Dear Professor:

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

- Barnes & Noble Makes Customers Uncomfortable to Promote Sales
- Donuts & Coffee at Dunkin’ Donuts Expands through the U.S.
- H&M Launches User-Generated Designs in Sims Partnership
- Harrah’s Knows You—and 40,000 Other Customers—Like the Back of its Hand
- JCPenney’s Advertising Focus: Not the Clothes
- McDonald’s Implements Delivery Service in Foreign Countries
- Can Niche Retailers Fight Off Big Box Category Killers Forever?
- Everything Gets Hotter when the Sun Goes Down
- Wall Street’s Perception of Retail Health May Be Unhealthy
- Wal-Mart Officially Enters India in Joint Venture
- China Welcomes Wal-Mart’s One-Stop Shopping
- Wal-Mart in Japan

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ABSTRACTS OF RECENT RETAIL ARTICLES

Barnes & Noble Makes Customers Uncomfortable to Promote Sales

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


Is Barnes & Noble really making its customers uncomfortable? Many bookstores have tried for years to make their stores more appealing to customers, encouraging them to relax and browse through the books, by offering extremely comfortable chairs and couches. These retailers are now realizing that the sales return on their investment is not quite what they had expected.

Retailers constantly work to figure out ways to encourage shoppers to stay in their stores longer, which in turn translates into increased store sales. But Barnes & Noble and Borders Books both find they may have encouraged the wrong customers. The couches have attracted teenage lovers, homeless squatters, and people who nap—all of whom promote a less-than-positive image of the bookstore and a negative impact on retail sales.

These bookstores want to avoid the impression that they are a library. Many people come in and read a book in one sitting without buying anything. Therefore, book retailers are decreasing the comfortable seating and using more durable, stain-resistant chairs, sparsely distributed throughout the store.

Bookstores thus have to strike a balance: Make customers comfortable and enable them to browse the selections but also prevent noncustomers from cluttering the store and leaving a mess behind.

Discussion Questions:

Getting customers to stay longer in a store or mall translates into higher sales. Is this statement true or false? Justify your answer.

False: Bookstores have found that by making a cozy atmosphere, they have encouraged the wrong customers to “hang out” without ever buying anything. Store employees also have to clean up behind these customers instead of restocking shelves or servicing actual customers. True: Customers in one place for longer buy more products, whether it be food or drinks or products that they like. By encouraging customers to stay longer, stores can get a better idea of the products that customers like and therefore improve their offerings and their sales.

Donuts & Coffee at Dunkin’ Donuts Expands through the U.S.

Use with Chapter 8, “Retail Site Location,” Chapter 18, “Store Layout, Design, and Visual Merchandising”

Having made its mark in the Northeastern United States, Dunkin’ Donuts clearly is the place to buy coffee for many customers. But Dunkin’ Donuts is dedicated to living up to its slogan, “America runs on Dunkin’,” by tripling its total stores and expanding throughout the United States and internationally. In moving into new geographic areas, Dunkin’ Donuts is learning a lot about its customers.

To compete with a Starbucks atmosphere, Dunkin’ Donuts is making the interiors of its stores more sleek. But to stay true to its roots, it brought back Styrofoam cups after customers indicated they preferred the old-fashioned containers to those with a sleeker, newer logo.

The franchise’s market research focuses on psychographic studies investigating customers’ values, attitudes, and interests. For example, is it important for customers to lead an upscale lifestyle? Do people have to use their looks to get ahead? The results from questions that seemingly have no relation to breakfast pastries offer significant insights, including that approximately one-third of the country embraces a down-to-earth attitude and considers itself part of the “Dunkin’ Tribe.”

But these findings also hint at the challenges Dunkin’ Donuts faces, including its efforts to add customers. Even when baked goods sell well, coffee drinkers remain slow to adopt. A regular coffee drinker has a routine, and for Dunkin’ to attract more coffee-drinking customers, it needs to give customers a reason to break their well-established routine.

Although Dunkin’ Donuts may be leaning toward becoming slightly more stylish, it avidly steers clear of any Top 10 Most Stylish retailer lists. Its employees try to remember regular customers’ names and their drink orders, in the hope that coffee will become the bulk of the chain’s sales, which currently accounts for less than 40%, compared with 60% in baked goods.

**Discussion Questions:**

**Why is Dunkin’ Donuts careful of becoming as “stylish” as Starbucks?**

*Dunkin’ Donuts has done market research that showed its core customers appreciated the down to earth atmosphere along with the Styrofoam cups. Customers that are part of the “Dunkin’ Tribe” are from a different customer base than Starbucks’ customers.*

**H&M Launches User-Generated Designs in Sims Partnership**

*Use with Chapter 3, “Multichannel Retailing,” Chapter 11, “Customer Relationship Management,” and Chapter 16, “Retail Communication Mix”*


Does your *Sims* character really look like you? Would it look better if it could wear the same clothing you prefer? H&M, the clothing retailer, and Electronic Arts (EA), the video game publisher, have partnered to feature H&M fashions in *Sims* software. The virtual world already has attracted retailers such as American Apparel and Dell, which maintain virtual storefronts on Second Life. Other retailers also are buying virtual billboard space in video games.

Not only can virtual avatars wear H&M clothing, but H&M will actually draw from virtual designs by users. *Sims* players will hold an online clothing design contest, the results of which ultimately will be sold in the real world. The “Body Shop” on the *Sims* Web site allows users to design clothes to fit a certain theme, whether “party time” or “skate park.” From those submitted, the H&M and EA team will choose 12 designs to feature in a virtual runway show, and viewers will
vote on the winner. That winning design, to be chosen in September, will then be produced for select stores worldwide.

H&M apparently realizes that the popularity of a design among viewers may not translate into commercial viability, but even so, it imagines a brand marketing success. Regardless of which designs ultimately are chosen, the buzz that the contest will create is itself what H&M has always strived to achieve.

**Discussion Questions:**

What is H&M’s new communication strategy?

H&M is marketing its brand and products by making them available in the virtual world. The company also is going one step further by allowing users to design their own H&M clothes that have the potential to be sold in real life. The interactive communication that H&M is fostering through its Sims partnership is unique and new to customers.

What impact do you believe this strategy will have on H&M’s customers? On H&M’s bottom line?

H&M will be able to extend its customer base to people who want to dress their avatars in specific clothing. This ability should encourage new customers to check out the real-world stores. The retailer’s renowned “die hard fans” may enjoy the opportunity to design their own clothes. H&M’s bottom line ultimately will benefit from the marketing and brand awareness produced in the virtual world. In the past, H&M’s new product launches have been characterized as huge successes; therefore, their product launch of the first user-generated product design likely will create the same level of excitement.

**Harrah’s Knows You—and 40,000 Other Customers—Like the Back of its Hand**

*Use with Chapter 5, “Retail Market Strategy”, Chapter 11, “Customer Relationship Management”*


In the 1990s, many competing casinos built more and more decadent structures and features—not a contest Harrah’s could financially have won. Instead, it decided to focus on customer relationship management and customer loyalty and hired a Harvard professor who specialized in relationship management as its COO, as well as various other employees with no gaming experience.

Slot machines and gaming tables are commodities that can be replicated by competing casinos. Harrah’s focused instead on maximizing the lifetime value of its customers. It started by collecting data to use in marketing campaigns and attempting to fill hotel rooms. Harrah’s could calculate the profitability of each customer on the basis of his or her actual wins, losses, visit frequency, play denominations, and playing velocity, or rate. It determined that it wanted to focus on avid experience players, not “high rollers.” Instead, these avid experience players gambled $100–$500 per trip, visited several times per year, and provided $5000 in annual revenue.

From this research, Harrah’s Total Rewards loyalty card program was born. The program identifies four tiers: Gold, Platinum, Diamond, and the highest, Seven Stars, on the basis of the customer’s playing level. Less than 1 percent of its 40 million customers fall into the Seven Stars
category, but this 1 percent is significant for the company’s revenue. Each of the four segments also consists of approximately 90 different groups based on geodemographics, psychographics, and play patterns.

To keep track of the groupings and specific customer details, such as “Tom likes NASCAR, Clint Holmes, thick steaks,” Harrah’s relies on a sophisticated database. Using the database, it focuses on servicing customers and upgrading them to the next level, though it also terminates relationships with customers who are not profitable. Dropping nonlucrative customers saves the company $20 million annually and helps it focus more closely on its true customers.

A key component of Harrah’s customer relationship management is its ability to empower its 80,000 employees to take control of customer satisfaction. Employee performance is taken seriously, encouraging them not just to live up to minimum standards but to really make a difference. According to the COO, “From housekeepers to slot attendants, from valets to stewards, from receptionists to chefs, all employees are told daily as they arrive at work: If your service can persuade one customers to make one more visit with us, you’ve had a good shift. If you can persuade three, you’ve had a great shift.” When properties improve their customer service by 3 percent annually, the company pays bonuses to every nonmanagement employee.

**Discussion Questions:**

How does Harrah’s CRM help it maximize profits?

*Harrah’s CRM allows the company to know each of its customers’ likes, dislikes, preferences, and winnings and then offer them specific promotions and rewards that align with those characteristics. The rewards program is only possible because of the information that it can collect from its CRM. Harrah’s can maximize profits by offering superb customer service, because it knows when and where its customers want to be at a given point.*

Is Harrah’s CRM database a sustainable competitive advantage?

*Although other casinos could start collecting data on customers as well, Harrah’s has a remarkable head start on its competition. Therefore, its CRM activities will likely remain a competitive advantage in the foreseeable future.*

**JCPenney’s Advertising Focus: Not the Clothes**

*Use with Chapter 16, “Retail Communication Mix”*


JCPenney’s former advertising slogan, “It’s all inside,” attempted to send the message that JCPenney stores had everything that a customer could want but also that customers contained everything inside themselves. This second portion of the message did not resonate particularly well. JCPenney therefore has decided to increase its emphasis on emotion—rather than product-focused advertising.

Most companies use product-focused advertising, which means a lot of messages do the same thing. Instead, JCPenney’s advertising team has determined that to “inspire loyalty beyond reason” and develop brands that connect with customers, as Apple and Starbucks have done, they must earn their customer’s love first and the customer’s lucrative business next.
The new slogan, “Everyday Matters,” appears in print and television ads that never mention clothes but rather attempt to build emotional relationships with customers. The campaign focuses on the importance of the person, not the retailer.

At the same time, JCPenney is launching a viral marketing campaign for kids during the “back to school” season, including eight online Webisodes of a series entitled *Flipped*, hosted by clothing designers Chip and Pepper Foster. The series, a reality show taped in a public school, challenges students to join a new group of friends rather than staying within the comfort of a clique. For example, a fashion-obsessed diva gets paired with retro-dressing girls. The retailer hopes the videos will be a YouTube hit, prompting teenagers to send the clips to their friends.

Commercials for the series will play in movie theatres before *The Simpsons Movie* and *Harry Potter and the Order of the Phoenix*. Connected teenagers can opt-in to receive cell phone content from Penney, including style advice and reminders to watch the Webisodes.

JCPenney’s comprehensive advertising campaign appropriately targets each segment of the company’s market. Although these advertising choices are new and experimental, their message already seems to be resonating positively with customers.

**Discussion Questions:**

**What is JCPenney’s new communication strategy?**

*JCPenney is communicating with customers on an emotional level rather than focusing on promoting their clothing. The new strategy also includes connecting with teenage customers by hosting a reality Web show that will satirize the cliques and social groups in schools.*

**Do you believe it will increase sales?**

*Yes, JCPenney’s message, “Everyday Matters,” will help customers connect with the retailer and develop a natural loyalty to the brand. Their loyalty to the brand in turn should increase sales. For teenagers, JCPenney is becoming a “cool” brand, which in itself will increase sales. When teenagers recognize something as “cool,” they develop strong loyalty to that brand.*

**McDonald’s Implements Delivery Service in Foreign Countries**


From its inception, McDonald’s has been known for its strict management policies, which dictated every last detail of running every single store. Yet by the mid-1990s, McDonald’s stagnant revenue growth prompted the corporation to look to its franchisees for innovation and experimentation.

Thus, in 1994, McDonald’s started its first delivery food service in Egypt, where other fast-food chains were already doing it. Customers called in orders, and drivers on scooters quickly delivered the food while it was hot. The initial costs of buying the scooters and setting up the call centers proved an excellent investment that currently is being mimicked by many McDonald’s in large cities throughout the world.

Such successes have meant that McDonald’s delivery business is growing three times faster than the food chain’s overall rate—at 20–30 percent per year. However, the service will likely never emigrate to the United States because of the vast space in even urban areas. In countries such
as Egypt and China, where delivery service is common, labor is inexpensive, cities are congested, and drive-through window space is expensive.

McDonald’s may have essentially the same menu options it has always had, but it also has made some adaptations to keep up with local preferences and trends. In China, corn can be substituted for French fries, fruit smoothies are made fresh in the United States, and in Australia and France, coffee lounges similar to those at Starbucks are common. McDonald’s delivery option in some foreign cities is just one more way that the fast-food chain caters to its customers’ needs.

Discussion Questions:

What type of growth strategy is McDonald’s using in global markets?

It is growing by bringing products to its customers. Its delivery service is necessary for customers who live or work in highly congested cities.

Would this strategy work in the United States?

In addition to the problem of too much land space in the United States, this service probably would not work because most American McDonald’s restaurants already have a drive-through window, and American consumers are known for their love of their cars. Moreover, labor costs in the United States are much higher than in countries such as China, and scooters as a means of transportation are not common forms of transportation, as they are overseas.

Can Niche Retailers Fight Off Big Box Category Killers Forever?


The story is familiar by now: Small, independent retailers across the country struggle to stay in business as Big Box retailers move into town. Companies like Home Depot and Amazon put local hardware stores and bookstores out of business.

Yet one independent, Leesburg Pharmacy, still survives by concentrating on offering special products and customer services to maintain its loyal customer base. Leesburg Pharmacy individually mixes medicines for children in a wide variety of flavors to help them ingest it—guaranteed to be allergen free. Customers value the intimate environment rather than the long lines and crowds at CVS or other chain pharmacies.

But even as the pharmacy fights to maintain its customers, insurance companies have begun paying less and less in reimbursements, and the small pharmacies simply cannot price their drugs as low as the big chains that enjoy volume discounts. Not only are the drugs expensive, but pharmacists are highly paid, earning $85,000–$95,000 annually, which means every prescription costs $10–$12 in salary to fulfill. The labor costs climb even higher when pharmacists must spend time on the phone with insurance companies’ call centers to file a claim.

Although Leesburg Pharmacy is trying to cut costs by using cheaper labels and vials, it cannot cut employees, for fear that customer service would decline. The pharmacy’s profit margins are perilously small and decreasing. Will loyal customers be enough to keep it afloat, or will Leesburg get run over by a giant pharmacy chain too?
Discussion Questions:

What are independent drugstores doing to compete with Big Box stores and Internet providers?

Independent drugstores are competing by offering niche products and exceptional customer service to customers. The independent stores also offer a product that cannot be found elsewhere, thus making it impossible to substitute.

Everything Gets Hotter when the Sun Goes Down

Use with Chapter 3, “Multichannel Retailing”


After hours offers the newest experiment retailers are using to capture customer sales. Most brick-and-mortar retail stores open during daylight hours but close in the evening; Internet retailers, available around the clock, appeal to consumers who want to shop at odd hours.

Many consumers’ lives have become too busy to shop online or browse the Web during the day, because they have family, work, and other obligations. During the evening, people’s lives slow down, giving them a chance to catch up on things they want to do. For others, the evenings seem perfect for online shopping because they lack anything else to do or have trouble sleeping.

Online retailers that recognize these trends offer online night-owl discounts, like 10–20% off between the hours of midnight and 6:00 a.m. For consumers, nighttime shopping removes curbs to indulgence. At night, your defenses are down, you feel like you deserve something, everything looks better, and you just seem to need everything!

So if things get hotter at night, retailers can expect to make a killing when they normally would have been closed. No perfect strategy exists yet, but encouraging shoppers to take time during the evenings, instead of their busy days, could be a great start to this new trend.

Discussion Questions:

Have you shopped online in the late night hours before?

Yes, I have shopped online in the late night hours before, especially if I am having trouble sleeping. There is nothing else going on during that time, so it is a perfect time for me to get caught up on some retail therapy.

Do you agree with the rationale that shopping at night is a different ballgame, because things just look better?

It is easier to make a purchase at night than during the day. Products look more attractive somehow than if I were shopping during the day.

Wall Street’s Perception of Retail Health May Be Unhealthy
Retail performance is rated on the basis of one main metric: same-store sales. The metric makes it easy, because sales in the same store either go up or go down. Yet though same-store sales give some indication of retailer performance, they also represent a one-sided approach to rating overall health.

When shareholders focus on only one retailing component, the retailer must concentrate on that same component: Increase same-store sales. So the retailer engages in a variety of actions to stimulate its sales, even if those actions may not benefit the brand’s long-term image or sales. Same-store sales alone cannot give clear insight into excessive inventory, build-up, hyperaggressive markdowns, runaway advertising expenditures, and so forth.

Therefore, retail executives from companies such as Best Buy, Starbucks, Tween Brands, and Urban Outfitters argue that quarterly results are much more accurate signs of actual performance than are monthly same-store sales. Charming Shoppes no longer reports same-store sales on a monthly basis, only quarterly.

Investors similarly should break away from their tunnel vision and look more broadly at a retailer’s gross margins, changes in working capital, debt levels, inventory turnover, and payables. Or perhaps they could even visit the store to see how the numbers play out in real life.

**Discussion Questions:**

**What is the same-store sales metric?**

*Same-store sales refer to the sales of stores that were open for business during the period before the current period, compared with their sales in the current period. Therefore, the sales by one store of a company are being compared across periods.*

**What is wrong with using same-store sales as a metric for retail success?**

*Same-store sales do not give a total picture of what the retailer is really doing. It involves only a short-term metric that ignores such important factors as inventory management, promotions, and advertising expenses.*

**What should be done instead?**

*If investors are going to use the same-store sales figure, they should complement it with other figures that can put it into context. Retail financial success can be better evaluated by comparing a few metrics rather than focusing on just one.*

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**Wal-Mart Officially Enters India in Joint Venture**

*Use with Chapter 5, “Retail Market Strategy”, Chapter 10, “Information Systems and Supply Chain Management”*


In agreeing to create a joint venture dedicated to wholesale cash-and-carry and back-end supply chain management operations in India, Wal-Mart Stores and Bharti Enterprises are bringing
modern retailing to the country. The wholesale business will provide an outlet to stock kirana stores, fruit and vegetable resellers, restaurants, other business owners, and Bharti Retail.

By sharing its global knowledge and technology in supply chain and logistics, Wal-Mart hopes to make Indian suppliers part of its global export market, while the venture also helps connect farmers, small manufacturers, and retailers with one another.

India thus regards the entrance of Wal-Mart as productive for the country, because it will introduce just-in-time inventory, retail information systems, cold chain infrastructure, GPS truck and trailer tracking, and fuel management systems. Bharti will run the operations at the wholesale warehouses, which will stand at 50,000–100,000 square feet and sell everything from perishables to grocery staples to clothing and consumer durables.

Furthermore, as one of India’s leading business groups in telecom, agribusiness, insurance, and retail, Bharti Enterprises already participates in several joint ventures, which should be advantageous for its success with Wal-Mart in India.

Discussion Questions:

What are the advantages and disadvantages for Wal-Mart in entering India?

Advantages: Wal-Mart is going to set up a modern supply chain and global logistics that will help the mom-and-pop retail stores and farmers connect. These developments should benefit the development of modern retailing in India.

Disadvantages: Wal-Mart could set up a great supply chain and global logistics system and then just open its own supercenters in the country, which would cause local retailers to go out of business.

China Welcomes Wal-Mart’s One-Stop Shopping


Shopping in China usually means visiting a variety of small storefronts and street merchants that sell specific items. But Wal-Mart is changing that retailing experience by offering Chinese shoppers selection, convenience, and service all in one place. The idea of one-stop shopping is a new concept in China, but Wal-Mart thus far seems successful in breaking into the Chinese shopping culture and gaining market share.

In its 78 current locations in China, Wal-Mart is enjoying 30 percent annual sales growth (compared with 2 percent in the United States). The retailer offers many advantages for Chinese customers, including services such as a shuttle bus that travels to and from the store, picking up customers at major hubs. In turn, shoppers can purchase more products, because they do not need to carry their packages on foot or by bicycle. Stores also feature supervised children’s playgrounds so that customers can spend time looking at the selections without worrying about their children.

In terms of its selection, Wal-Mart has brought American favorites to China but also adapted to local customer preferences. Food merchandising and assortments are very different from those in U.S. Wal-Mart stores. Almost all of the food is fresh, with the exception of ice cream or dumplings that need to be frozen. The fish and seafood are alive, swimming in tanks, so that
customers can use small nets to catch their choice. From the popular shrimp tank, customers grab at the most aggressive and fastest moving critters.

Other than Chinese delicacies such as black chicken (charcoal-colored chicken) and mayonnaise and pork dipped buns, the retailer sells popular electronics and space-saving household devices. Portable closets and folding chairs are important in urban Chinese homes that reach a maximum of 750 square feet.

In this emerging economy, Wal-Mart appears a blessing; customers can count on the availability of fresh food and necessities. At the same time, they are intrigued by the shopping convenience that Wal-Mart offers, from shuttle service to in-store salons to child care.

**Discussion Questions:**

Is Wal-Mart's success in China a result of its products or its services?

*Really, its success depends on a combination of both factors. The retailer offers a true one-stop shopping experience, so consumers can find temporary childcare, pick out their dinner, select a new furnishing for their home, and then take a shuttle home. Therefore, it is not just one or the other.*

Compare Wal-Mart's popularity in China with its apparent failures in Japan (see “Wal-Mart in Japan”). Why is its reception so different in these two Asian countries?

*The difference primarily stems from the differences in the economies of the two countries. Whereas Japanese consumers are relatively well off and less concerned about price, China’s economy is still in a transitional stage, which means most consumers appreciate product availability and economical alternatives.*

**Wal-Mart in Japan**

Use with Chapter 5, “Retail Market Strategy”


Despite acquiring Seiyu in 2005 and building a 145,000 square foot, two-level store next to a main commuter train station for Tokyo, Wal-Mart continues to struggle in the Japanese market.

The commuter store offers a wide variety of Japanese delicacies, from mustard green sprouts to whole fish displayed on juniper leaves to blocks of dry ice. It also fuses some American influences, with the low-cost style typical of Wal-Mart.

However, Wal-Mart made some poor early decisions that put a bad taste in many Japanese mouths. It fired 25 percent of headquarters staff, including 1,500 employees and managers, when it took over Seiyu. Mass firings are not normal occurrences in Japan, and the country as a whole took great offense. In the same vein, many Japanese believe Wal-Mart is trying to force American values on them, such as mandating that stores stay open 24 hours per day. Consequently, Wal-Mart receives a lot of bad press, causing the retailer to lose customers.

Although Wal-Mart has achieved success in under-retailed markets such as Mexico and China, Japan is the world’s second largest economy, and Japanese consumers who want high-quality goods are willing to pay high prices for them. Thus, Wal-Mart’s low-price model may not be the best fit for the Japanese market.
Will Wal-Mart abandon the more than $1 billion that it has invested in the country, or will it go forward and attempt to make its expansion a success? American shareholders, concerned about saturation of the U.S. market, are pushing Wal-Mart to grow internationally, but the retail giant may not be able to force a turnaround in Japan. Instead, Japan might join the list, along with Germany and South Korea, of countries that Wal-Mart exited after failed attempts.

**Discussion Questions:**

**What is Wal-Mart doing right in Japan?**

Wal-Mart has situated the Seiyu store in a high-traffic area, near a train station for salaried workers commuting to Tokyo. It also offers Japanese delicacies along with American low-cost merchandising.

**What is it doing wrong?**

It has upset the Japanese culture through mass firings and by inflicting rules on managers that are not conducive to the Japanese lifestyle. For example, stores that are open 24 hours per day are not a normality in Japan.

**Do you believe it will be successful in Japan?**

No, I do not believe Wal-Mart will be successful in Japan, because it has already done too much damage. The Japanese value their societal balance and consider Wal-Mart a nightmare from America. Although the retailer offers good products and low prices, the Japanese are not particularly budget conscious and can go elsewhere to remain loyal to local retailers. Yes, Wal-Mart will be successful in Japan. It has just started off rough. Just as Wal-Mart has been able to turn its image around in the United States, likewise, it will do so in Japan.