Dear Professor:

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

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- Small Retailers Find a Niche in Large Markets
- What Is Saks Fifth Avenue’s Target Market?
- Sephora Opens in JCPenney
- Big Box Retailers Are Becoming Big “Greenhouses”

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**ABSTRACTS OF RECENT RETAIL ARTICLES**

**Online Shopping Just Got A Little Easier!**

*Use with Chapter 3, “Multichannel Retailing.”*

Despite all its promise, online shopping simply cannot mimic the retail experience of a retail store. For example, online shopping is more challenging because of the wealth of choices available, and customers who want to compare retailers’ offerings must keep multiple windows open. Even to get to that point, they often rely on search engines that return millions of results, so their shopping experience really relies on the luck of the draw.

Glimpse.com, a new online search engine for merchandise, hopes to resolve this problem. The site searches popular, well-known stores and returns a reasonable selection for customers to consider. Customers can, for example, view white t-shirts from Saks Fifth Avenue and Old Navy side-by-side. Users also can limit their searches to certain retailers.

As its target market, Glimpse.com is going after single, female shoppers aged 24–32 years who shop as a hobby. This market has grown to love shopping online and likely will embrace a Web site that helps them find items more readily—and without having to read through all the junk that comes back from a keyword search.

Although Glimpse.com is still a very new Web site, it already must consider how big it can grow and how many stores it will include, because a huge search engine is exactly what it attempts to remedy!

Discussion Questions:

1. What is Glimpse.com, and why might it enhance a shopper’s experience?

Glimpse.com is a search engine for online apparel retailers. It enhances the shopper’s experience by searching for items only on Web sites that shoppers frequent on a regular basis.

2. Do you think this is a site you would frequent?

Yes, I would frequent this Web site because it cuts down on search time and thus increases my convenience. By going to Glimpse.com, I can view all of my favorite retailers’ merchandise without having to search each one separately.

Get Intimate with Home Depot


Despite its status as a Big Box retailer, Home Depot is testing a smaller, more intimate store format. The new stores take up much less space and focus on selling supplies for entire projects rather than individual products. According to the company’s executives, “there’s about $30 billion in ‘untapped market potential’ in sales that they can’t get at with regular big-box stores.”

The new store layout is designed like a racetrack—showrooms on one side, hardware on the other, and the design center at the middle. It eliminates the warehouse feeling, with its tall stacks of products and forklift-to-pushcart restocking methods. At the same time, the company is changing its product assortment to match local communities; in places where lumber and building
materials are less necessary, they are being replaced with higher-end appliances, bathroom fixtures, and paint items.

Home Depot believes the new store format will help it to compete with convenience hardware stores, such as Ace Hardware and True Value, which often are more proximate to customers. By catering to customers’ needs for both home renovations and decorating, Home Depot hopes to gain a larger target market that needs appliances, flooring, and layout designs for their homes and wants to view those choices as they might look in real life.

In this sense, Home Depot is grappling with a problem common to most Big Box retailers: space. Without sufficient space to open enormous new stores, chains cannot grow at the rate to which they have become accustomed. With its smaller store format, Home Depot may both solve this growth problem and attract customers who would have shopped at smaller competitors or been intimidated by the original warehouse-style stores.

Discussion Questions:

1. **How did Home Depot revise its assortment to fit its new, small store format?**

   Home Depot is offering products that are more useful to an average consumer in homes, such as higher-end appliances, rather than predominantly building materials.

2. **Why did Home Depot change its store layout and design for the small store format?**

   Home Depot changed the layout and design to a department store-type setting rather than a warehouse-style store. Thus, it can focus on selling an entire kitchen rather than just individual products. The store design also includes showrooms from which a customer can buy flooring, design assistance, and appliances for a home.

**Giorgio Armani Designer Produces for the Mass Market**

*Use with Chapter 5, “Retail Market Strategy,” Chapter 12, “Planning Retail Assortments,” and Chapter 15, “Retail Pricing.”*


Target stores pioneered the concept of commissioning high-end designers to design fashion collections for the mass market. As many more mass market retailers follow suit, the question emerges: Is it worth it to pay high prices for high fashion?

Target recently hired Patrick Robinson, former designer for Giorgio Armani and Anne Klein, to join its roster of well-respected designers, including Louella Bartley, Tara Jarmon, Paul & Joe, Behnaz Sarafpour, and Proenza Schouler. Robinson was surprised at the high quality of the garments and the efficiency of products coming from China—much better than he would have expected even from high-end collections from Italy. The prototype garments arrived with minimal errors, which was a real change from the prototypes he was accustomed to receiving from Italy.

Mass market collections generally involve limited editions and remain in stores for only 60–90 days. Most pieces in the Target collection are priced under $50, though some max out at $150, still remarkably less than the cost of high-end fashions, which run into the thousands of dollars. Many designer brands are designed by committees of merchandisers, but the collection for Target is designed strictly by the designer, so the designs are never watered down from his or her original inspiration.
The pureness of the design, the quality of the fabric, the prices of the pieces—the mass market collection at Target may make high-end fashion superfluous. These collections provide value to customers who value fashion and who may come to substitute them for more expensive designer collections.

**Discussion Questions:**

1. **What are the mass market retailers doing to bring high fashion to their customers?**

   Mass market retailers commission high-end designers to design collections for their stores. The collections are conceived solely by the designer and sell at reasonable prices, mostly less than $50.

2. **Would you buy apparel in these mass market stores?**

   I already buy apparel in mass market stores such as Target; the collections are very reasonably priced, and I can still look very fashionable.

### Shop from Your Cell

**Use with Chapter 3, “Multichannel Retailing.”**


Text messaging can streamline the shopping experience by making it easier for customers to translate their needs and wants into purchases immediately. Rather than seeing products advertised, searching online to find the product, and visiting the retail store, customers now can text a unique code into their phones and instantly complete the transaction.

ShopText is the company promising customers the ability to buy products using text messages. Magazines such as *CosmoGirl* or *Lucky* advertise products with unique text codes; readers text that code to ShopText to make the purchase. Mobile phone shopping, or m-commerce, thus is becoming a growing shopping trend but also offers a new means to access market research on customer preferences.

For example, cell phone technology can track the effectiveness of magazine advertising. Because each product in each magazine has a unique text message code, marketers can better evaluate their advertising.

Text messaging is especially popular with a young crowd; 76% of 18–24-year-olds already use it. Television shows like *American Idol* encourage text messaging to vote, which has revealed the importance of interactive media to marketers. Customers enjoy the shopping experience they achieve through using their cell phone, which involves quick transactions and true impulse buying.

**Discussion Questions:**

1. **How can text messaging improve the shopping experience?**

   Text messaging allows customers to make a purchase instantly. Customers do not have to shop for products they see in a magazine or on television.

2. **Are there any ethical considerations associated with the use of cell phones as shopping media?**
Because many users of text messaging are teenagers, marketers may face concerns about marketing products to children. In addition, depending on the sophistication of the technology, privacy concerns might arise if, for example, the retailers cannot guarantee the security of payment information.

Neiman Marcus and Saks Rolls Out More Rewards


They have always relied on “premier” customers for high-end sales, but department store retailers are pumping up their already famous reward programs to focus even more on these big spenders. Neiman Marcus, Saks Fifth Avenue, and others want to gain a greater share of wallet from the top 100,000–200,000 customers. Can these businesses survive on just the top tier?

Neiman Marcus’s top 100,000 customers spend more than $12,000 per year at the store, whereas the rest of its customers spend more like $600 per year. This year, its InCircle rewards program is offering a limited-edition Lexus for customers who earn five million points. Nordstrom introduced a tiered rewards system with perks like free shipping, vacations, and invitations to “red carpet” events. And Saks Fifth Avenue is offering perks and big rewards in a similar manner. Both retailers are testing credit cards for use at any store rather than store-specific credit cards, which makes it easier for customers to gain points and, ultimately, rewards.

However, other department stores, such as Barney’s New York, do not offer rewards but rather send out gift certificates based on point levels. For some customers, perks and rewards encourage them to be more loyal to the retailer, but others prefer to just take a discount in the store.

Loyalty programs with extensive rewards are costly to retailers, but Neiman Marcus believes that its loyalty program is both growing and worthwhile. Retailers’ studies show that customers prefer special privileges and perks rather than gift certificates and discounts. So what will it be?

Discussion Questions:

1. What are retailers doing to spice up their loyalty programs?

Neiman Marcus, Nordstrom, and Saks Fifth Avenue are offering better rewards and perks to top-spending customers. Neiman Marcus and Saks are testing a program that allows customers to accrue reward points from dollars spent at other stores as well. Barney’s New York has a different approach to loyalty programs; it sends customers a gift certificate based on the dollars they spend in the store.

2. As a consumer, do you prefer special privileges and rewards or discounts and coupons?

Actually, I’d prefer the coupon, but then again, I’m more like the average rather than the top-tier customer. Perhaps this type of preference reflects the segmentation retailers are trying to capture by offering fantastic rewards to target markets that have plenty to spend and therefore don’t worry much about discounts.
Wal-Mart Wins Again, Driving Competitors Away

Use with Chapter 15, “Retail Pricing.”


Wal-Mart has proven its power in the market—again! Last November, Wal-Mart cut its prices on 42-inch, flat-panel televisions to less than $1000 and brand-name Panasonic high-definition TVs by $500. Customers loved the opportunity to own a great quality TV at an incomparable price, but competitors hated the loss of sales, which even forced some to close stores or lay off employees.

Wal-Mart has become a powerful force in every sector in which it competes. Its entry into toys caused the bankruptcies of FAO Schwarz and KB Toys. As it heads toward electronics, Circuit City, Tweeter, and Tex Stores are struggling to compete and fearing the worst.

At the beginning of 2006, large electronics retailers earned huge margins on their flat-panel TVs, but after manufacturers went into high gear, flooding the market, they could no longer sustain those high prices. For electronics retailers to compete, they must offer innovative products and diversified merchandise, because Wal-Mart, through its mass production capabilities, is going to stake out the low price position.

Therefore, electronics retailers such as Circuit City and Best Buy successfully offer installation and technical services through Firedog and Geek Squad, respectively. Because Wal-Mart can catch up in virtually any product or industry market it chooses, the electronic retailers have to continue to offer products and services that attract the technophiles who care less about prices.

Discussion Questions:

1. Describe the Wal-Mart Effect, as exemplified in this summary.

Wal-Mart cannibalizes competitors when it starts to sell the same products. In every industry that the largest retailer in the world enters, it offers the lowest prices, which drive its competition out of business. Wal-Mart also forces specialty retailers to offer better and more innovative products so they can steer clear of the mass market merchandise arena, where Wal-Mart dominates.

Fitting Rooms: The New Hang-Out

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


In the past, fitting rooms seemed like a waste of space—retailers could not put more merchandise in them, so they couldn’t make money off them. But more retailers are realizing the importance of fitting rooms as the crucial space in which customers decide whether to make a purchase. Depending on their ambiance and the technology they offer, these spaces can add a lot of value to the customer experience.

In particular, fitting rooms must be large, clean, and comfortable. A fitting room that makes a person feel good also makes that shopper more likely to get in the mood to buy something. Bloomingdales goes beyond other retailers by hanging photographs of local communities on its walls. The women’s dressing room, with its fresh flowers and natural light, differs in feel from the men’s dressing room, done up in dark wood, leather furniture, and linen wall coverings.
Even as they get prettier, fitting rooms are introducing new technology that enhances the buying experience. Inside the room, shoppers can find items in stock in the store, similar to shopping online, and see demonstrations of accessory options. Some fitting rooms offer customers the capability of e-mailing friends a photo of the outfit they’re considering. Or virtual models can “try on” an outfit to show the shopper how it looks, though this development is still in progress.

Although technology and décor can enhance the experience of trying on clothing, retailers must ensure they still offer service rather than automating the entire process. Neiman Marcus is cautious about the extent to which it will use technology; salespeople remain at customers’ service while they try on clothes in the fitting room. But customers who enjoy a comfortable environment in which to try on clothes likely will provide higher sales for savvy retailers in the future.

Discussion Questions:

1. **What are some retailers doing with their fitting rooms?**

   Retailers are making their fitting rooms larger and renovating them so that customers feel like they are in a comfortable environment. Some retailers are even customizing men’s and women’s dressing rooms with décor that appeals to each gender. Added technology enhances customers’ experience through virtual models, the ability to e-mail photographs to friends, and search capabilities specific to the store.

2. **Why?**

   Retailers want to make customers feel like they are at home in a comfortable environment. By walking into a fitting room that is esthetically pleasing, large, and feels like a lounge area, retailers enhance the experience and encourage customers to make a purchase. Because purchasing decisions often take place in the fitting room, retailers recognize the importance of focusing on this space.

Employees Directly Influence Customers’ Purchasing Decisions


“Out of Stock? It Might Be Your Employee Payroll—Not Your Supply Chain—That’s to Blame,” Knowledge@Wharton, April 4, 2007.

We already know that a customer’s satisfaction with a retail store drives sales, but what factors actually increase customer satisfaction? A study by operations and information management professors at Wharton suggests some interesting results.

According to their findings, a “customer’s perceived in-stock” at the store determines satisfaction. A customer perceives the store to be in-stock when it actually has items available that the customer needs and hires employees who are knowledgeable about the products. Customers like when employees are available to help them, even if they do not need help. In the study, when employees were reallocated within a store to make them more visible, sales increased.

Customers who enter a retail store represent only potential demand. This demand fails to turn into actual sales when the store does not have the needed product because of a stock-out, there are no employees available to help, the employees are not knowledgeable (and thus are unhelpful), and/or the checkout line is too long.
The results of this study clearly show the importance of employees at the store level. Retailers focus on getting products to stores in time and ensuring an efficient supply chain. But if employees cannot execute store-level operations, including stocking shelves and being knowledgeable about products, the store still will suffer poor sales from dissatisfied customers.

**Discussion Questions:**

1. **How does increasing personnel in the store improve the efficiency of the supply chain and increase sales?**

   *Increased personnel in the store heightens the efficiency of the supply chain because more employees are available to execute necessary customer assistance. In addition, the retail level is part of the supply chain, and more personnel can stock shelves faster.*

2. **Why do customers who don't need help care whether employees are around to provide help?**

   *Even a self-sufficient customer may perceive the store as more attentive and prepared if it at least offers them the option of obtaining help. More visible employees also may reduce customers’ risk perceptions, because they know if they get in trouble, they have somewhere to turn.*

**Small Retailers Find a Niche in Large Markets**

*Use with Chapter 5, “Retail Market Strategy.”*

*Davis Bushnell, “Thriving Retailer’s Personal Stamp,” Boston Globe, April 12, 2007.*

When small businesses compete for the same customers as Big Box retailers, the story goes, they lose. But a small paper goods, office furnishing, and gift shop located near a Staples megastore in the Boston area has managed to achieve great results.

The small store offers niche products that cannot be found in Staples. Its product assortment ranges from a 35¢ ballpoint pen to a $3,500 fountain pen by Graf von Faber-Castel. To its upscale customer base, the retailer offers special products available only in the store, including top-of-the-line stationary, invitations, leather goods, art supplies, and writing utensils.

This small retailer manages to keep 35,000–40,000 items in inventory, but its assortment differs significantly from that of Staples, which appeals to the mass market. Whereas Staples offers convenience for customers shopping for basic office and school supplies, the small retailer stocks a more emotionally valuable product like a $2,500 ergonomic leather desk chair.

Customers value the special service that they receive from the small retailer; it knows its clientele better, so it not only stocks products they desire but also helps them navigate the product selection. As another perk, customers feel as though they are supporting local businesses rather than a national chain. The local retailer makes contributions to local schools and ballet activities—investments a national chain is not likely to support.

Both the Big Box retailer and the small local retailer thus appear to have found room in the market. Depending on what the customer is searching for, he or she prefers one retailer over the other. However, the service and unique, high-end products that the small retailer provides appear to be offerings that prompt true customer loyalty.
Discussion Questions:

1. How can a small retailer compete with a mega-store like Staples?

A small retailer can compete by offering a unique merchandise assortment, as well as customer service. A small local retailer is also valuable to the community, which generally prefers to support a local business rather than a national chain.

2. Can any small retailer embrace this strategy to survive?

Although this approach may work in some markets, for others, a high-end product line and personalized attention will not be sufficient to draw customers away from the lower prices and huge selection of Big Box retailers. For example, retailers that generally sell commodity goods would have a hard time following the example set by the office supply retailer.

What Is Saks Fifth Avenue’s Target Market?

Use with Chapter 4, “Customer Buying Behavior.”


In a significant departure from its historical approach, Saks Fifth Avenue is focusing on making each store more productive rather than opening new stores. Department store competition is heating up; Macy’s stores doubled to 820 (after acquiring May Department Stores), and Bloomingdale’s, Neiman Marcus, and Nordstrom continue to battle for dominance. In response, Saks wants to identify a target market for each store, because it has found that target markets differ throughout the country and even from town to town.

Many Saks stores were not catering to the correct market and thus was not carrying appropriate merchandise. Its New York flagship store accounts for one-fifth of the company’s annual revenue, and the target market at this location includes 46–57-year-old women who prefer classic styles for work and slightly more modern looks for the weekend. But such a selection does not resonate Birmingham, Alabama. Through market research, Saks found that its merchandise was too conservative for the slightly younger customer base there, who would travel as far as Atlanta, Georgia, to shop.

So how could Saks go about pairing merchandise with customers? The retailer has developed a nine-box matrix whose axes display the fashion degree—“Park Avenue” classic, “uptown” modern, “Soho” trendy, or contemporary—and pricing levels—“good”, “better” and “best,” ranging from moderately priced to expensive—that characterize customers of a particular store. With this combination of spending levels and styles, Saks can deliver the appropriate merchandise.

Saks still has a long way to go to make stores productive. Its average sales per square foot equal only $385 compared with Neiman Marcus at $624 and Nordstrom at $393. Bloomingdale’s is also escalating its designer offerings, making it a serious competitor for Saks as well. Thus, Saks must start off on the right foot by identifying its target markets accurately.

Discussion Questions:

1. Why has Saks Fifth Avenue implemented a new market segmentation strategy?

Historically, Saks has mistaken its target market and offered merchandise that was undesirable, which pushed customers away. With its new market segmentation strategy, it will be able to better identify its customers and what they want.
2. What is the strategy?

*Saks is segmenting the market using a nine-square grid that depicts the spending and fashion levels of its customers. This matrix offers a valuable tool because it clarifies the appropriate merchandise to stock in each store.*

**Sephora Opens in JCPenney**

*Use with Chapter 5, “Retail Market Strategy.”*


JCPenney isn’t pussy-footing around. As its new CEO transforms its corporate culture (see the April newsletter), the company is joining the race to become the golden child of Wall Street with plans to open 250 stores in the next five years—50 by the end of this year.

Penney concentrates on flexibility as a specialty store and better offerings than a department store. The retailer’s strong product mix includes 50% private brands and 50% national brands. And because of this strong concentration of private brands, it maintains control over the quality, price, and margins of most of its merchandise.

These benefits have prompted Penney to introduce even more new co-brands with existing, well-known brands. Chip & Pepper, the designer jean maker, is producing an exclusive line for Penney called C7P that will cost $34.99—compared with its designer selection available in Neiman Marcus for $150–200. A co-branded line by Polo Ralph Lauren will go under the moniker “American Living.” But these extensions are not limited just to clothing. JCPenney is opening Sephora cosmetic boutiques using “store within a store” concepts. The company will feature 47 in-store stores by the end of the year.

Moreover, Penney is concentrating on becoming more efficient in getting products to stores. This focus appears to be working; its turnaround averages 30 weeks, compared with department stores at 50 weeks.

As Penney revamps its brand image to offer a stellar merchandise mix, it expects a major turnaround. Its new store openings and Sephora stores should reinstate the brand among its customers.

**Discussion Questions:**

1. What has JCPenney done to change its strategy in the past few years?

*It is offering an upbeat merchandise mix by partnering with well-known labels like Chip & Pepper and Ralph Lauren. Part of its strategy also includes more efficient product cycles. Customers can expect to see better brands and a department store that feels like a specialty store. Its aggressive new store openings also help position the department store as a strong brand in the eyes of its customers.*

2. Would these changes cause you to become a JCPenney customer?

*Customers appreciate finding brands they already know and trust. When a company like Penney partners with them, customers trust the quality and like the low price that goes along with it. The introduction of Sephora boutiques in the stores should bring in even more customers, because these stores can be few and far between. Finally, there is a lot of energy running around JCPenney, making customers feel that it is a fun brand.*
Big Box Retailers Are Becoming Big “Greenhouses”

Use with Chapter 5, “Retail Market Strategy.”


We might not call them tree-huggers just yet, but Big Box retailers are promoting eco-friendly products and committing to making store operations and supply chains “green” as well. In the past, Wal-Mart received a lot of criticism for its operations and business practices—but not anymore. Its initiatives are helping the chain expand into geographic areas that otherwise would not have accepted a new store because of its previous eco-unfriendly stigma.

Wal-Mart and Home Depot embraced Earth Day by not only promoting energy-efficient products but also educating consumers about the cost and energy savings of eco-friendly products. Wal-Mart explained to customers that fluorescent light bulbs last longer and use less power, then sold those same customers, among many other products, organic plant holders and eco-friendly ceiling fans.

The trend to save the environment is growing among both businesses and consumers. In 2005, the organic industry grew 17% to $14.6 billion in consumer sales. Retailers are responding with more products that benefit the environment, as well as attempts to reduce the impact of their stores, with their huge retail square footage and massive energy demands. Wal-Mart plans to reduce the amount of energy its stores consume by one-third by 2010 and reduce the packaging it uses by 5% by 2013.

Retailers and consumers thus appear to agree that quality requires environmentally friendly features. Many shoppers will spend a little more on a green product, an everyday decision that can affect the environment. Retailers are setting the stage, and consumers are demanding the products they buy are energy efficient and less costly to the environment.

Discussion Questions:

1. What are retailers doing to become more “green”?

   Retailers are promoting environmentally friendly products by educating customers about the benefits of their use. Some also are committing to reducing the amount of energy used to operate retail stores.

2. Do you believe their green actions are to satisfy their ecological conscience or because it means just good business?

   Although retailers certainly obtain a business benefit from signaling that they are eco-friendly, these retailers also appear committed to going green and are making significant investments in reducing the energy they use.

3. Would you spend more money with a green retailer?

   As a consumer, I prefer to spend my money with a green retailer, because it not only encourages eco-friendly business practices but also helps the environment. A quality product to me is one that does not harm the environment. Quality products have always cost a little more, and green products represent just such a worthwhile level of quality.