February 2006

Dear Professor:

This newsletter has a summary of trends that were prevalent during 2005 and article abstracts for case discussions for the following topics:

- **Top Retail Trends**
- **Top Consumer Behavior Trends**
- **Top Grocery Trends**
- **Direct Selling, a Part-time Job from Home**
- **Changing the Average Size of Women’s Clothes**
- **Using Service to Combat Wal-Mart in the Electronics Arena**
- **Airport Shopping Revitalized**
- **Internet Retailing is Becoming More Accessible for the Small Guys**
- **J.C. Penney has Revamped its Style and Stores**
- **Fitting Drive-through Windows into Starbucks**
- **Can Remodeling Gap Rejuvenate its Sales?**
- **The Demise of Local Department Stores and the Rise of Macy’s**

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](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)

The Sixth Edition of Retailing Management will be available later this Spring.
ABSTRACTS OF RECENT RETAIL ARTICLES

Liz Claiborne’s CEO Top Retail Trends

Use with chapter 2 “Types of Retailers”


Over the past year many trends have emerged in the retailing industry which are either influenced by customer demand or directly affecting the customer. Many shoppers are seeking out more plush shopping environments. For example, Bath & Body Works is adjusting its image as an affordable, yet classy destination for all beautification needs.

Fiercely competing stores are finding that they need leverage to bargain with suppliers and expand their marketing.

There have been many consolidations and buyouts such as Federated’s (Macy’s) purchase of May Department Stores (Filene’s) and Kroger bidding on Albertsons Inc.

The typical enclosed mall is losing traffic to many of the new lifestyle centers that have open walkways and numerous smaller merchants. There are 132 lifestyle centers currently open with 52 under construction. These centers are finding homes in upper-income communities with a taste for Pottery Barn and Victoria’s Secret.

A common measure among retailers is same store sales and in order to increase this number, without adding square footage, many retailers are offering more services. Best Buy Co. is touting its computer service Geek Squad. Home Depot and Lowe’s are increasing their array of installation services to increase sales per square foot.

Shoppers are finicky and they are showing less loyalty to stores. Retailers are developing concepts that cover a broad range of tastes and ages to combat customers’ volatile loyalty. Gap Inc. has been one of the first to do this with Gap, Banana Republic, Old Navy and recently Forth & Town for women over 53.

Many stores are focusing on their private label brands which account for 17% of global sales. These in-house brands have higher profit margins and provide leverage with suppliers.

Furthermore, since the same product can be purchased at many stores, the store a customer chooses can be a source of entertainment. Sporting goods retailer Dick’s prominently displays climbing walls in their stores. Not including commercials, companies are using television to reach more consumers. Home Depot sponsors TLC’s popular decorating show “Trading Spaces”.

Kohl’s has proven that its stand alone business model is successful, so now many other retailers are withdrawing from the mall and following suit. J.C. Penney is most commonly found in traditional malls, but has opened several free standing stores.

Many retailers are finally properly using something they already have, customer data. Especially grocery stores that have under utilized databases will begin to use the data to provide discounts for frequent shoppers.

In the past year and in the upcoming one, many customers will begin to see and feel the effects of these trends ranging from where they shop to how they shop.

**Discussion Question**

Choose two large national retail chains, one selling primarily apparel (e.g. Federated Department
Stores), and the other selling primarily hard goods (e.g. Staples). Which of these retailing trends do you believe will have an effect on their business? Why?

New York & Co. is too small to sponsor an entire television show, but maybe it can use product placement in a popular make-over series. Currently it is mostly in malls, but has the opportunity to move to a lifestyle open mall. It has a more conservative, yet modern look that will work well with consumers demand for more upscale environments.

As a hard good chain, Best Buy already has stand-alone stores. It will continue to push its geek squad services and may find an opportunity to offer other services such as media and home entertainment set up. It may also find opportunity as an entertainment retailer by potentially sponsoring events at their stores and new in store displays where particular products can be played with and tested.

Top Consumer Behavior Trends

Use with chapter 4 “Consumer Behavior”


Consumers know what they like and each year the list of what is ‘in’ changes. This year consumer purchases are depicting 10 clear trends.

Get skinny. The smaller the electronic, the better. For the first time in a decade, the appearance of an electronic is driving its sales instead of its capabilities. MP3 player, flat screen TV, camera and cell phone sales are all being driven by their size.

Watch out for more skirts and pastels because women are being girls. The fifties feminine style has returned to both the cat walk and the work place. In addition, the children of the original 50’s women are beginning to turn 60. Baby Boomers will not be entering their retirement as early as their parents and they intend to make 60 the new 30.

Sparkly earrings, garish belts and metallic accessories are no longer for the women of Hollywood Boulevard. Glitz and shine will be worn in abundance. Often these will be paired with the newest of accessories, the small dog. Stars such as Paris Hilton have made using your pet to accessorize and accessorizing it cool.

For the men and women who still don’t like the way they look after succumbing to the latest trends, they can get plastic surgery. Products and surgeries to change appearances are the newest rage. Have you ever heard of toe reconstruction to match your toes to your Manolo Blahniks?

People are tired of hoping the newest fad diet will work for them and then suffering the elimination of one major food group. They are starting to see the benefit of simple healthy eating. Nutritional supplements will be popular along with organic and no sugar added products.

While real estate remains pricey, people want to expand their living space. Backyards are being transformed to create additional living space complete with furniture, art, lights and expensive shrubbery. Also, matching is boring. People are not only changing up their wardrobe with different brands and styles, but also in their homes. Unique luxury items will be found complimenting mass produced Ikea goods.

Discussion Question

Which of these consumer trends will have the biggest impact on your favorite retailers?
As a female who likes to shop, the idea of mix and matching will affect many stores I like to shop in such as Ann Taylor. They will probably have fewer suits and coordinates, but will add other separates to their array of clothing. The accessory displays will also reflect the trend for sparkles and glitz. Small conservative jewelry will occupy much less space.

Which do you believe will have an effect on the way you live, work and play?

I believe that none of these trends will affect me much except in the items that I purchase to wear to work and to go out. It will not affect my job description or where I live as it is already decorated and I will not redecorate as a result of a trend.

Do you disagree with any of these projected trends?

From my view of retailers and television, I believe that many of these trends are accurate. While I may not follow some of them myself (small dogs) I can see evidence of them.

Top Grocery Trends

Use with chapter 2 “Types of Retailers”


Since 2001 when Wal-Mart climbed to the top of the list to become the nation’s largest food seller, traditional grocers have been making changes to steal sales back. Supermarkets are repositioning themselves as high quality, lifestyle grocers or high value chains to differentiate themselves from the nontraditional food sellers who have stolen the middle. Safeway, Inc has spent millions on advertising and remodeling stores with softer lighting and flower arranging classes.

Despite that food carries a low margin; nontraditional grocers are increasing their selection of items. These non-traditional outlets, such as Target, account for 31.9% of all grocery sales. Since Target and Home Depot now carry food items, grocery stores are minimizing the center aisles which carry the same goods and have reengineered the periphery of their stores with more prepared foods and fresh produce. Packaged food companies are tapping into the trend. For example, Heinz is creating refrigerated dishes.

Weekly circulars that advertise specials are becoming a tool of yesterday. To compete with the every day low prices of Wal-Mart and the like, grocers such as Kroger are turning their cost savings into perpetual lower prices. Convenience is a large factor for many shoppers and chains, such as Albertsons, are using high tech payment systems to speed up the check out process. A stored image of customers’ finger links to a credit card and the purchase is complete.

Another popular practice of the past is beginning to see its decline. Vendors pay for their shelf space. Now, stores are relieving some suppliers of this fee. An executive of Safeway indicated that eliminating this practice will save the company money since they will be able to cut nearly 100 accountants.

Private labeled goods carry the highest margin in grocery stores and now account for 15% of packaged goods revenue, the most popular items being milk, cheese and eggs. As these labels become more acceptable, customers will trust stores with more upscale items such as Safeway’s line of premium beef under the name Rancher’s Reserve.

As many businesses are seeing, labor is a high cost of conducting business. Grocers are investing in self-checkout lanes which reduce the need for clerks and are attempting to renegotiate union contracts so laborers carry more of the healthcare costs.
Consumers enjoy the thrill of the hunt in the dollar store and are attracted to similar deals in the grocery store. Save-A-Lot discount grocery chain bought a dollar store to gain access to its suppliers. Consumers are also demanding organic goods, which explains the success of Whole Foods. The US and European organic and natural goods market is expected to reach $59.2 billion by 2009. Many grocery chains are employing one or more of the above trends to combat their slump in sales due to big box retailers and discount warehouse chains stealing the middle market.

**Discussion Question**

Everyone needs to eat, but where Americans obtain their food has shifted in recent years. Identify the store where you purchase the majority of your food. (If you live on-campus, use the store that you use when you are at home.) Evaluate how these trends are impacting the store, positively or negatively. Do you think this store will remain a viable competitor in the next five years?

For the most part I do most of my grocery shopping at Costco, a discount warehouse store. The trend for low cost everyday prices has certainly helped Costco as a grocer. For the more unique ingredients that Costco does not purchase I go to a nicer grocery store where I know I can find what I need and the quality will be good. For myself, I have differentiated from my ‘normal shopping list’ and my ‘special, upscale shopping list’ for each of these lists I have a different grocer and I don’t mind visiting two stores to complete both lists. The trend for fresh, organic and prepared foods in my traditional grocer has brought me back. Both these stores will remain viable competitors if they are able to remain differentiated: one for my normal grocery items that I can get in bulk and cheap and the other for the harder to find goods.

**Direct Selling, a Part-time Job from Home**

*Use with chapter 2 “Types of Retailers”*


Most people know the history and success of Tupperware and Mary Kay with their at home parties. Few understand the impact this type of direct selling is having on America. As people are finding themselves busier, a part-time job that allows them to work their own hours and socialize is attractive. Companies such as the Pampered Chef and Natural Family Boutique attract busy women who would buy their product anyway. The independent sales representatives receive a discount and can network with like-minded people when they have time. Most look to the future when they can manage other representatives and earn part of their sales. These portable businesses often have a startup fee to purchase initial inventory that must be weighed against potential income. Brick and mortar stores are beginning to see the value of this $30 billion business. The Body Shop has its own direct sales unit which offers products similar to those found in their store. Direct selling through an independent home consultant is a win-win situation. The company grows its names and sales and the sellers gets out what they put into it and that includes friends and money.

**Discussion Questions**

**Why is direct selling increasing in the United States?**

*It is a means of making money that provides flexible hours and a chance to socialize. The people who sell these products would be purchasing them anyway, but now they get a discount. They join in part to make money as much as to save. Companies like this method as there is a low cost associated with it since independent representatives work off commission and purchase their own inventory.*

**What types of products do you think would work well with your peer group?**
23 years- As an apartment dweller I would be interested in apartment decorations and kitchen items. Food items may be priced too high for people starting out in their careers. As a female, mid priced beauty products would also work well.

What about your parents?

Gourmet food items would be a good choice as well as baby products for parents with young children. Home décor items, the same that would appeal to me, would also be a potential. In general, my parents would be able to afford higher priced goods then I would.

Changing the Average Size of Women’s Clothes

Use with chapter 12 “Planning Merchandise Assortments”


As just about any women can attest to, a size eight is not just a size eight. A size eight in Ann Taylor is closer to a size 4 in Banana Republic. In other stores there are only 4 sizes. Chico sells its more forgiving clothes in sizes ranging from 0-4 so fewer people will find them stocked out. Clothing is shipped to stores in standard pre-packs that peaks in quantity at size 8, but the most common size of late is actually a size 12.

The average woman has difficulty finding proper fitting clothing because of the discrepancy in sizing and stocking common sizes. SizeUSA, a national sizing study, determined that the majority of women actually fell into three body shape categories, none of which were the stereotypical hour glass shape that women's clothes are made to fit. 43% of women are pear-shaped, 37% have are apple-shaped and the remaining 20% are rectangular.

Kohl's is leading the pack in size optimization by shipping multi pre-packs and redistributing them where needed. Matching size demand to supply on a per store basis is no easy task. Especially since the same trend may no be true across categories of merchandise. Gap's new Forth and Towne is centering their line on a size 10. Stocking the right sizes is important to sales and customer satisfaction, which is why many stores are spending much time and money on this topic.

Discussion Questions

Why do retailers have such a hard time staying in stock in the right sizes?

Pre-packs are used as a standard in shipping clothes and they send the most of an item in a size 8, but the average size of an American is a 12. This leaves many size 12s without something to wear. In addition, the same size in different stores and clothing lines will fit the same person differently due to a lack of standard sizing.

What have retailers done to help alleviate the problem?

Some retailers are sizing their clothes differently around easier sizes such as Forth and Towne’s size 10. Chico’s sizes its clothes to span a larger range in 0-4. This allows more people to find the size they need. Kohl’s is working on matching individual store demand to supply.
Use with chapter 19 “Customer Service”


Wal-Mart is already the number one retailer in grocery and toys and now that it ranks number two in U.S. electronics sales, it wants to be number one there too. Wal-Mart’s electronics selection is biggest online and is its best selling online category. To combat Wal-Mart’s everyday low prices electronic stores such as Best Buy and Circuit City are turning to service to differentiate themselves.

Best Buy’s Geek Squad, which it acquired in 2002, has 11,900 agents that help customers with computer problems over the phone or at their house. The agents wear a recognizable ensemble of black and white with the Geek Squad insignia. Prices are preset based on the type of service and the agents schedule appointments, not time slots, for house calls. It is estimated that all of Best Buy’s services is generating about $1.5 billion in revenue.

Circuit city has recently hired PlumChoice Online PC Services to provide remote computer support so that technicians can access off-site computers to fix more complex problems. Circuit City’s warranty sales make up 3.8% of its domestic sales. Both Best Buy and Circuit City have caught on that Wal-Mart is a threat and in response they are broadening their business to encompass service for the complex machines they sell.

Discussion Question

It is hard to compete with Wal-Mart on price. How is Best Buy and Circuit City trying to compete with Wal-Mart in consumer electronics?

Both Best Buy and Circuit City are using customer service as a differentiating factor to compete with Wal-Mart in consumer electronics. Both stores have a computer assistance program to help with computer problems and service revenues are becoming a larger percentage of their revenue and help gain or maintain market share against Wal-Mart.

Airport Shopping Revitalized

Use with chapter 7 “Retail Locations”


Traditionally, American travelers do not have high hopes for the shops in airport terminals. The $3 they spend on average per trip demonstrates this well, compared to the $45 shoppers spend at London’s Heathrow Airport, which is one of the most active.

However, now times are changing. Since 9/11 security has caused fliers to arrive earlier to the airport with more time to browse the shops. Luxury stores are following the leads of high-end dining. In San Francisco, CA aged porterhouse steaks are available along side Sephora and Coach stores. BAA, concession manager at Baltimore/Washington offers a money-back guarantee if a customer can find a better price outside in a regular mall. Other stores finding their way into the U.S. airport market after success abroad are French-based Cartier, Gucci and Chanel.

When stores are found inside the security gates, consumer goods are duty-free, this means that with no taxes items can be up to 20% cheaper. Since space is limited, most stores stock smaller accessories and clothing items that will not require a fitting room or alterations. Soon U.S. airports will boast the same glitz and glamour that its foreign counterparts have.
Discussion Questions

Why are more upscale retailers opening outlets in airports?

Americans have more time to spend browsing stores as a result of higher security. Also, they are starting to understand that airport stores do not necessarily mean higher priced then the same item in a typical mall. In fact, if bought inside security where it is duty free it can even be cheaper.

Would you shop and buy in these new airport stores?

I would buy items in duty free, but considering a lot of these stores are outside my price range anyway, I tend to stick to make-up and alcohol.

Internet Retailing is Becoming More Accessible for the Small Guys

Use with chapter 3 “Multichannel Retailing”


One-man operations can now find their way onto the Internet to sell their wares thanks to several trends. First, web merchants can pay small fees per click for Google Ads or they can find web based operations to help them set up their site and run it. Companies no longer need a team of technology specialists and millions of dollars. EBay’s newly bought and renamed e-commerce software company ProStores charges from $7 to $250 monthly for a web template, online catalog and a secure checkout service. Small retailers made up about 45% of 2005’s holiday season.

Internet searches that include a location such as “dry cleaners and Greenwich Village” have doubled to 20% according to a media consulting group, Kelsey Group. In addition, with the proliferation of high speed Internet, users can scan many web pages in minimal time. High speed Internet, web-based e-commerce applications and cheaper, easier ways to run internet businesses have allowed the smaller retailers to operate on the Internet.

Discussion Question

What are small Internet retailers doing to compete with large multichannel retailers?

Small Internet retailers are using the services of web-based applications that assist them in setting up and running a business. This allows them to have customers pay for goods securely and efficiently without the cost of internal technology specialists. Also, they can pay Google for ads by the click which is cost effective.

J.C. Penney has Revamped its Style and Stores

Use with chapter 5 “Retail Market Strategy”

The 103-year-old J.C. Penney retail chain is middle America’s store, but in 2000 it had lost market share to discount chains. The company hired a consultant to help bring them out of the slump. Today, J.C. Penney customers will find more stylish and trendy clothing at reasonable prices, easily accessible checkout counters and neater racks. J.C. Penney now ships its clothes hung in boxes so the clothes arrive neater and unwrinkled. Buying and distribution is now coordinated at the corporate level so customers can find what they want in all the stores. The traditional shopper of J.C. Penney is 35-54 years old with a household income of $35,000 to $85,000 and they are pleased with the updated stores, but a younger crowd is also being attracted in part due to the aggressive marketing campaign and also because of their new trendy merchandise.

Discussion Questions

How is J.C. Penney competing more effectively in the fashion apparel segment?

J.C. Penney has updated its look both in the store and in the merchandise that they carry. They have trendy apparel at reasonable prices that can compete with the discount stores. They also have centralized their distribution and buying so that all stores carry the same merchandise, which makes it easy for shoppers to find a shirt they like in a different store.

Do you or would you buy your clothes at J.C. Penney? Why or Why not?

I do not currently buy my clothes at J.C. Penney, but I would. I do not now because I don’t usually shop in traditional malls and that is where J.C. Penneys are located. As long as the clothes are of decent quality, they look good and are reasonable priced, I don’t care where I buy them.

Fitting Drive-through Windows into Starbucks

Use with chapter 5 “Retail Market Strategy”


Starbucks popularized the higher priced luxury cup of coffee in a serene, comfortable setting. Now, drive-through windows are worrying some customers that it will ‘cheapen the brand’. About half of company owned stores that will open are designed with a drive-through window. Company executives are hoping that the window will make it easier for customers to buy their breakfast sandwiches. Expanding their food sales will put Starbucks in line to compete better with Dunkin Donuts and McDonald’s. However, they maintain that since there is no cooking occurring on the site of the coffeehouse, Starbucks is not a restaurant.

Starbucks locations that already have a drive-through window have an annual volume 30% higher than those without. Installing drive-through windows will increase location costs as prime real estate is more costly. In addition up to 4 associates are needed to man the window. Other costs such as warming ovens, order confirmation displays and extra pastry racks are all additional costs. Items that are typically sold via impulse buy in Starbucks such as whole beans, CD’s, games and other coffee merchandise is hard to sell through the window and this may complicate sales some. There are no plans to roll out drive-through windows in all new or existing Starbucks, but there is enough support to continue its expansion.

Discussion Questions

Will drive-through windows lessen the cache associated with Starbucks?

I do not believe that a drive through will lessen the cache associated with Starbucks, assuming the same high quality of products and service is offered. Also, as long as the window service does not interrupt the people relaxing in the store, they will not notice the difference, except for the ease of ordering when they do not have
time to stop, park and relax on the couches. I have never had a breakfast sandwich there so I do not know the quality of this, but it has to be better then those purchased at Dunkin Donuts or McDonalds to justify the higher prices and help differentiate Starbucks from fast food restaurants. I am skeptical about them only heating the food and not making it.

Can Remodeling Gap Rejuvenate its Sales?

Use with chapter 5 “Retail Market Strategy”


Gap sales have been on a rollercoaster ride for nearly a decade. Now with its cost cutting techniques in place, new executives and a better handle on its target market, they are bringing their stores up to date and making their clothes more unique so the discounters can’t copy them so easily. Gap is a familiar brand name and has the benefit of economies of scale, but it wants to get closer to its customers.

In an effort to do that the newly formed vice president of brand store experience took himself and 20 other employees on a whirlwind trip around the world to take pictures and notes of things they liked, and not just in retail. Focus group members described the typical white walled, sparse Gap as institutional. After many hours of discussion and sharing, a new remodeled idea for Gap was created.

Gap remodeled several stores in Denver. Floors were now dark and small walls separate the stores clothing types to create a smaller boutique feel. Chalkboards announcing sales and item styles are hung and written on by employees, light is less harsh and employees are trained to ask about a customers needs and not to push a particular item. Also, four times a year the walls are repainted to represent the season they are in, such as red and green for the holiday season. There is also a lounge area for the non-shoppers to wait for their friends and family. In the stores that have been remodeling Gap has only announced that customers are spending more time in them and that sales are strong.

More than just its appearance in a few stores, Gap is rethinking its product mix. It is using its historical data to determine which sizes are most popular in which location. They will also stock more kids clothes where suburban mothers shop and Gap logo clothing in tourist markets such as New York City. Gap is hoping that a combined effort in changing the store environment, products in brighter more individualized styles, and cost savings will bring rejuvenates its sales.

Discussion Questions

What is The Gap doing to improve its lagging sales and profits?

The Gap is remodeling its stores to create a more comfortable intimate setting for its customers with warmer colors, hand written signs, waiting areas, and a boutique feel. It is also adding more color to its clothing designs so that discounters can not as easily copy their clothes.

Do you think this strategy will work? Justify your answer.

Assuming that Gap focuses not just on the stores’ appearance but also on its clothes, then it will have a fighting chance. The Gap as a brand name is still strong, despite its past difficulties. It must be careful not to alienate its core shoppers. A good product in a great store is better then a good product in a bad store.
The Demise of Local Department Stores and the Rise of Macy’s

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


There has been much fanfare over the merger of Federated and May chains, but few people seem upset that the last of their local departments store will be transformed into the national chain Macy’s. Boston is saying good-bye to Filenes, Chicago to Marshall Fields and Meier & Frank is leaving Oregon. This lack of emotion can help Macy’s make its mark when it turns 390 of May’s 487 stores into Macy’s. Others say that this is the exact reason that department stores as a retail type is struggling. Aging designers are displaying their goods in stores that are also quickly becoming dated since specialty stores are stealing the show.

Federated Stores, which is one of the best, has seen falling numbers in same store sales several times in the past few years. A retail analyst for A. G. Edwards says as a result of so many mergers that have eliminated the local department store, there is now a ‘numbing sameness’ about them. Federated, however, believes that the size of their company will give them negotiating power and may even be able to bring in exclusive lines from top designers.

Discussion Question

Evaluate Federated Department Store’s strategy to replace well-known retail brands like Marshall Field’s with Macy’s.

For the most part, few customers care about the name on the outside of the building, as long as they have what they need inside. If Macy’s can indeed spice up its interior and product assortment so that it is not exactly duplicable, then they can be successful. Department stores are large and can be intimidating if a customer is looking for a more intimate experience. Since customers are more and more attracted to the boutique style (Gap’s store remodel)Macy’s may find it will need to departmentalize themselves visually as well as though merchandise organization.