Dear Professor:

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

- Zappos.com Builds Brand Loyalty and Customer Retention
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- Customers Abandon Shopping Carts 50% of the Time
- Manufacturers Win Price War Against Retailers
- Home Depot’s Core Business Focuses on Employees
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- High Review Scores = Strong Sales
- Wal-Mart Joins Facebook
- One Magnetic Swipe for Everything: CVS’s New ExtraCare Plus
- Wal-Mart Saves Energy

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ABSTRACTS OF RECENT RETAIL ARTICLES

Zappos.com Builds Brand Loyalty and Customer Retention

Use with Chapter 3, Multichannel Retailing, Chapter 5, Retail Market Strategy

“How Zappos.com Grew So Big So Fast—10 Strategies Behind Their Success,”

Zappos.com, the online shoe retailer, has grown from a retailer with sales of $1.6 million in 2000 to a megastore earning an expected $1 billion by the end of this year. By concentrating on customer loyalty and making some key decisions, the retailer has been able to maintain its customer service value proposition.

Although Zappos.com began by advertising at expensive sports stadiums, it realized that it could not measure the return on this investment. So instead, it began decreasing advertising costs and spending more money on customer services, such as free overnight shipping, free return shipping, and 24/7 fulfillment operations. By concentrating on repeat customers, the company also relied more on word of mouth as free advertising.

Making the buying process seamless and fast means plenty of back-end operations as support. The company previously used drop-shipping, but when it could not guarantee inventory on the Web site, it made for upset customers. As a result, Zappos no longer does drop-shipping. Zappos also communicates with its thousands of manufacturers, which can log into an extranet that shows them how much of their product has been sold via Zappos.com.

Zappos moved its fulfillment operations from a facility in California to Shepherdsville, Kentucky—conveniently, 20 miles from UPS’s largest domestic shipping hub. This location also sits within 600 miles of two-thirds of the U.S. population. The location of the warehouse helped the company expedite orders much more efficiently, from processing to shipment to delivery.

Thus, Zappos delivers value to its customers by expediting the transaction process quickly. It retains customers by offering them services that they appreciate, like free overnight and return shipping. To support this value proposition, Zappos has built strong relationships with its vendors.

Discussion Questions:

What is Zappos?

Zappos is an online shoe retailer.

How successful is it?

Zappos has been very successful at growing, to sales this year of more than $1 billion. It also has a solid customer base.

Why has it become so successful?

Zappos spent its marketing dollars on customer services, such as free overnight shipping and free return shipping. The online retailer also moved its warehouse facility to a more central part of the United States to make shipping faster.

Leaving Prices up to the Customer: What Do You Want to Pay?
Use with Chapter 5, Retail Pricing


How would you like to decide how much to pay for your purchases? At the Terra Bite Lounge in Kirkland, Washington, coffee shop customers do just that. They pay what they want to pay, and then leave the money in a lockbox.

And yet, the coffee shop is profitable—maybe even because it does not set prices. Terra Bite Lounge likes its profitable approach, which also features a charitable aspect, in that customers who cannot afford to pay as much receive the same offerings.

As a result of its innovative approach to pricing, the shop creates a lot of marketing buzz. The 200 customers per day the shop hosts spend an average of $2–3 per person. The shop is also able to save costs by not needing a cashier, because payments go directly into the lockbox. In addition, it staffs only one barista per shift.

Terra Bite Lounge is not the first to come up with this concept. The One World Café in Salt Lake City has been profitable for two years and bring in $350,000 in revenue, with a 5 percent profit margin this year. The restaurant actually has obtained nonprofit recognition from the IRS and plans to open another branch in New York City.

For this concept to work, employees and customers must be comfortable with the payment method. Customers who feel that they may be paying too much or too little can tarnish the atmosphere. In the same way, employees who do not leave the pricing solely up to the customer can make customers uncomfortable. Yet this charitable aspect of giving back while doing well means success from a community point of view as well as from the perspective of an entrepreneurial business venture.

Discussion Questions:

What is a “voluntary pricing” policy?

Voluntary pricing is when the customer decides how much to pay for the products and services received. Some customers may pay more than expected, and some may pay less, but the different customers make up for the imbalance in the end.

What types of retailers are using voluntary pricing?

Food and beverage retailers in particular are using voluntary pricing.

Do you believe voluntary pricing will become more widespread?

I do not think that it will become too widespread, though the marketing buzz around the concept may cause it to grow. Companies that are interested in giving back to the community while making a profit are sure to be popular among consumers.

Customers Abandon Shopping Carts 50% of the Time

Use with Chapter 3, Multichannel Retailing
Imagine going to a grocery store and finding shopping carts cluttering the aisles. Well, in the online world, this clutter is the reality. Fifty percent of online customers simply abandon their shopping carts before making a purchase.

Many abandoned shopping carts are left by shoppers who never intended to buy anything in the first place. They were simply “shopping”—comparing different retailers’ offerings, prices, and options. However, various improvements could lessen the number of abandoned shopping carts.

Many times, buyers start the checkout process and only then gain information that was lacking during the shopping process, which makes the experience no longer worthwhile. Therefore, retailers should give all necessary information about the transaction to the customer upfront to prevent this reason for abandoning the cart. For example, hidden charges, delivery times, delivery charges, and in-stock levels are all pertinent pieces of information to the customer.

Checkout processes that do not allow even minor errors or are difficult to navigate also frustrate customers. The checkout process should be simple, allowing customers to go back and review information they entered in a previous step without losing information between screens.

Customers also want to feel that they are dealing with a secure server and that their information is going to be safe with the company.

Retailers need to realize that the checkout process should be simple and straightforward: Input shipping and payment information, submit the order. There should not be additional offers, extra shipping charges, or other charges that were not shown when the consumer chose each item. The delivery times and shipping charges also need to be explicit during the shopping process.

Discussion Questions:

How can Internet retailers reduce the percentage of customers who abandon their purchase during the checkout process?

Internet retailers should disclose all information regarding the purchase before consumers enter the checkout process, including shipping charges, delivery times, and whether the item is in stock. The retailer can also make the checkout screen simple to navigate through, in case some data were input incorrectly or the customer wants to verify something.

Manufacturers Win Price War Against Retailers

Use with Chapter 15, Retail Pricing

“Retail Price Maintenance Policies: A Bane for Retailers, but a Boon for Consumers?”
Knowledge@Wharton, August 08, 2007.

Recently, the Supreme Court ruled against Leegin Creative Leather products, a Dallas clothing store. The battle over the manufacturer’s retail price maintenance policy (RPM) thus has begun.

Retailers traditionally have been in control of product pricing, mainly because they interact with customers directly. Thus, manufacturers could not enforce a no-discount policy. Although the manufacturer’s suggested retail price (MSRP) is common, it is difficult to enforce. However, in a new ruling, the Supreme Court has determined that retailers must concentrate on selling
merchandise rather than relying on discounting if products do not sell well. Ideally, this shift should lead to better service for customers.

Manufacturers want to maintain prices and enforce those prices across retailers so that they can maintain their brand image. They also contract with retailers, engage in buy-back agreements, and establish exclusive territories. Yet in conflict with manufacturers’ goals, retailers are willing to discount merchandise to get rid of obsolete products at the end of the season.

Although it may seem that the manufacturers are in control, it also may be difficult for those without a strong brand to stand up to retailers. For example, retailers that do not want to agree to a RPM may believe it is no longer worth it to do business with that manufacturer. Manufacturers of luxury brands, such as Coach or Manolo Blahnik, likely still have the strength to enforce pricing agreements, because retailers really need and want them.

Retail price maintenance only restricts intrabrand competition, or competition between retailers that compete on price for the same product. Competition among brands is not restricted with this new policy. Because the manufacturer’s strong brands give retailers quality products to sell, the RPM ruling should help protect manufacturers’ brand image.

Discussion Questions:

What decision did the Supreme Court recently make with regard to resale price maintenance?

The Supreme Court ruled that manufacturers are allowed to restrict the pricing on their products or have a no-discount policy.

What do you believe will be the effect of such a decision?

This decision will force retailers to offer more services to their customers. They will not be able to rely on discounting their merchandise at the end of the season if there is leftover inventory.

Home Depot’s Core Business Focuses on Employees

Use with Chapter 17, Managing the Store


A customer goes to Home Depot not just to buy some paint but to learn how to design and paint a room in his or her house. Because Home Depot targets end customers rather than professional contractors, for the most part, customers are looking for some guidance about how to do something that they do not know how to do.

Home Depot therefore has to provide the service of training their customers to use the products that it sells. The chain in turn invests $600 million every year in the educational development of its employees. Front-line employees interact with customers and products everyday, so it is necessary for them to have the correct knowledge.

Product knowledge is taught via an e-learning program with audio-visual components to cater to all employees, who range in age from 18 to 70. The learning approach is hands-on, enabling employees to practice handling products and experiencing what they do.
Vendors also play an important role in the learning process and in educating employees about how new products work. Road shows help keep employees up to date on the latest features customers might be interested in, as well as maintaining them constantly in a learning mode.

Home Depot invests a significant amount of money in its 350,000 employees at more than 2,100 store locations in the United States, China, and Mexico. For this retailer, the learning component is essential to empowering employees to sell products and projects. Otherwise, the store would lose its core customer—the one who wants a do-it-yourself project but also need help with the doing.

**Discussion Questions:**

*Why is Home Depot’s challenge to train its employees so critical?*

*Home Depot sells complex products that would normally be geared toward a professional contractor. If the employees cannot explain to customers how products should be used and will be useful to them, they will not make sales. The knowledge component is crucial to the core business.*

*What is the company doing to meet the challenge?*

*Home Depot is constantly investing in employee training. The e-learning program, vendor road shows, and hands-on learning approach are all helpful in teaching employees how to communicate product features and benefits to customers.*

**Luxury Designers Focus on Web Site Branding**

*Use with Chapter 3, Multichannel Retailing, Chapter 16, Retail Communication Mix*


Because 99% of people with a minimum household income of $150,000 have Internet access at home, luxury brands are starting to find ways to benefit from the online video and interactive Web features available on the Internet.

Luxury brands used to depend on print ads and retailers for advertising, but reaching out to customers on Web sites, especially those with cutting-edge features, is proving valuable. Older Web technology could make made products look too much the same; what is the visual difference between a $499 Marc Jacobs shoe and $14 Target shoe?

But modern video and visual stimulations evoke a stronger connection with the brand and the products than do print ads. Leading this revolution is an interactive agency that has created Web site designs for high-fashion sites such as Miu Miu, Balenciaga, and Marc Jacobs.

Even better, through the Web site, designers can offer more content to consumers than they could through retailers. For example, the Christian Dior Fall/Winter Haute Couture extravaganza was available online the morning after the show. Balenciaga.com focuses on its fashion heritage by featuring archival footage from the 1960 spring/summer runway show. Prada.com features 20 short films about its production process, including shots showing artists sketching handbags, the making of a Prada ballerina slipper, and more. The featured craftsmanship reminds consumers why they pay premiums for these products. And then there’s the Marc Jacobs site, which posts insider gossip and news from the employees—content that luxury consumers live for.
Consumers spend more time on these Web sites than ever before, probably because the video, three-dimensional branding, and luxury appeals help create emotional connections with customers. Luxury retailers can distinguish themselves from other producers by allowing customers to feel as though they really know what goes on behind the scenes.

**Discussion Questions:**

How are luxury designers using the Web differently than, say, Target?

*Luxury designers exploit their Web sites solely as an advertising medium, whereas Target’s site focuses on allowing customers to shop online. Luxury designers also often use video clips to enhance the brand connection for customers.*

Why would a customer feel more compelled to purchase a product because of a designer/manufacturer’s video clip than by a photograph on the Web?

*Consumers may feel compelled because of the sheer nature of three-dimensional versus two-dimensional objects. For example, seeing a shoe on a runway or a beautiful model shows the customer the essence of the product in an atmosphere that represents the brand. A plain picture of a shoe focuses on the actual features of the product on its own, without suggesting a connection to the brand.*

**Indian Consumers Want to Shop in Chaos**

*Use with Chapter 18, Store Layout, Design, and Visual Merchandising*

*Eric Bellman, “In India, a Retailer Finds Key to Success Is Clutter,” The Wall Street Journal, August 8, 2007.*

Large retailers in India have always differed greatly from Western retailers. But as more and more large supermarkets open in India, Indian consumers, who are accustomed to shopping in a street market and visiting 20 different vendors to get all of the products they need, are helping alter the supermarket concept.

Supermarkets enable Indian consumers to shop at one store for everything they need. Despite this great value proposition, consumers often retain ingrained shopping behavior. Indians like to bargain so that they feel are getting the best deal, and though the supermarkets do not allow bargaining, retailers have some merchandising tricks they use to give customers this perception.

The store looks like a street market. Customers who like to sort through fruit for the best looking orange or dig through the beans to avoid rocks mean the retailer can allow a bad orange in the pile or leave the beans that a customer spilled on the floor. In addition, Indian consumers prefer some dirt on the produce, signaling that it is fresh. This is what they are accustomed to when shopping the street market vendors.

If consumers do not feel comfortable in their shopping environments, they will not buy. One retailer spent $50,000 to replace long, wide aisles with winding ones, because those long aisles never forced consumers to stop and look at the products, making them less conducive to sales. When the stores are busy and bustling with people, customers cannot move as quickly through the store, forcing them to look around.

Retailing in India means something very different than the pristine conditions generally associated with Western grocery shopping. It is important that retailers adapt to their customers’ needs and
cultures. One-stop shopping has moved into India, but some aspects of Indian retailing might not be as successful in the United States—like maybe the rotten oranges among the pretty ones.

Discussion Questions:

How should a successful Indian food store display merchandise differently than it would in the United States?

Store displays need to mimic those of outside vendors. Therefore, they need to be messy and crowded, offer a variety of quality products, and not be too organized or clean. In the United States, pristine, well-organized, pretty store displays are more successful.

Why?

Indians are accustomed to shopping by visiting numerous outside vendors providing fresh products. “Fresh” to Indians means that there are both good and bad looking products, as well as dirt, signaling that they come directly from the garden. The Indian culture and Indians’ shopping behaviors are not going to change, so store retailers must appeal to them in the same way that they have previously shopped.

McDonald’s: The New Starbucks?

Use with Chapter 5, Retail Market Strategy


Cafe lattes, lime-green designer chairs, dark leather upholstery … find them all in a little place in Europe. McDonald’s?

McDonald’s is renovating its stores to appeal to young adults and professionals and combat its image of unappealing décor. Spending more than $828 million to remodel 1,280 Europeans restaurants this year, McDonald’s also will add Internet access and rental iPods.

In Europe, the fast-food chain serves 10 million customers per day, and revenues are growing faster than those in the United States. McDonald’s firmly believes that the renovations are pertinent and appropriate for the European market because of its relaxed and sit-down lifestyle. On the contrary, Americans like to eat their fast-food fast, meaning eating in the car and rarely actually sitting inside the restaurant.

The American fast-food retailer has always responded to consumer changes, especially in the European market, where local tastes are crucial to its success. For example, it has changed its menu in the past to offer healthier choices in response to rising concerns about obesity. In Britain, McDonald’s serves porridge for breakfast; in Portugal, soup; and in France, cheese saga-burgers with French cheeses!

By concentrating on making its brand fashionable and trendy, McDonald’s is following the path of Apple Computer and Mini Cooper. But because McDonald’s is an old company, though reinventing itself can be beneficial in renewing its image, it also must be careful not to try to make the brand something that it is not.

Discussion Questions:

What growth strategy is McDonald’s pursuing in Europe?
McDonald’s is appealing to young professional and young adults by changing its décor and format slightly. At the same time, it is maintaining its McDonald’s roots with quick service and low-priced value foods to sustain its existing market.

What are the risks associated with this new strategy?

McDonald’s has to be careful that it is not extending its brand so far that consumers no longer feel that they are visiting a McDonald’s. The fast-food retailer also does not want to become an upscale restaurant but rather an upscale McDonald’s, so it needs to stay close to its core business even as its “pretties up.”

High Review Scores = Strong Sales

Use with Chapter 3, Multichannel Retailing, Chapter 4, Customer Buying Behavior


Metacritic, a video game review Web site, has a significant impact on many stakeholders in the video game industry. Consumers visit the site to get recommendations before they spend $50–$60 on a game, and software companies determine their employees’ compensation bonuses on the basis of these reviews.

Game scores use a 1–100 percentage format. Metacritic determines scores on the basis of a secret formula derived from many different sources, including GameInformer, The New York Times, and a gamer Web site called Fourfatchicks.com, each of which is weighted differently. Although Metacritic is not the first site to compile reviews, it was among the first to cover different types of media, not just movies.

In a study by Activision, a game developer, among the 789 games made for Sony Corp.’s Playstation 2 console, a strong correlation emerges between high game scores and strong sales. For every 5 percentage points above 80, sales of a game doubled. Thus, the reviews not only reflect quality but influence sales. However, Metacritic’s reviews are less influential for games based on movies that have already been heavily marketed.

In addition, the video game industry makes great use of franchise agreements; Time Warner signs licensing agreements with software companies to develop video games based on a movie’s content. If these video games do not meet certain review standards on Metacritic, the software company must pay higher royalties to Time Warner.

Thus, product reviews affect all segments of the supply chain. Review sites such as Metacritic can create a marketing homerun or a marketing strikeout by influencing not only sales but also employee compensation and unexpected increases in royalties to franchisors.

Discussion Questions:

What types of reference do consumers want before buying a video game?

Consumers are basing their buying decisions on video game review sites. They are confident that higher ratings mean they will be more satisfied with their purchase.

Wal-Mart Joins Facebook
Concerned that rising fuel prices will retard students’ and parents’ back-to-school spending, Wal-Mart launched its Site-to-Store program in July to enable customers to buy products online and pick them up in the store, avoiding shipping costs in the process. For college students, the service offers a significant benefit; they can choose merchandise before leaving home, then pick it up at the local Wal-Mart near their college or university. And these aren’t just a few pencils and plastic laundry totes; the National Retail Federation says that the average first-year college student spends $1,112.62 on electronics and home furnishings.

At the same time, the world’s largest retailer is reaching out to students via Facebook, the social networking site. Its social group, called “Roommate Style Match,” enables roommates to plan their room decorations online. To assist them, Wal-Mart offers “recommended” and “earth-friendly” products, as well as shopping lists for dorm-appropriate items. Thus, new roommates can consider their product selections in advance, in a social setting, and ensure that all the furnishings are in sync.

Of the 34 million active users who have logged on to Facebook in the past month, 40% are in college. Even before they ever meet face to face, college-bound students connect on Facebook. With Wal-Mart’s help, these students can use a tool they already know to coordinate their rooms, choose low-priced products, and get to know their roommates better. The combination of its Facebook group and its Site-to-Store program should translate into positive results for the retailer and its new collegiate consumers.

**Discussion Questions:**

**Would you use the Facebook group that Wal-Mart has created?**

Yes, I think it would be very helpful to have suggestions and low-priced design options for college dorms. Outfitting a college dorm is a significant financial expenditure, so thinking about the options in advance and coordinating color schemes and styles that coordinate with the décor and preferences of my roommates is beneficial. I may not purchase all of my college dorm products from Wal-Mart, but I’ll likely find some irresistible deals that work perfectly in the dorm setting.

**What other markets might Wal-Mart target with these forms of marketing communication?**

Although parents might not be as likely to participate on Facebook as their children, Wal-Mart could promote its Site-to-Store program as a means for parents to send gifts to their children, away at school, without having to pay shipping costs. For example, parents could purchase their children a new pillow as a gift, and then tell them to go pick it up at their local Wal-Mart.

**One Magnetic Swipe for Everything: CVS’s New ExtraCare Plus**

Use with Chapter 11, Customer Relationship Management, Chapter 19, Customer Service

Do you have an *ExtraCare* CVS loyalty card? If so, you’re not alone; CVS now counts 50 million cardholders who average 11 visits per year, though its top 30th percentile makes 27 visits per year.

In partnering with HSBC Card and Retail Services to launch the *ExtraCare Plus* card, CVS created a loyalty card that works like a debit card linked to consumers’ normal checking accounts. When paying for merchandise at CVS, customers now need only one card—take the loyalty *ExtraCare Plus* card and leave the bank credit or debit card at home. Using HSBC’s new OptiPay technology, the card allows consumers to pay and receive savings and credits at the same time.

At the point of sale, customers enter a PIN for security purposes. Even with this added step, transactions with the *ExtraCare Plus* card cut an average of seven to ten seconds off the time it takes to complete each sale.

The program also enables CVS to measure the results of its promotions, a crucial requirement in the competitive pharmacy market. Some of the metrics the retailer can track include the number of visits, as well as spending levels before and after the customer signed up for *ExtraCare Plus*.

With information it gains from card usage, CVS also hopes to target different generational customer segments with tailored promotions, rewards, and benefits. By increasing convenience, speed, and market information, it appears the new *ExtraCare Plus* benefits both the retailer and its many market segments.

**Discussion Questions:**

**Would a debit/loyalty card all in one increase your loyalty to the retailer?**

*Yes, it is nice to have fewer cards in your wallet, and if the card offers me personalized credits and savings on the products that I buy, it will keep me loyal to CVS.*

*No, I will not take advantage of the program, because I feel uncomfortable linking my debit spending to CVS. Privacy is really important to me, and I think this card crosses the line.*

**Wal-Mart Saves Energy**

*Use with Chapter 5, Retail Market Strategy, Chapter 14, Buying Merchandise, Chapter 17, Managing the Store*


Wal-Mart’s centralized thermostat system in Bentonville, Arkansas, its corporate headquarters, actually uses a monitoring team to control the temperature for every store from this centralized location. What are the benefits of this practice?

Wal-Mart is concentrating hard on saving energy and producing less waste. With its monitoring team, the corporation notices easily when there is an imbalance in the temperature. For example, if a freezer door gets left open for 45 minutes, headquarters arranges for a local contractor to fix the problem before the actual store even knows what has happened. By responding quickly to these imbalances, Wal-Mart not only saves energy costs but prevents food from going bad.

This supervision is not the only project Wal-Mart has undertaken. The retailer also is concentrating on its supply chain, especially when it comes to high transportation costs passed
on to the consumer. Wal-Mart is building more relationships with vendors to stock products that are closer to the actual stores rather than shipping products all over the country.

Wal-Mart plans to reduce its energy use by 20 percent by 2012. For this plan to succeed, it must focus on store operations and merchandising, as well as necessary transportation costs. Although Wal-Mart is saving, it remains sensitive to its customers’ desire to shop in a comfortable climatic environment, with proper lighting and displays; Wal-Mart will never start making its customers shop with glow sticks to save on lighting costs!

**Discussion Questions:**

**What is Wal-Mart doing to save energy?**

*Wal-Mart is saving energy by centralizing the temperature control system. It is also minimizing transportation costs. Therefore, Wal-Mart has to buy products from suppliers that are closer to the actual stores.*

**In addition to saving the firm millions of dollars, why is Wal-Mart implementing these programs?**

*Wal-Mart is concerned with the environment and realizes that saving energy will benefit its consumers, its reputation, and its goodwill credit to the environment.*