavior”


Fashions cycle often, but about every ten years a silhouette change happens and that is occurring right now. The style is changing to an upside triangle with larger tops and tight, straight leg pants. A style that seems better fitting for teens.

Stocking the new style is a balancing act. Stocking too many items in the new silhouette too early can have disappointing sales and stocking them too late can mean missing out on the money. Teen retailers are expected to be the most profitable on these trends, but even those that cater to this group must be careful. Teens are finicky and a store that has the “in” clothes today, can be out of business tomorrow. Women’s stores such as Talbot’s are likely to wait a bit longer to see which styles really stick and which ones their older demographic will gravitate towards.

**Discussion Questions**

**What is the new fashion trend in women’s fashion?**

The new trend in women’s fashion is a silhouette change to an upside down triangle with larger tops and tighter narrower pants.

**What recommendations would you provide to your favorite retailer with regard to adopting this fashion?**

If the store is targeting a younger, teen demographic then they should stock the fall line with several of these new items. There should also be some more traditional looking clothing for the figures which can not support this style and for those that have not yet gotten used to the new style. If the store is for older women, then they should only choose a select item or two and wait another season to see which items their customers would like to wear.