May 2006

Dear Professor:

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

- Internet and brick and mortar store assortment discrepancies
- Wal-Mart softens critics with new urban locations and small business training
- Owning your retail space is not just for the big guys anymore
- Should pharmacies that promote health sell cigarettes?
- Trusting Internet retailers with big ticket items
- Relaxing J.C. Penney's rigid corporate culture
- Your own personal Internet price shopper
- Paying with your finger
- Celebrity décor designers will not guarantee success
- Customer service calls you, do not call them
- Perception vs reality: What does Wal-Mart sell?

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

INTERNET AND BRICK AND MORTAR STORE ASSORTMENT DISCREPANCIES

Use with chapter 3 “Multi-Channel Retailing” and chapter 12 “Planning Merchandise Assortments,”


For some, Internet shopping, which has been pegged as a time saving option, is just creating frustration. For several reasons stores are carrying a different selection and assortment of items on their websites then in their stores. Tiffany’s is saving space on its showroom floor by exclusively selling its crystal vases online. Other stores are responding to consumer demand. Gap and Banana Republic only offer petite sizes on the web because not enough people would buy them to make it a profitable use of space. Others are offering a trendier and exclusive assortment of goods on the web. Saks Fifth Ave is trying to attract shoppers who don’t typically see Saks as an intended shopping destination. Their online consumer is on average 10 years younger and more fashionable. J.C. Penney exclusively sells a $7,000 diamond engagement ring because the chain’s online shoppers are more affluent.

But what about the customers that expect to find the same goods online as in the stores? Neiman Marcus, Nordstrom’s and Saks are training their store staff to place orders for their web-only items. At J. Crew, customers avoid shipping charges by placing orders on red store phones for Internet items. Coach.com requests customers’ zip code to determine if the item they are looking at is available in a nearby store. If it is not, then a phone number is provided so the customer can place a backorder.

With so many consumers purchasing apparel items on the web, stores are revamping their website to make it easier for their customers to spend money. In 2005, consumers spent $12.5 billion dollars buying apparel on line. That is a 23% increase over 2004. Careful not to let the market bypass them; Federated Department stores plans to invest $130 million dollars in its online operations. The money will be used to align its Bloomingdales and Macy’s websites with its brick and mortar stores.

Discussion Questions

Why are retailers offering more extensive assortments online than in their stores?

There are several reasons for offering more assortment online then in stores. Stores provide limited space physically and the lack of demand may not warrant stocking a particular item. Also, online consumers can have different preferences and characteristics then those who would shop in a store. Younger people tend to be online shoppers and they may be more interested in trendy clothes. They also tend to be more affluent and are willing to buy higher ticketed items.

What can retailers do to appease customers that can’t find online merchandise in stores?

Retailers can train their staff to order out of stock or Internet-only items (Neiman Marcus). If the item is ordered through the store then it can be shipped free of charge (J. Crew). Also, they can try and locate the closest store that carries that Internet item for the customer before the customer goes to a store and becomes disgruntled when it is not there. (Coach)

WAL-MART SOFTENS CRITICS WITH NEW URBAN LOCATIONS AND SMALL BUSINESS TRAINING
Use with chapter 5 “Retail Market Strategy”


Negative publicity for Wal-Mart has been swarming the media. A recent film criticizes Wal-Mart’s practices and union-backed groups publicly highlight Wal-Mart’s unaffordable health benefit packages, opposition to unions and negative economic impact on counties. The negative attention is hurting Wal-Mart's image and, more importantly, its sales. An internal report indicated up to 8 percent of consumers have begun to shop elsewhere because of recent negative press. Wal-Mart's newest plan is targeting rural, economically depressed areas, which it believes will be mutually beneficial.

These metropolises’ communities, which are crowded with small, private business, are resisting Wal-Mart. To soften the opposition, Wal-Mart has introduced a program that would designate 10 areas out of 50 prospective new sites as "Wal-Mart Jobs and Opportunity Zones". These zones would provide money to help private businesses better compete with Wal-Mart. Wal-Mart would run ads in newspapers and on its in-store radio station for them. In addition, Wal-Mart would teach small business classes on how to better compete against it. For example, Wal-Mart consistency scores low customer service so this could be a competitive advantage. Also, Wal-Mart would donate money to local Chambers of Commerce to benefit business development.

Wal-Mart believes that this is a great solution for everyone. The sites Wal-Mart has chosen are economically depressed with run down shops and high unemployment. They are areas that other retailers do not want to occupy. The new stores will provide up to 25,000 new jobs and the condensed population will provide enough business to compensate for its “Opportunity Zone” project spending.

Supporters of the program say it is a win-win situation. Wal-Mart, as cited in an economic research study commissioned by Wal-Mart, increased net consumer purchasing power by $401 per American last year and the communities they open in see more jobs. And of course, Wal-Mart is going to make profits and build desperately needed goodwill. Critics, however, are skeptical because in a study presented at a Wal-Mart conference, Wal-Mart pushes both retail and non-retail wages down 4.8 percent in counties where there are stores. This may be in part due to Wal-Mart’s demand for low costs goods, which is causing their suppliers to cut costs to meet the demand. Whatever the outcome, Wal-Mart’s first site in Chicago’s West side will be the first to experience it.

**Discussion Questions**

**What is Mal-Mart doing to help competition?**

*Wal-Mart is providing funding to train and help small business owners compete against Wal-Mart in identified “opportunity zones”. These are economically depressed rural areas that Wal-Mart is looking to build. The funding will go to provide free advertising, sponsorship of local Chambers of Commerce and classes for the owners.*

**Do you think this is a good or bad idea? Justify your answer?**

*For Wal-Mart, this is a good idea. It will help combat rampant negative publicity plaguing the company, which has slowed its expansion and sales. It is a tangible that it can promote. In addition, it will encourage communities to allow Wal-Mart to enter because of the benefits it could potentially receive. The areas Wal-Mart is trying to build stores in are population dense and can provide many customers, which in turn will provide profits. These are areas that have fewer large retailers, which means fewer large scale competitors. (This answer can also be interpreted from many viewpoints such as from the community, the customer, long term strategy and short term strategy on the part of Wal-Mart and/or the local economies.)*
OWNING YOUR RETAIL SPACE IS NOT JUST FOR THE BIG GUYS ANYMORE

Use with chapter 6 “Financial Strategy,” and chapter 8 “Site Selection,”


Typically, it is the large retailers such as Wal-Mart and Home Depot that own their store locations. Many American businesses rent their retail space they would rather open another store and generate more revenue than own. That is changing however. As many foreign retailers move into the American market they are bringing with them the desire to own their own stores. When Hong Kong’s Ascot Chang’s landlord put it’s building up for sale, the 57th Street, New York retailer purchased its 4,700 square foot store for $4 million to ensure it would remain in its current location.

Older city buildings are being converted into residential condos and developers are selling ground floor condos to retailers for big bucks. The average retail condo is $285 a square foot. Several types of buyers are picking up these spaces. Some are investors such as publicly traded Vornado Realty Trust. Others are companies and people looking to defer capital gains so they exchange properties of similar value under Section 1031. The third group of retail condo buyers is foreign retailers.

Many companies, both large chains and local entrepreneurs are so keen on owning that they are willing to locate their store in less than perfect locations or become residential landlords. Custo Barcelona recently purchased a 4 story building in New York to locate one of its stores, but the top three floors house apartments. The reason owning is appealing to so many is that they are securing their fixed costs and they do not have to face increasing rents. What if that location fails? They can sell it.

Discussion Questions

Do retailers typically own or lease their stores?

Many American retailers, with the exception of very large chains, tend to rent their retail space. Foreigners have more desire to own their space.

If a retailer switched from leasing to owning, how would that impact their strategic profit model?

If a retailer began buying their retail spaces, instead of renting, their fixed and total assets would increase, thus lowering their asset turnover. Expenses would change from rental expense to interest expense, which is probably less. Therefore, net profit margin should increase. The impact on return on asset is unclear. It depends on if net income goes up more than total assets go up.

Why would a retailer want to switch from leasing to owning?

Owning a building allows a company to secure fixed costs for the future in place of a variable and unpredictable cost (rent). In addition, it is a valuable asset which in the future can earn a profit when/if it is sold.

SHOULD PHARMACIES THAT PROMOTE HEALTH SELL CIGARETTES?

Use with chapter 14 “Buying Merchandise”

Pharmacies sell health care products to promote a better well-being, so why do they sell cigarettes? This is a dilemma many pharmacy owners and pharmaceutical students are struggling to solve. Prescription drugs are a pharmacy’s life blood earning 60 percent of all revenue. The other products are enticements to bring in the prescriptions. So again, why does a store that focuses on health sell an item so blatantly harmful?

New Jersey-based Bayshore Pharmacy removed all cigarettes from their shelves because, morally, they could no longer sell cigarettes to the same customers it was trying to keep healthy. The two owners calculated that it will cost them between $200-300 per week in lost sales and impulse buys, but to them it is a cost worth absorbing. Selling cigarettes along with prescription medications may be inconsistent with the profession, but it is not illegal. Even Bayshore’s owners do not believe the government should interfere. Business is still business and owners and corporations should be able to make their own decisions based on their own morals. OK, so Bayshore no longer sells cigarettes because they are unhealthy, but don’t they still sell candy? Yes, they do according to the owners, “Candy is an item you can have that at some doses won’t be detrimental to your health. There is no safe dose of tobacco.”

Many industry professionals and pharmaceutical students are applauding Bayshore’s initiative to stop selling cigarettes. CVS’s, Eckards and smaller private pharmacies are beginning to sell more wellness products such as yoga mats and aromatherapy items. As these stores become even more health oriented who will follow in Bayshore’s footsteps?

**Discussion Questions**

**Should pharmacies carry cigarettes? Why of why not?**

*The answers will vary depending on the students’ perspective. But one potential response is: Morally, it may not be a appropriate because it is a harmful product that hurts not only the user, but also innocent bystanders. The goal of all the other products in a pharmacy is to make a consumer well. From a strict business perspective it is more difficult to decide if cigarettes should be sold. Certainly choosing not to sell cigarettes will cost the retailer money. However, if an appropriate strategy is formed, not selling cigarettes could indicate a “We care about you” reputation, which may in the long run increase profits.*

**TRUSTING INTERNET RETAILERS WITH BIG TICKET ITEMS**

*Use with chapter 3 “Multi-Channel Retailing”*


Charley Geoly needed 3,600 pounds of copper gutter, two TV’s and 1,000 cabinet handles, so he went to the Internet. Internet retailers are seeing a rise in big ticket items from last year. During the 2005 pre-Christmas season retailers saw online revenue from sales of large items rise 34 percent compared to the previous year. People are more comfortable purchasing items such as flat screen TV’s, gym equipment and mattresses than in the past.

Best Buy Co. reveals that its web TV sales grew three times as fast as its in-store TV sales from 2004. Some people believe the reason for the increase in large ticket items online is the increasing complexity of products. As consumers get more options, they go online to do research. While they are there they end up placing an order. In addition, retailers are creating irresistible incentives to attract consumers to their site. Many offer free shipping, web exclusive items and special promotions. Best Buy has offered a free 20-inch TV with the purchase of an appliance priced at $999 or above.

These higher priced items can be very profitable, even with the free shipping, compared small products such as gym shorts. Costco Wholesale Corp.’s web site offers a broad array of goods from coffins to children’s’
playhouses and their average order is $450. Online consumers are finding a broad selection and an ease of selection.

Discussion Questions

Why are consumers buying larger and more expensive items on the Internet?

Consumers are buying larger and more expensive items on the Internet because of a few reasons. 1) Retailers are offering incentives such as web exclusive items, free shipping and promotions that can not be redeemed at a store. 2) They are online anyway doing research for a product of which there are many choices and options 3) It is easy to see what is available and easy to purchase via the Internet.

RELAXING J.C. PENNEY’S RIGID CORPORATE CULTURE

Use with chapter 9 “Human Resource Management”


J.C. Penney is a middle class department store found in many suburban shopping malls. Its competition is fierce with discounters undercutting their prices and more expensive department stores touting fashionable brand names. During 2005, J.C. Penney’s profits doubled to $1.1 billion, but despite the growing number, CEO Mr. Ullman feels it could be improved. J.C. Penney has a stringent corporate culture and Ullman is convinced it contributes to high employee turnover and an additional $400 million in associated costs.

J.C. Penney didn’t officially approve business casual attire nor did it allow cubicle decorations of too personal a nature until recently. A team of “office police” ensured company guidelines were met. In addition, there was a very formal line between workers and management. Most employees had no access to the executive elevator or floor and anyone in management was addressed formally with Mr. or Ms. Also, J.C. Penney promoted almost exclusively from within; eliminating new and innovative talent.

Ullman is only the second CEO to be hired from outside the company in its 104 year reign. Careful not to offend employees who are engrained in the current culture, Ullman began a series of programs to jump start a corporate culture change. His goal is to find new talent and preserve that which is already there. He initiated a poster campaign with the slogan “Just Call Me Mike”. The posters are hung everywhere with many pictures of the 400 Mikes, out of 5,200 employees, working at the headquarters. The posters explain “First names create a friendly place to shop and work.” J.C. Penney also instituted a formal “business casual is acceptable and jeans on Friday rule” and eliminated the cubicle décor police.

To further embody the new culture in its employees, Ullman is selling or donating office artwork and replacing it with pictures of employees. Furthermore, all 150,000 employees are receiving new security tags that embolden their first name and provide access to all headquarter areas, including the previously exclusive executive floor and elevator. Ullman is slowly changing the old formal culture to one that will motivate its employees and provide a lucrative and successful future.

Discussion Questions

Do you agree with J.C. Penney’s shift to a more informal work environment?

I do agree with the shift because employee moral is tightly associated with corporate culture. Their old culture squashed creativity and individuality so new ideas were probably lost among the ranks. Innovative people and ideas are important for the continual success of a business. Additionally, the more employees enjoy their job, the longer they will stay and the less it will cost the company both in rehiring and training fees, but also lost efficiency and potential.
Would this change make you more or less likely to want to work at Penney’s? Why?

Yes, this change would make me want to work there. It seems that they appreciate all workers now, not just the top management. I would feel comfortable that they will hire the best person for the job, whether internal or external and this will help the company succeed profitably in the future.

YOUR OWN PERSONAL INTERNET PRICE SHOPPER

Use with chapter 3 “Multi-Channel Retailing”


Pronto is new software based on an older idea. Available at pronto.com, users can download it to help them shop for a better deal. When a user clicks on one of 50,000 merchants in its database, the software unobtrusively follows the users’ activity and then offers up a cheaper alternative for the product they are looking for. For example, if a user is contemplating purchasing a new Olympus camera, the software will sift through all its merchants and another window will pop up luring the consumer to a cheaper option. If the item is more commoditized then it will offer similar products.

As great as this software seems and may appeal to consumers, other companies in the past have attempted it with little success. These sites were paid by the merchant per click. However, Pronto is paid a small percentage of the final sale if it is a result of Pronto’s suggestion. The software is not compatible with Macs and, as of yet, it has not partnered with other downloads to increase users.

Skeptics are worried about the ability of the software to watch customers every move and the personal information it is storing. Perhaps surprisingly, merchants do not seem to have a problem with software educating their shoppers about price. Connections are faster, programs more reliable, and consumers are more open-minded, so Pronto’s chance of success may be better then its predecessors.

Discussion Questions

What does Pronto.com do?

Pronto is free downloadable software that will track items of interest when a user clicks on them through a merchant participant program. It then browses the Internet and alerts the user if the same or similar item is available on another website for cheaper.

Would you use it? If yes, for what types of purchases?

Yes I would use it if I were shopping for items that were more readily available and not as unique and variable such as clothing items. Some examples of products are electronics, luggage, gardening items, outdoor furniture.

How does Pronto make money?

When a customer is lured away by Pronto and purchases an item, the merchant then pays Pronto a percentage of the sale as a commission.

PAYING WITH YOUR FINGER
Use with chapter 17 “Managing the Store,” and chapter 19 “Customer Service”


The next time a customer shops at Jewel-Osco grocery store they can leave their wallet home. All 170 stores of the Jewel-Osco grocery store chain introduced pay-by-touch, a new finger-scan technology. Customers can sign up for the service online or in the store. When its time to check-out, they simply scan their finger and enter a pin number and money is withdrawn from their checking account. Credit card charges are not yet allowed on this system.

The technology still has a few kinks to work out. It can take a few minutes to recognize a finger, but it generally offers a faster and cheaper payment method for both the store and the consumer. The store only pays about ten cents per transaction, which is a cost savings and the consumer automatically receives store discounts. Some consumers are worried about the security of having their finger-print in a computer system, but company officials assure them that the only information stored are unique points on the finger which are then converted through an algorithmic function into numerical values. This is not the same as a finger print The company Pay By Touch, which offers the biometric technology, has its technology in 2,100 stores up from just 50 ten months ago.

Discussion Questions

What are the advantages and disadvantages of the finger-scan to retailers and to consumers?

Advantages: Using this system can be quicker because a customer does not need to fumble looking for cards in a wallet. Also, if a customer forgets an ATM card, they can still shop. It is cheaper for the store on a per transaction basis and the consumer gets all the discounts without their shopper’s card.

Disadvantages: The technology still has glitches and can fail to recognize a finger. This is bad for time management and customer service, especially if the customer does not have another method of paying with them. Also, there are some concerns about privacy issues surrounding using a finger “print” for identification purposes.

CELEBRITY DÉCOR DESIGNERS WILL NOT GUARANTEE SUCCESS

Use with chapter 14 “Buying Merchandise”


Kmart started the trend with Martha Stewart and her line of, well, everything interior décor. That line has been a raving success as has fashion designer Nicole Miller’s line at Bed, Bath and Beyond. Other celebrity designers, however, are receiving mixed reviews.

Oprah’s favorite interior designer Nate Berkus released a line of 600 items at Linen N’ Things. Consumers love the style, but as is commonly the case, they find it to be a bit pricey. Retailers pay the designer 1%-5% commission and pass the extra cost on to the consumer. A throw blanket by Berkus can cost $40-$80, while a basic throw can be purchased for $20. Becoming an instant hit is difficult when there are already popular items crowding the market. Martha Steward branded items come to mind.

Other stores are betting on heavier items. Lay-Z-Boy convinced fashion designer Todd Oldham to design some hip and trendy chairs. The furniture is pricier then the originals and best suited for young urban professionals, a market which many central U.S., suburban stores do not reach. Management of Lay-Z-Boy and Linen N’ Things say the lines are performing as expected, but sluggish sales, customer hesitation to buy
the items and discounts seemingly prove otherwise.

Discussion Questions

Why do you think that sales of designer home furnishings, soft home, and furniture are falling behind expectations?

I think these items have fallen behind expectations because there is a saturation of the market. There are so many designer labels on non-apparel items, it starts to mean less. People care less about the name on their curtains, then they do on their jeans and they will buy what they like at a price they are willing to pay. If these items are pricier just because of the name, people will tend to purchase other items for their home without the name.

CUSTOMER SERVICE CALLS YOU, DO NOT CALL THEM

Use with chapter 3 “Multi-Channel Retailing” and chapter 19 “Customer Service”


Amazon.com Inc. doesn’t publish its toll free customer help number on its site so customers mush sift through the FAQ’s. Instead, customers can now submit their telephone number and expect to be called back by customer service. Customers can choose to be called back ‘right now’, in 5 minutes, 10 minutes or in 15 minutes. Meanwhile a third party will gather the customers account data and transfer it to the Amazon phone system. It is called Click-to-Call.

Other sites have launched a click-to-call customer service programs such as sears.com for their appliance sections. Consumers are slow to adopt the technology in part because they are weary to give out their phone number and also because they simply don’t know about it yet. Analysts believe that consumers, who are willing to give out their credit card number, will soon give their telephone number too. Other consumers still prefer to use a toll-free 800 number, which will direct them to the same call center that would call them if they used click-to-call.

Retailers are hoping that click-to-call programs will become popular and increase customer satisfaction. When a customer is called by the appropriate customer service agent, then it is less likely that the will be bounced around wasting time and annoying the customer. In retail, especially online, customer satisfaction can mean repeat business and success and it is any retailer’s hope that click-to-call will do this for them.

Discussion Questions

What are the advantages of click-to-call from the retailers’ and consumers’ perspectives?

For the retailer, click-to-call can increase customer satisfaction by being able to route the call to the correct agent and minimize customer calls being bounced around. This also means they can help control phone traffic. For the consumer, they can choose what time is most convenient for them. They do not have to go rummaging around FAQ’s or be put on hold while waiting for the next available agent.

PERCEPTION VS REALITY: WHAT DOES WAL-MART SELL?

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

When the ‘Softer Side of Sears’ campaign came out in 1993 it was a hit. Now with Wal-Mart facing the same perception dilemma, they have launched an eerily similar campaign, one that they hope will have the same success. Wal-Mart wants its consumers to know that they sell more variety and assortment than just cleaning supplies. They want customers to “Look Beyond the Basics.”

Wal-Mart has chosen a two-page layout for its print campaign which features a commodity item centered on a white background on the left and another trendier item such as a flat-screen TV on the right. On one ad a customer declares “I went in for eye drops and found something eye opening.” This is very similar to the two-page format that Sears chose in its original campaign. Both campaigns are very similar, but assuming that Wal-Mart is able to change consumer perception about the products it carries, it will be worth the embarrassing similarity which it declares is an accident. Wal-Mart is adding more fashionable items to its stores such as Metro 7, a new women’s fashion line. It doesn’t want its customers to be disappointed when their campaign works.

Discussion Questions

What is the purpose of Wal-Mart’s new ad campaign? Do you think it will be successful?

Wal-Mart wants to change its customers’ current perception that they are only good for household items. They want customers to go there for other more fashionable and bigger ticket items. The campaign can work to change its image, but they must be careful not to undercut their power as a low-cost discounter otherwise their target market and strategic positioning will be come blurred. Can you go to the same store for cheap bleach and trendy prom dress? Do you want to?