Dear Professor:

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

- Using the Internet to win teenagers spending
- QVC, a business growing outlet for the little guys
- Pet lovers communicate through PETCO product reviews. And buy from them too
- Vending machines in Macy’s that sell iPods, not candy
- Franchising the neighborhood barbershop
- Private-label becomes upscale product for Publix grocery chain
- Retail strategy applied to cheap, convenient walk-in health clinics
- Despite strong brand presence, some are resisting e-commerce
- Surviving Wal-Mart’s “make-it or break-it” test period
- Gas is not the only self-serve service industry anymore
- Successful big box retailers own a look, not just a name
- Apple’s retail strategy- innovative and successful- just like its products

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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. Simple registration is required to gain access to the newsletters and other instructor materials. If you would like to see this newsletter and the previous editions, go to http://www.cba.ufl.edu/mkt/crer/research/publications.asp
ABSTRACTS OF RECENT RETAIL ARTICLES

USING THE INTERNET TO WIN TEENAGERS SPENDING

Use with chapter 3 “Multi-Channel Retailing” and chapter 16 “Retail Communication Mix,”


There are two distinct groups of young shoppers: those that are under 18 and spend $76 on shopping a month and those 18-21 who spend $193 a month. As different as they may be in lifestyle, life stage and style preferences they all are online almost everyday and that adds up to a lot of spending potential. Online retailers need to tap into these groups via proper advertising and promotional tools in order to grow and protect their share of the market.

Forrester reported young shoppers are looking for electronics, music and books online. Items that lend to touching and testing, such as clothes and accessories, are still purchased in traditional stores. When these younger online shoppers find something they like, they share it with their friends via “email a friend” links, instant messaging systems and wish lists. It is the virtual parallel to bringing friends with them to browse the mall.

The majority of teens read peer ratings and use rating websites such as Shopzilla.com. They are quite uninterested in traditional media and are more likely to use Google to locate a product than even online yellow pages. As such, search engine marketing and providing information and search engine sites with live inventory data can help attract young shoppers.

The tech savvy youth have become proficient in preventing pop-up advertising, but have proven susceptible to viral marketing. They actively forward advergames, games developed by a company with the purpose of spreading its brand name virally, and participant in instant-win games. For those online retailers that are successful in reaching the two young shopping groups, they can find loyalty. More than half of teens agree that when they find a brand they like, they stick with it.

Discussion Questions

Why is it difficult to reach younger shoppers?

It is difficult to reach younger shoppers because they are able to block more traditional online advertising, such as pop-up ads. They also have a tendency to avoid more traditional media sites such as online yellow pages. Instead, they opt to use search engines. Young shoppers purchase mostly “hard goods” like electronics online and tend leave the “soft goods,” such as clothing for brick and mortar stores. They are not brand loyal for trendy items.

How are retailers adjusting their communications mix to better reach younger shoppers?

To better reach younger shoppers retailers are using innovative viral marketing techniques such as advergames, which young people will forward to their friends. They also will supply inventory information to search engines such as Google so that young consumers can find their products. Online retailers use social interaction such as peer reviews and email a friend links to reach younger shoppers.

QVC, A BUSINESS GROWING OUTLET FOR THE LITTLE GUYS
QVC is both an internet business and a television show which sells goods in all categories, from makeup and clothes to food and home products. QVC’s customers are women who love the thrill of finding new products by smaller businesses. Entrepreneurs bring these new finds to QVC for the benefit of both businesses.

Makeup artist Mally Roncal decided after much deliberation to introduce her new makeup line, Mally Beauty, last year with QVC. She felt that being able teach her audience the techniques that she uses as a professional makeup artist would make more of an impact than simply opening a counter in a Saks Fifth Avenue store. She was right. Her inventory sold out and the proof of success made it easier for her to raise additional funding to manufacture more goods. The centralized shipping QVC offers, in addition to national television and internet coverage, allows it to buy and test smaller orders that other stores can not. Neither QVC nor the entrepreneurs have to pay to have the items shipped individually to stores and have them set up.

Ron and Margie Kauffman were running a 15-year-old business, M&I Seafood Manufacturing that made crab cakes, when they were invited to participate in a special Maryland small business day on QVC. The pair sold out all their crab cakes. As a result, the company had a crash course in shipping perishable goods. QVC requires vendors that have perishable goods must ship their own product.

Today, both companies have found incredible success because of the coverage and sales generated by appearing on QVC. Entrepreneurs that don’t have funds to distribute their goods to hundreds of stores or feel that they need to demonstrate their product may find QVC a better opportunity than Wal-Mart.

**Discussion Questions**

What are the advantages and disadvantages of placing a new product line with a television home shopping network like QVC rather than a more traditional venue?

*Advantages: centralized shipping to decrease cost, national coverage with one appearance, internet presence, ability of QVC to purchase smaller lots to test the product.*

*Disadvantages: Not everyone watches QVC. It is mostly females and therefore products not targeted for female purchasing will not reach its target market. Perishable food companies must ship their own products to consumers.*

**PET LOVERS COMMUNICATE THROUGH PETCO PRODUCT REVIEWS. AND BUY FROM THEM TOO.**

Online retailers have already realized the potential benefit of allowing online customer reviews of their products, but what they haven’t been able to realize is the financial return of hosting the platform in-house. Thanks to third party companies providing the software and technology, review policing and data analysis for a fraction of the price, online retailers like PETCO are now allowing people to participate in building their site. Customers’ communicating with each other integrates a community aspect into Petco’s value chain.
PETCO’s customers are pet lovers and pet lovers, in much the same way as doting parents, enjoy talking about their animals and what they like and don’t like. This maternal/paternal instinct is driving the reviews of products on PETCO.com. The third party company that PETCOM.com chose is Bazaarvoice which hosts a fee-based platform. CompUSA, which also implemented Bazaarvoice’s community management service, saw a 50 percent higher conversion rate for those customers who find the reviews. The converts also spend on average 20 percent more than those who do not use the reviews.

Power Reviews provides a similar review and management system for online retailers, but they offer it for free in exchange for free advertising and content licensing arrangements. The time to implement these services is minimal, with less then 20 hours of IT time. PETCO says that in addition to all the intended benefits of online reviewing, it also serves as a medium to help them provide better customer service. Customers that review products and are unhappy may be contacted by a customer representative to mediate the problem salvage the relationship.

Discussion Questions

How can customer reviews be used to improve a retailer’s strategy?

Customer reviews can encourage other customers to buy that product from a company. It can encourage customers to stay longer on a site to read and write their own reviews which helps create a community. Retailers can also use the reviews to contact potentially defecting customers and rectify their problems.

What do Bazaarvoice and PowerReviews do? How are their business models different?

Bazaarvoice and PowerReviews are a third party suppliers of a technological platform and software that allows customers to write online reviews. These companies also police the reviews for inappropriate postings and can provide analytical data to their retail customers. Bazaarvoice is fee-based and PowerReviews is free in exchange for advertising space.

VENDING MACHINES IN MACY’S THAT SELL IPODS, NOT CANDY

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


Federated Stores Inc’s Macy’s has decided to foray into the electronics market again. Initially Macy’s electronics departments had been unprofitable, but with San Francisco-based Zoom Systems self-serve vending machine they have been able to offer their customers electronics they demand at no cost to them.

Zoom Systems stocks Macy’s with a 28 square-foot unit that is filled mostly with iPod’s and iPod accessories. Customers access product and price information through a touch screen and can pay with a credit card. Zoom Systems owns the equipment and the electronics inside and pays Macy’s an undisclosed percentage of sales. Other electronic items from Sony Corp and Motorola will be tested this fall.

Discussion Questions

Why is Macy’s using vending machines to sell consumer electronics?

Macy’s in the past did not make a profit from a full scale electronics department. Using this vending machine eliminates all costs for them (excluding opportunity cost for floor space) and they can still service
their customers and earn money.

Do you believe this is a good strategy for them to pursue? Why or why not?

Possible Answer: As long as the electronic items are popular, highly demanded items with a unique identity, such as iPod, this can work. Customers will know exactly what they are looking for without the need to test them out or have a salesperson’s help. Items that are complicated or not as well known as iPod will cause frustration for the customers who expect personal service from Macy’s. They will not be able to ask questions and touch/feel the products before purchasing.

FRANCHISING THE NEIGHBORHOOD BARBERSHOP

Use with chapter 5 “Retail Market Strategy”


Traditionally men have gone to the local barbershop for conversation, friends, familiarity and, secondarily, for a hair cut or shave. It is the barber that makes the barbershop. So, how has Mr. Grondin been able to franchise a barbershop?

The barbershop is called Roosters. Currently there are 14 Roosters with an additional 8 under construction and 20 under contract. After several decades of declining licensed barbers and barbershops, men are tired of borrowing their wives’ salons. Roosters have “Man-sized” leather chairs, dark paneling and wood floors to create a comfortable, nostalgic look. Mr. Grondin has detailed instructions for his franchisees to ensure a quality shave and cut and provides guidance on how to speak to their customers in a barbershop manner. They are told to avoid topics such as spouses and children, but news, sports and weather are perfectly acceptable.

One franchisee found the idea appealing because it would save 20%-30% compared to opening his own store. It costs about $150,000 to open a Roosters, plus a $25,000 franchise fee and $600 per month royalty fee after the store has been open for four months.

Discussion Questions

What are the advantages and disadvantages of buying a barbershop like Roosters?

A disadvantage is that a franchise barbershop runs the risk of losing its hometown, community feel, which is the reason many men go to them. Also, there is a continual monthly expense that must be paid to the company. An advantage of a franchise barbershop is the expertise of running a successful business. Also, it can be cheaper then starting out on your own.

PRIVATE-LABEL BECOMES UPSCALE PRODUCT FOR PUBLIX GROCERY CHAIN

Use with chapter 14 “Buying Merchandise”


Private-label grocery brands are growing in popularity since they no longer seem questionable in quality to the shopper and they are often cheaper. Many companies design their packaging to look like a leading brand in that product category. The idea is that imitating the name brand will trigger recognition of product
quality and familiarity and that, coupled with the cheaper price, will win a sale.

Publix, an 878 unit grocery store chain mainly in the South, has its own private label, but it doesn’t mimic the package of the other items on its shelf. It uses clean lines, a lot of white space and clever pictures that portray a vaguely upscale image. Its aluminum foil has foil animals on it and its garbage bag boxes have a picture of a dog sniffing a garbage can. It uses the art of imagery to capture the attention of consumers and when they say “Oh I get it” they have thought about and touched a Publix private label brand product. Publix has taken a different and distinctive direction than many other stores, but not to their peril. HOW, a graphic design business magazine, recognized Publix as “in-house design group of the year”

Discussion Questions

If you were designing a private label product line for a grocery store chain, would you make the package look like the popular national brand or would you try for something more unique? Justify your answer?

Sample Answer: If I were to have my own brand, I would first decide what the image of my store is. If it was to provide products at a reasonable price, then either strategy would have potential. However, if I owned a store with a distinct identity, such as one that provides health foods, quick meals, or some other distinctive service, then I would develop my own private label to portray the identity of the store.

RETAIL STRATEGY APPLIED TO CHEAP, CONVENIENT WALK-IN HEALTH CLINICS

Use with chapter 6 “Financial Strategy”


Americans expect value and convenience in their services and goods, but one would never know this if he or she studied the healthcare system today. Often there are long lines and expensive treatments in doctors’ offices and emergency rooms. A new approach to routine medical care has been borrowed from the retail sector. In large retail chains, such as Wal-Mart and CVS, walk-in clinics run by nurse practitioners are springing up. These clinics, such as Minuteclinic and Rediclinic, offer flu shots, strep throat cultures and other tests and treatments for mild illnesses.

These smaller clinics need few pieces of expensive equipment and can make a profit with just 25 patients over a 12 hour day. This cheaper alternative is even gaining the approval of insurance companies. For the patients that need a more thorough exam or a doctor, clinics have referral arrangements with the local doctors.

The clinics also have the capability to write prescriptions, which can be conveniently filled in the pharmacy in the store. For a company like CVS where the pharmacy is 70% of their business, this can mean a boom in sales. However, some critics worry that writing and filling prescriptions in the same location can be a conflict of interest. Target is removing the 11 MinuteClinics from their stores with plans to remodel and open new clinics. The reason has been kept secret, but Dr. Nelson of MinuteClinic indicated that they struggled with the idea of letting an outsider talk to their clients. Many doctors stress that it is important for all people to have a physician track all their medical history. They worry these clinics will interrupt an important information stream. However, as healthcare costs rise and employer-sponsored insurance benefits force people to pay more, these clinics are appealing to a lot of semi-sick people.

Discussion Questions
Why are some retailers putting walk-in clinics in their stores?

Retailers are putting in these clinics because it provides a valuable, cheap and convenient service to their customers. It draws customers, which can increase sales in their pharmacy because of prescriptions written in-house. In addition, other items may sell as well since the patient of the clinic must enter and walk through the store.

Do you think this is a good idea?

Sample Answer: I think this is a good idea because it is forcing traditional medical providers to compete with a more convenient and cost effective approach to basic healthcare and prevention. However, it may be necessary to create a relationship with the patient’s doctor and the clinic that the patient regularly visits to share medical information so that complete disclosure is available to the primary care physician.

DESPITE STRONG BRAND PRESENCE, SOME ARE RESISTING E-COMMERCE

Use with chapter 3 “Multichannel Retailing”


E-commerce is no longer a prediction of the future or a luxury service. It is a requirement of doing business. However, despite e-commerce sales reaching over $86 billion in sales in 2005, some businesses are fumbling their online strategy.

Ikea has a cult-like following for its large brick and mortar stores, but it only offers about a third of its products online, along with a confusing, outdated ordering process. One customer complained that in order to place an order she had to wait 24 hours for a customer representative to call her and quote the shipping cost, which turned out to be the same price as the items she was trying to order. Ikea is planning to introduce a new checkout system this year.

Costco ranked low in online customer satisfaction because its online selection is not consistent with its store selection. Critics of this strategy insist customers want a consistent organization and selection, but Costco insists it is providing more value for its members. They believe that if a customer can go to their store to get an item, then they should. By having more items offered on the web they are providing more service.

Other high-end, luxury brands like Cartier and Prada only offer sites to promote their name and brand image. They are afraid that e-commerce will corrode their brand. On the other end of the spectrum is Tiffany & Co. They opened their web store in 1999 and are now topping sales of $110 million. However, they still will not sell engagement rings online. Tiffany’s believes there is too much to learn about a diamond and that such a special purchase deserves a more meaningful exchange.

Discussion Questions

Why have some large retailers been slow to develop their online presence?

Some retailers have been slow because they are afraid that their image will become tarnished with an e-commerce site. Others are charging too much for their shipping or have inadequate technology to provide the convenience and service customers’ demand. Still others are offering the wrong products or different products from what they sell in the stores, which can confuse the customer.
SURVIVING WAL-MART’S “MAKE-IT OR BREAK-IT” TEST PERIOD

Use with chapter 14 “Buying Merchandise”


PenAgain is an ergonomically designed pen desired by physicians, carpel tunnel patients and the like. It sells up to $12 per pen in 5,000 retailers. Still, despite its apparent success the owners are nervous as they enter into their Wal-Mart test period. When Wal-Mart introduces a new product it rolls it out in 500 stores and then gives it 30 days to prove itself. PenAgain has been preparing itself for the whirlwind month where they need to sell 85% of the pen order to be considered for wider distribution.

PenAgain ramped up production for the 48,000 pen order that will be placed by Wal-mart. Wal-Mart expects speedy and accurate delivery. The pens will sell at a steep discount of $3.76. They have altered their packaging to match Wal-Mart’s strict guidelines, which includes a reddish stripe around the shipment boxes that reads “Stationary”. The boxes themselves are of a certain thickness.

A common mistake is to assume the end cap display will sell the test merchandise. It is important that the company goes full throttle in their marketing to increase consumer awareness and demand. Wal-Mart provides an online tracking system so companies can see how much and where their items are being sold. If they see that one store is running low they can notify Wal-Mart to transfer merchandise. With 10,000 suppliers fighting for a chance to test their goods, and only 2% of these will even make it to the test period, each item sold will make the difference between failure and success. PenAgain is considering hiring a third party representative to monitor displays and customer traffic.

Another potential problem that PenAgain is trying to avoid is offending their other, money-making, suppliers. PenAgain’s other suppliers are not offered the same discount and therefore can not offer the same $3.76 price point. However, they have access to an exclusive ergonomic sample set that runs between $15 and $20. As PenAgain gears up for a very critical 30 day trial, they realize it is a very fine line they walk.

Discussion Questions

Why is it so difficult to be a successful vendor to Wal-Mart?

Wal-Mart demands a precise shipping and packaging system from their suppliers. It has many standards that must be followed. In addition, there is a short 30 day trial period in which a product must prove its success. The supplier itself must track the progress of the item and alert Wal-Mart to transfer stock. Also, Wal-Mart demands a very low price point which can be hard to provide and can alienate other outlets where the product is available.

Do you believe it is worth the trouble?

Sample Answer: It is worth trying to sell in Wal-Mart because the sheer size of Wal-Mart and the traffic it generates can create large revenue and sale numbers and product recognition. However, a company must be sure to provide higher end products that qualify a higher ticket price for other retailers which can not sell at the same low price.

GAS IS NOT THE ONLY SELF-SERVE SERVICE INDUSTRY ANYMORE

Use with chapter 6 “Financial Strategy” and Chapter 19 “Customer Service”

“Pump your own gas” stations and self-serving ATM are common. These are two self-service industries that most people don’t seem to mind. But what do customers think about it spreading to grocery stores, home improvement retailers and some drugstores and fast food restaurants where automated check-out has eliminated the need for human interaction? As retailers aim for higher efficiency, self-checkout is increasing becoming an option. For the good or bad, it is estimated that the value of self-service transactions will rise from $161 billion in 2005 to $450 billion in 2008.

Retailers that are pro-self-service argue that the option of self-service is a service in itself. It can make customers feel accommodated. In addition, freeing up cashiers allows store employees to stock shelves and help customers that desire it. Some customers enjoy not having to interact with a young cashier in need of an attitude adjustment or not having to look into the eyes or another person as they buy personal items.

Best Buy is avoiding the trend because it gives them a chance to sell batteries and accessories. Other retailers claim that personal service is a hallmark of their business, such as grocery chain Safeway. Some customers are hesitant to try out the technology with unique items they may have trouble scanning, such as a head of radicchio, or because the automated voices and incessant beeping are annoying.

As more retailers turn to self-service checkouts it may become just like the ATM. It will become not only a service, but a commodity. People will expect stores to have the option and once again the retailers will need to revert back to customer service and interaction to create loyalty. That is, of course, if they still are trying NOT to compete on price.

Discussion Questions

How are retailers using technology to improve customer service?

Retailers are using self-service automated checkout machines. They hope these will provide an efficient service to their customers. It can be quicker, easier and provides options for the customers.

Do you believe these technologies actually improve customer service, or simply reduce retailers’ costs? Justify your answer

Sample answer: I believe that as a relatively new technology it is an improvement in customer service as long as it is an option and not the only way to check out. As more and more retailers install these cost saving options, it will become a commodity and in most stores customers will come to expect them. As a result, the competitive advantage of having them will diminish, but the cost saving aspect will remain. At this point I believe that low-cost stores must have automated check-outs as a cost of doing business and only higher priced stores will be able to eliminate them.

SUCCESSFUL BIG BOX RETAILERS OWN A LOOK, NOT JUST A NAME

Use with chapter 18 “Store Layout, Design, and Visual Merchandising”


As more malls and shopping centers are built, consumers have more options where to shop. Each store blends in with its surrounding competitors, so potential customers see little differentiation in the retail landscape. One reason for this is community ordinances that limit the size and number of signs allowed.

McDonald’s owns a visual cue that is a virtual billboard—the golden arches. Other companies own colors, shapes and other more subtle symbols. Target has cornered the market on the bull’s eye, Home Depot is
the color orange, Wal-Mart and battleship blue are synonymous, and Best Buy’s blue wedge that resembles a corner of a building is recognizable even in one’s peripheral vision.

Visuals that represent a store and its brand can be invaluable, even in the strictest of building regulations. A customer may recognize Target’s bull’s eye carved into the side of the building, or a color from a window display all reminding him or her that there is a particular store in this location. One retail design specialist believes that “the more iconic storefronts are, [the] more successful [they are].” This same specialist has helped design a Linens N’ Things prototype store that has lighted waves along the top of the building, representing a billowing sheet.

Even before a store is built, the company is working on burning a color or image into its customers’ brain. Construction barriers used on building sites are designed specifically to promote that stores colors and logo. However, seemingly contrary to the trend, the biggest branded, most successful companies such as Wal-Mart and McDonalds are beginning to become much more flexible and sensitive to local consumers’ preferences. Wal-Mart is working with more earth tones in key areas such as Los Angeles’s art deco district. Is this a sign of a new trend, or have they so successfully branded their store that they can now ease back?

**Discussion Questions**

Why do some stores using colors and shapes on the outside of their stores to help identify the stores and enhance its image?

*Some stores are using colors and shapes to represent their store and its image. In areas where ordinances limit the size and number of signs, these shapes and colors act as a virtual billboard. Using shapes and colors help the bottom line because customers will remember where particular stores are when they need to shop. It helps differentiate them from the rest of the retail landscape which becomes busy and stores become indistinguishable.*

Identify several stores that are using this strategy and what their specific approach is.

*Home Depot uses the color orange. Its lettering, aprons and signage all use the color. Target uses the bull’s eye symbol and the color red. Best Buy uses the color blue and the corner shape at its entrance. Their approach is to use these colors and shapes so that even without a sign, customers will recognize the store and note its location for future shopping.*

**APPLE’S RETAIL STRATEGY- INNOVATIVE AND SUCCESSFUL- JUST LIKE ITS PRODUCTS**

Use with chapter 7 “Retail Locations” and chapter 18 “Store Layout, Design, and Visual Merchandising”


The first Apple store opened in 2001 in McLean, VA and many worried the company was in over its head. The store proved fruitful and revenue from Apple stores totaled $2.35 billion or 17% of total sales in 2005. Apple’s most recent store on New York’s Fifth Avenue is across from the ritzy Plaza Hotel and Bergdorf Goodman. Many wonder if this is too rich for their blood.

The New York City Store is designed just like its other stores: eye catching. The entrance to the below ground store mimics the glass pyramid found at the Louvre in Paris. The store hopes to increase Apple’s visibility in its attempt to steal a greater share of the computer and electronics market. Apple hopes the highly trafficked location will support its first 24 hour store. Whether this particular store proves to be a
success like the rest of them, or not, Apple’s successful retail strategy has taken many by surprise. Gateway, Inc recently closed 188 of its company-run stores due to poor performance.

Apple’s stores were originally opened up because the company felt that other retailers were not properly displaying their Macintosh computers. The store design is open and spacious and the employees are well versed in computer lingo and operations. Customers can bring in their electronics and an employee will help them with their question or fix it if it is broken. Customers can use free internet, cameras and take seminars on how to edit home movies on a Macintosh, all in an Apple store. When the iPod became an electronic sensation, traffic picked up even more and sales grew.

Mr. Jobs has turned Apple into a hip destination, and this has helped Apple stores become profitable. However, some other Apple retailers are becoming angry because they feel that Apple unfairly supplies their own stores with scarce inventory. While Apple has denied the allegations, their stores continue to thrive and time will tell if their newest, most expensive New York City location will too.

Discussion Questions

Is Apple’s new New York store a good location? Why or Why not?

Sample Answer: In terms of building a brand, this is a good location. The high traffic, publicity and unique design will strengthen the brand known for innovation. However, the location is an expensive one, so there may not be a monetary return on the location. The company will need to decide that if there is indeed a fiscal loss for the company, if the brand building aspect offsets it.

What makes the Apple stores different from the other computer or consumer electronics stores?

Apple’s stores are open and employ people who are truly knowledgeable about the product. The look and feel of the store is innovative and hip. Seminars promoting the capability of the available products are available, and free access to them drive traffic to the stores and increase sales. In addition, the seminars increase customers’ knowledge about the product and loyalty to it.