March 2007

Dear Professor:

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

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ABSTRACTS OF RECENT RETAIL ARTICLES

The Gap: Losing Customers by Welcoming Them All

Use with Chapter 5, “Retail Market Strategy.”


The Gap has struggled recently to position itself with a clear identity. By targeting its merchandise to all segments of the population, the clothing retailer seemingly has failed to offer much value to any of them. The company’s poor performance led to the ouster of its CEO in January 2007.

When it began, The Gap offered basics that customers could carry over from season to season, including Levi’s jeans, khaki pants, and plain t-shirts. As The Gap name began to suffer from overexposure, the company introduced its Old Navy line in the 1990s to offer trendier fashions and pursue the “cheap and chic” portion of the market. Although it distances its flagship brand from Old Navy in advertisements, the relationship has left customers confused and unsure about what The Gap really represents. According to many customers, the basic products the store still offers are “too pricey to be cheap and too cheap to be chic.”

In its attempts to regain customers, The Gap has run through a variety of strategies, many of which seem to mimic other retailers. For example, similar to Target’s successful designer co-branding strategy with Behnaz Sarafpour and Isaac Mizrahi, The Gap produced a limited line designed by Roland Mouret.

The Gap had long used minor celebrities in its print advertising, but early in the new millennium, it turned to television ads featuring well-known celebrities, starting with Madonna and Missy Elliot modeling corduroys as upbeat, hip products. The following season, The Gap featured Lenny Kravitz singing as Sarah Jessica Parker modeled customized jeans with metal studs and velvet ribbon, just as a new jeans craze shook the nation and Seven for all Mankind and Rock and Republic gained traction in 2004. Although it seemed to offer the potential for a successful marketing campaign, customers considered it a frustrating tease; the jeans offered by The Gap required arts and crafts efforts by the customer and could not actually be bought in the store.

Even more recently, the company joined Product (RED), a campaign to eliminate AIDS in Africa headlined by Oprah Winfrey and Bono, by donating 50% of its profits from specific products to The Global Fund to Fight AIDS, Malaria, and Tuberculosis.

However, these charitable efforts may not be enough to combat the successful specialty retailers, such as Abercrombie & Fitch, American Apparel, and Anthropologie, that have laid claim to specific portions of The Gap’s market. To survive, The Gap must position itself clearly in the market so customers know exactly what it offers.

Despite its various attempts to increase sales and gain customers, from celebrity models to trendier fashion to social responsibility, The Gap remains undefined for most customers. Other successful retailers sell particular lifestyles through their clothes. The Gap similarly needs to prove itself as a viable representation of who its customers want to be.

Discussion Questions:

1. Evaluate The Gap’s strategy: What has it done right recently? What has it done wrong?
The Gap has tried too many different strategies that have served only to confuse its customers. The retailer no longer has a clear identity, and efforts like its jeans campaign only teased and angered consumers. The Gap’s participation in Product (RED) may represent a step in the right direction, with which the company can distinguish itself as a retailer with a social conscience that sells somewhat exclusive products.

2. Do you shop at The Gap? Why or why not?

I shop at The Gap for basic items like white t-shirts, but when I want an outfit for going out or to look trendy, I prefer retailers like as Abercrombie & Fitch, which sells a lifestyle image to which I can relate.

3. Would you buy stock in The Gap?

I would not buy stock in The Gap at this point, because the company seems to be suffering a lot of instability, at both the corporate level, with the recent turnover in the CEO position, and in terms of its image as it tries to find a niche among the many specialty retailers and lifestyle brands currently available.

Retailers Promoting Safe Working Conditions in the Supply Chain

Use with Chapter 14, “Buying Merchandise.”


Although retailers have monitored their factories and suppliers to ensure their working conditions met appropriate standards, more companies are now beginning to realize they need to consider the entire supply chain. Monitoring direct suppliers succeeds only to a certain point, because the thousands of indirect and distant suppliers involved in a supply chain means retailers invariably miss work abuses in various areas.

In response, the four largest supermarket retailers in the world, Wal-Mart, Carrefour, Tesco, and Metro, are promoting a global initiative to ensure safe working conditions in their supply chains. Previous attempts to monitor supply chains have helped eliminate child labor violations and increase safety, but these efforts reach only the surface level and cannot ensure truly safe working conditions.

In addition, these efforts recognize that the long-term stability of an effective supply chain starts with retailing management. Retailers have initiated educational efforts to ensure employees in the home offices understand their effect on the larger supply chain. Management employees must realize that their buying practices influence the entire supply chain, and low prices and short lead times can directly and negatively affect the conditions in that chain.

The Gap’s “integrated vendor score card” ranks suppliers on the basis of their factory conditions, speed, and innovation. Through this effort, the clothing retailer has found a close correlation between factories that offer the best working conditions and performance rankings.

The global initiative to increase the standards in supply chains thus may encourage better productivity in factories. Retailers also will be able to stand behind their suppliers, with the confidence that their products have been produced in safe working environments by workers who have not been compromised in any way. Consumers not only should welcome an approach that promotes global freedom but also may be more inclined to buy products sourced from such supply chains.

Discussion Questions:

1. Why do retailers face such concerns when it comes to their suppliers?
Several issues are at work here. First, retailers often purchase products from overseas suppliers in underdeveloped countries, and in some cases, the standards of worker safety do not match those of consumers in developed nations. Second, the vast supplier networks that many large retailers use make it difficult to monitor all suppliers to ensure they meet the retailers’ safety standards, though many consumers continue to hold the retailers responsible.

2. What are the retailers trying to do about these problems, and will their efforts work, in your opinion?

Retailers are attempting to promote supplier strength to make all factories sustainable and capable of meeting stringent working condition standards. The largest supermarket retailers are leading this global initiative to prevent supplier abuse in overseas factories. With the support of these major retailers, the initiative seems to have a good chance for success. In addition, this proposed solution uses economic incentives, which may prompt suppliers to agree more readily to the improved working conditions.

Online Sales People Are Helpful?


To increase their sales, many online retailers now offer more support for online consumers, such as additional salespeople or virtual dressing rooms, to help consumers understand the merchandise better. The additional features and information provided helps keep shoppers on the site for longer periods of time, which often means more sales.

However, salespeople who do not add value or an online assistant that does not provide real assistance that satisfies the customer may be more disappointing than no online support at all. For example, a customer on the Dell Web site orders a computer but does not receive a confirmation e-mail. The customer uses the online help service to confirm that the order had been placed, but the sales assistant cannot track the order; instead, she simply repeats phrases such as, “I understand how frustrated you must feel.” The customer’s frustration only grows as a result of the service interaction.

Overstock.com advertised free shipping on its Web site—but with fine print: The free shipping applied only to non-media purchases. When a retailer makes a promise with hidden restrictions, it can disappoint customers more than if it had never offered a promotion at all.

In contrast, Iconix Brand Group Inc.’s Rampage brand provides virtual dressing rooms in which consumers can mix and match items to see what they look like in combination. Customers can then e-mail their compilations to friends for advice. These features make the shopping experience more fun and prompt customers to purchase more than just individual pieces.

Overall, the communication between a retailer and a customer must be effective and add value to the shopping experience. Customers expect answers to their questions when they communicate with personnel and reject marketing teases on Web sites. When customers feel let down because of poor performance by a salesperson or Web site, they often become lost to the disappointing online retailer.

Discussion Questions:

1. What are some multichannel retailers doing to increase sales?
Multichannel retailers are adding salespeople to assist the customer better with the purchasing process. For example, Overstock.com offers special promotions on special products, and Rampage brand uses virtual dressing rooms in which customers can envision different items in combination.

2. Why do these tactics sometimes backfire?

A salesperson can be very helpful or quite useless. When an online salesperson does not have the necessary knowledge to help customers or responds with pointless comments unrelated to the purchasing process, the customer becomes more frustrated and may abandon the site completely. Marketing teases also frustrate customers, who perceive the situation differently than the firm states they should.

3. Why might the Dell customer service person have repeated the phrase, “I understand how frustrated you must feel,” without addressing the root concern?

Some research suggests that empathizing with angry customers can increase their satisfaction; this service person probably had been trained this way. However, sales and service personnel must do more than empathize; otherwise, the customer’s issue never gets resolved.

Nordstrom Holds Private Shopping Events for Loyal Customers


Perhaps more than any other retailer, Nordstrom concentrates on building relationships with and maintaining the loyalty of its customers. For example, the company hosts invitation-only, private shopping events for its best clients.

These events offer VIP treatment to special customers, including prestocked dressing rooms with clothing options in each client’s size and a luxurious atmosphere filled with appetizers, champagne, and live piano music. Nordstrom determines whom to invite to these events on the basis of spending levels on Nordstrom credit cards, and sales personnel add a specific number of their own customer choices to the list.

Nordstrom may attempt to enhance customer loyalty by making each customer feel exclusive and special, but other retailers take a different approach. The Macy’s division of Federated Department Stores, for example, highlights its inclusive offerings that avoid excluding any customers.

Those invited to Nordstrom events tend to enjoy the special treatment they receive, and they likely spend more money during the events. For these key clients, the private shopping events provide a special opportunity that is not available to just anyone.

Discussion Questions:

1. Why don’t other retailers, such as Macy’s, use the same method to enhance customer loyalty?

Nordstrom’s efforts match its image as an exclusive, high-prestige retailer that caters to upper-income consumers. Other retailers take a different market position and therefore may want to avoid communicating a sense of exclusivity. In addition, Nordstrom’s loyalty events likely are extremely expensive, and not all retailers would find this expense worthwhile.
2. If you were invited to a “special event” or treated in some other special way by your favorite retailer, would it cause you to purchase more merchandise than if you were treated the same way as everyone else?

I might be likely to purchase more from a retailer that treated me as a special customer. I probably would feel a sense of obligation—if the retailer is being so nice to me, I should do something for it. Also, the ambiance of the special event probably would put me in the mood to purchase something special, like a fancy pair of shoes, that reinforces my sense of importance and exclusivity.

3. Might other types of retailers, not just department stores, use a similar approach to that Nordstrom has applied so effectively?

A high-end restaurant might invite loyal patrons to a special wine tasting, which probably would prompt the invitees to purchase more food items to go with the wine.

Germany Deregulates Restrictions on Store Hours

Use with Chapter 8, “Retail Site Location,” Chapter 5, “Retail Market Strategy.”


As a tourist in Berlin last year, you would have found your shopping limited to before 8:00 pm on weekdays; Germany’s labor laws heavily restricted the hours that retailers could stay open. But recent changes in Berlin’s laws could prompt an increase in consumer spending, which in turn may enhance the country’s gross domestic product (GDP).

Retailers in Berlin may now open and close at will, meaning you might find a bookstore open 24 hours a day, unheard of in Europe. The city made this decision expressly to increase retail trade and bring in more city taxes, largely in response to Germany’s long-stagnant economy.

Some retailers believe consumers will spend more money because of the greater flexibility the longer hours give them. In addition, nighttime shoppers may be more prone to impulse purchases. However, others believe that the new hours favor out-of-town malls and put greater stress on small, independent shops. The increased competition could pressure prices downward, making it even more difficult for small shops to survive.

It is unclear how customers will respond to this change. Customers may like the ease of shopping at more flexible times and having a greater part of the day to spend money, but it is not a part of their culture to shop in the evening, as many Americans do. Another Catch-22 for the customer relates to the government-mandated sales tax increase from 3% to 19%; this shopping advantage makes it more expensive to consume.

The German law that restricted retail hours was intended to protect workers, but the later hours may actually relieve some pressure from employees, because stores must hire more people to cover the additional shifts. It remains to be seen whether consumers will shop during evening hours or spend more money than they normally would—and therefore whether retailers can justify this change.

Discussion Questions:

1. What has changed the retail landscape in Germany recently?
Labor laws that restricted stores from staying open late have been lifted, so stores are free to choose their own operational hours.

2. What are the advantages and disadvantages of these changes from the perspective of retailers and consumers?

Retailers have a longer time frame in which to make sales and can offer more convenience for consumers, who may spend more money, shop more often, and make more impulse purchases. However, small, independent retailers may suffer if consumers patronize to out-of-town centers.

Consumers can now shop at night, a new and exciting trend. They also have the advantage of shopping whenever they want rather than in a restricted time frame. However, the German sales tax has increased, and consumers may not take advantage of the longer hours, which represent a cultural change most Europeans are not used to.

3. If you were working for a retailer that was considering expansion into Germany, would you view these changes as positive or negative?

I would view the changes as positive, because they allow the commercial world to act independently of government regulations. If a business wants to stay open late, it should be free to do so.

Competition in the Grocery Industry


The grocery industry is changing, as is the way consumers shop for food. American households spend $6000 per year on groceries, and the competition for these dollars has grown ever more intense as firms in the food market struggle to attract customers through more choices, better prices, greater selection, and improved convenience.

Wal-Mart started the recent battle by offering low prices every day. Around the same time, wholesale clubs such as Costco and Sam’s Club became popular choices for customers who would buy in bulk to save money. Adding to the competitive landscape, many specialty food retailers have enjoyed recent success by focusing on organic and natural offerings, such as The Fresh Market, Wild Oats, and Whole Foods.

In this new stage in the grocery saga, many conventional stores are facing buy out efforts from the newer stores. Only a few strong chains remain, including Kroger, the largest traditional grocery chain. The dramatically fragmented industry offers customers more and more choices for buying their essential and staple foods at low prices but also purchasing specialty products that appeal to their desire for convenience (e.g., already prepared pecan-encrusted tilapia, ready for dinner) or healthy options (e.g., hormone-free, organic eggs from farm-raised chickens).

New companies keep entering the grocery industry and thus continue to intensify the competition. One of the world’s largest retailers, Britain’s Tesco, will open stores this year in the United States. Kroger and Wal-Mart stores are rolling out new formats, from upscale markets to discount warehouses, to give customers all the choices that they want—from toilet paper in bulk quantities to fine wines at low prices to premium-priced rare cheese—in one place.

Discussion Questions:
1. Why are grocery stores having trouble maintaining market share?

Many grocery store types exist today, not just conventional ones. From discount supercenters to wholesale clubs to specialty stores, consumers can choose from many different formats. In addition, consumers demand more from the stores at which they shop, so a traditional offering no longer cuts it in the modern marketplace.

2. Can conventional grocery stores ever regain their dominance in the market?

Although conventional grocery stores have begun to offer more specialty items and new formats to compete with the many choices available to consumers today, their market dominance probably is a thing of the past. When consumers can get their staple groceries plus new tires for their car and a gold necklace from a supercenter, they have little incentive to visit a conventional grocery store for their staple purchases.

**Dollar Stores Thrive as My Dollarstores in India**

*Use with Chapter 2, “Types of Retailers,” Chapter 5, “Retail Market Strategy.”*


In India, My Dollarstores have become popular shopping destinations, earning more than $10 million in sales, double their previous year’s revenues. However, Indian My Dollarstores are very different than what U.S. consumers know, in that they expressly target affluent, middle-class consumers.

Dollar Stores in the United States appear in low-rent strip malls and sell discounted products. In contrast, My Dollarstores in India show up in prime spaces in new malls. The products sold are twice as expensive because of the extra transportation and import tariffs, but many Indians like the product mix, which is heavy with American products. Consumers buy similar items when they travel to the United States, so My Dollarstores gives them the opportunity to feel like they are on vacation in America.

Furthermore, with their red, white, and blue decorations and Statue of Liberty adornments, the stores promote associations with the American dream. Popular products include Hershey’s chocolate syrup, Doritos chips, Kellogg’s Pop-Tarts, Alberto VO5 hair conditioner, and salad dressing. In contrast, traditional Indian products, such as papaya-and-carrot juice, tend to be far less popular.

India restricts foreign investments to single-brand retailers, such as Nike, and franchise agreements. Following the lead of My Dollarstores, which has used franchising to gain a foothold, many other large retailers are looking for Indian partners to establish ownership agreements. Wal-Mart, Staples, Carrefour SA, and Tesco are all making plans to establish joint ventures in India.

When they find these partners, the major foreign retailers will compete vigorously with My Dollarstores. However, the chain remains confident that Dollarstores have thrived among large retailers in other markets, and it touts its first-mover advantage in India. As India’s gross domestic product continues to grow, at levels of more than 8% per year, there may be more dollars for every retailer to claim from consumers.

**Discussion Questions**

1. What is different about the way My Dollarstores operate in India compared with those in the United States?
In the United States, Dollar Stores are discount chains located in low-rent strip centers that offer discounted products. In India, My Dollarstores target the middle-class population and offer American products that Indians like to purchase for their emotional benefits.

2. Why are My Dollar Stores successful in India?

My Dollarstores represent the American dream to Indian consumers. Many Indians value buying American products, such as Doritos chips, that they would otherwise not be able to buy in their country.

3. Should other foreign retailers, such as Wal-Mart, target the same market segment that My Dollarstore currently targets?

Other retailers might face a disadvantage if they compete in the same market, because My Dollarstore already possesses the first-mover advantages of brand recognition and customer inertia. However, if the other retailers can offer distinct value, they could pull lucrative share away from My Dollarstore.

Diamonds Are Everyone’s Best Friend


Multichannel retailing has changed the diamond jewelry industry by making diamond purchases easier online than in the store. Although virtually everyone may buy diamond jewelry, typically only snobby jewelry stores that target elite segments of the population sold them.

In 1999, the founder of Blue Nile entered a Tiffany store to look at $20,000 diamond rings, but because he was dressed in casual clothing and appeared to lack the money he planned to spend, store personnel gave him minimal attention. Inspired by Tiffany’s insufficient service, he came to realize that almost everyone buys a diamond when they get married, but a large portion of the population was being forced to undergo an uncomfortable, unpleasant purchase process. A diamond is forever, but diamonds also are for everyone.

Blue Nile employs a very different business model than other jewelry stores. Because it does not operate a brick-and-mortar store, it can sell its diamonds at 20% above cost, compared with typical jewelry stores that sell products for 49% above cost. Therefore, Blue Nile offers a tremendous savings opportunity. However, because it is an online-only store, customers cannot view the diamonds in person, so the retailer offers a 30-day money-back guarantee on all purchases.

Whereas many online jewelry stores foundered after the dot.com boom, sites such as Blue Nile remained strong, enjoying diamond ring sales that rank behind only Tiffany & Co. In response to online competition, some brick-and-mortar jewelry stores threaten to boycott vendors that sell to online jewelry stores, whereas others vigorously promote the value of services provided by brick-and-mortar stores, especially for the large segment of the market that wants their hands held during a diamond purchasing process.

However, Blue Nile clearly has increased competition, especially with mom-and-pop jewelry stores. Whether online or brick-and-mortar, every business provides some value for customers, whoever those customers may be. Online jewelry retailers may offer a lower price, but brick-and-mortar stores have the ability to provide lifelong relationships and helpful customer service.

Discussion Questions:

1. How has diamond retailing changed in recent years?
Rather than solely a luxury product, diamonds now are more common, in that most people purchase at least one diamond when they get married. As a result, diamond retailing has fragmented to target more than just one segment of consumers. In turn, retailers offer diamonds online, not just in brick-and-mortar showrooms.

2. Do you believe the efforts of diamond retailers to fight changes in diamond retailing will be successful?

I do not think it is a good use of resources to fight online retailers. Diamond retailers that threaten their vendors weaken their relationships with vendors. Diamond brick-and-mortar stores should focus instead on their business model rather than trying to shut down their competition through threats and intimidation.

3. Why does Blue Nile offer a 30-day, money-back guarantee?

Because consumers cannot determine the quality of the product before buying, the retailer must offer them some form of reassurance to reduce their perceived risk and thereby encourage them to buy.

Big Box Retailers Move to Urban Locations

Use with Chapter 7, “Retail Location.”


“Big Box” retailers, or those requiring 50,000–200,000 square feet of retail space, formerly located only in rural areas to accommodate their large size. Now these retailers, such as Target, Wal-Mart, Home Depot, and Costco, are moving to urban areas where space is limited, which means they cannot build expansive stores, as they once did. Therefore, Big Boxes have begun to turn to multiple-story stores to save space. Sometimes they require an extra level for parking; in other situations, the structure of the existing building forces incoming retailers to change their traditional store format.

The new store format has changed the retail experience for customers, particularly by making it more convenient for those who live in the city and no longer have to drive out to the suburbs to shop at these retailers. Target is opening its first store in Manhattan, which will be located on the second floor of a five-story building that also houses, Best Buy and Home Depot. Consumers appear excited by the change and claim they are ready to check it out.

Retailers moving to city environments also must consider their merchandise mix. Home Depot probably does not need to sell lawn mowers, but it should start promoting other items to encourage urban shoppers to visit. For example, Home Depot started selling Natural Light beer in its Lincoln Park location in Chicago.

Some cities and neighborhoods have prevented Big Box retailers from entering certain areas because of the large amount of land that they require. But when these retailers restore vacant, abandoned buildings, cities tend to see their efforts as positive for their communities and welcome the retailers.

Multiple-story stores may be a new format for Big Boxes, but many consumers are accustomed to such layouts because most popular department stores take up at least two stories. Although retailers will have to make changes in their merchandise mix and store formats, these moves represent a promising next step that provides both greater convenience and a better shopping experience to consumers.

Discussion Questions:

1. Why are retailers moving to urban centers?
Retailers are appealing to urban shoppers by making their stores more convenient and eliminating the need for consumers to travel far to reach their retail outlets.

2. How are “Big Box” retailers adjusting to the space limitations of urban centers?

Retailers’ innovative adjustments to their available space include sharing a building with other large retailers or expanding to multiple stories. To move into urban areas, these stores must accept changes to their traditional store formats and accommodate different levels.

3. What potential concerns “Big Box” retailers might face as they expand their merchandise mix?

Some consumers might become confused by finding beer in a home improvement store; the Big Box retailers will need to ensure they maintain some consistency in their merchandise mix to avoid diluting their image in consumers’ minds.

Consumers and the Fashion Industry

Use with Chapter 12, “Managing Merchandise Assortments,” Chapter 14, “Buying Merchandise.”


As the fashion industry becomes more and more fragmented to appeal to more customers, successful retailers specialize in selling to a specific portion of the market. As the industry thrives in the era of fast fashion, specific consumer markets find themselves the targets of different retailers determined to deliver value to them in particular.

Consumers demand more choices than ever in fashion, so retailers cannot rely on a one-size-fits-all strategy or simply sell mainstream fashions. The Gap, one of the last holdouts, has struggled in recent years. Fast fashion and runway replications at low prices now substitute for the broad-based American casual fashion of the 1990s. However, though these styles attract certain consumer segments, they lack mainstream appeal.

Fashion reflects personal style; people carry a certain bag or wear certain shirt brands so they can join particular peer groups. Although the way someone dresses may be called his or her personal style, consumers actually purchase a lifestyle when shopping for clothes. For example, an Abercrombie & Fitch shopper who buys a sweatshirt also buys the sexy salespeople, the mood lightening in the store, and the groovy feeling she gets every time she wears the sweatshirt. Strategically placed with, say, a Coach bag, this woman likely feels that her purchases will enable her to gain acceptance.

The strength of a fashion company depends how well its management and its creative team work together. With the plethora of consumer segments, most companies must focus their creativity more tightly and offer value for a specific group. Fashion is much more than the clothes a person wears; it becomes a form of self-definition and group membership. Therefore, retailers that deliver mass fashion to mainstream groups probably will continue to founder, because once a fashion is available to everyone, it no longer defines a person and thus lacks value.

Discussion Questions:

1. How would you define personal style? Do you determine your personal style based on one retailer or many?

Personal style is how I choose to communicate who I am to others. Although I am responsible for my own personal style, I also look at what my friends wear, as well as what I see in magazines. To achieve my
personal style, I visit many different retailers, because each retailer sells me certain items, and then I mix and match the different items the way that I want.

2. How has the fashion industry changed?

The fashion industry is more fragmented than ever before. Mainstream, casual clothing has been replaced by specialty retailers that target specific portions of the market.

3. Retailers that target specific segments with particular styles have replaced broad-based retailers like The Gap. What challenges might face such retailers in the future?

When a retailer concentrates on a particular fashion, it runs the danger of falling out of fashion, in which case it loses its target customers and has no alternative customers on which it can rely. These stores therefore have to be very attentive to changing fashions to avoid becoming obsolete in the minds of their fashion-forward customers.

Tiffany’s Product Assortment Tarnishes its Brand Image


Tiffany & Co. has long been known for luxury jewelry, which it markets to wealthy segments of the population and delivers in its signature blue boxes. However, in the 1990s, the company expanded its product assortment to appeal more to the middle class, following the widespread trend of “affordable luxury.” But though Holly Golightly might be able to afford something at Tiffany & Co. today, she might not want it anymore.

Tiffany introduced a silver charm bracelet, priced at $110, and a “Return to Tiffany” line that became very popular among teenagers and resulted in explosive sales growth for the company. Tiffany stores were bustling with people, but the lower-end silver jewelry was what attracted the crowds. The company hoped it would gain lifetime customers from this strategy—adults who had bought the jewelry when they were teenagers would continue to buy the brand throughout their lives.

Instead, the short-term success of the less expensive silver jewelry alienated older, more affluent clientele who now viewed Tiffany as an inexpensive, common brand. Similar to the British fashion house, Burberry Group, that indiscriminately put its signature tan plaid on products ranging from dog collars to headbands, Tiffany had become overexposed and was losing its most important customers.

In response, the company increased prices on its silver products by 30%, though the market took two years to respond to the price increase with a sales drop. Its continued attempts to revive its luxury image include store renovations, with chilled water and champagne available to shoppers and private viewing rooms to create an intimate feel. By featuring high-end products like $2.5 million pink diamond rings, Tiffany hopes to reclaim its image as the essence of luxury.

The decision to renounce sales and store traffic, though a tough choice, may have not come soon enough. The company may be reinforcing its high-end image in the quality jewelry market, but many consumers in this target segment remain convinced that pretty much anyone can wear Tiffany jewelry. The retailer will have a hard time convincing them that only an exclusive few can afford items made by the retailer.

Discussion Questions:
1. Why did Tiffany change its assortment? Why did it change again?

Originally, Tiffany & Co. wanted to provide a limited selection of inexpensive silver jewelry to appeal to a broader market. But when that strategy endangered its brand image among long-time customers, the company decided to retain its silver jewelry but price it out of reach of middle-class and teenaged customers. However, the company never stopped offering high-end, luxury jewelry.

2. How might Tiffany’s strategic profit model ratios change with these assortment shifts?

By moving back to higher priced jewelry rather than low-priced silver items, Tiffany will find it must hold its inventory for longer periods of time. Therefore, its asset turnover will decrease, but the net profit margin will increase because the retailer will make more money on each higher priced item.

3. How sensitive are Tiffany’s customers to changes in price? Are their products price elastic or inelastic?

The new customers attracted by the silver jewelry are somewhat price sensitive; they buy lower-end items from the retailer. However, Tiffany’s traditional customers valued the brand and cared little about changes in price. Among these latter customers, even if the prices increase drastically, they will continue to buy, because no other product provides a suitable substitute that offers the same brand value. Therefore, for most markets, the price is inelastic.

4. Evaluate Tiffany’s pricing/assortment strategy.

Although the affordable silver jewelry increased its asset turnover, the product line also hurt its brand image, because traditional consumers no longer believed Tiffany represented a high-end, exclusive jewelry retailer. By increasing prices and focusing solely on a high-end assortment, the company hopes to rebuild its brand image among its high-end clientele.