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Dear Professor:

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

- Surviving the Bad Times
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- Target Successfully Sells to Hispanics
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ABSTRACTS OF RECENT RETAIL ARTICLES

Surviving the Bad Times

Use with Chapter 5, Retail Market Strategy


Companies can adopt various strategies during an economic downturn, and mature companies likely should follow a different plan than companies that have greater growth potential. This McKinsey report compares the maturity level of companies with their performance using an insightful 2 × 2 matrix.

Mature companies that are performing poorly should focus on consolidating to raise cash, which may mean slowing new store openings or selling off divisions of the company that are not core to its concept. All investments should go to existing stores, which can help increase productivity and ensure their strength as the economy picks up again.

Mature companies that are performing well should instead focus on gaining market share. Marketing efforts should try to increase traffic to the store, and in turn, stores must stock the products that customers want and maintain a sufficient labor force to support the number of customers. The goal is to take sales away from other companies by providing the best value.

For high-growth companies that are performing well, investments should go toward hiring good employees, perhaps by poaching them from other companies that may be facing layoffs. Other investments can go to remodeling stores and potentially acquiring undervalued competitors that might increase its competitive advantage.

Finally, high-growth companies that are performing poorly need to cut costs, reduce labor, and ensure their operations are as lean as possible. This survival mode may include renegotiating contracts with suppliers and outsourcing to low-cost producing countries.

Discussion Questions:

What strategies are available to retailers during an economic downturn?

Mature companies should divest of assets that are not necessary and focus on improving existing stores. These companies can invest in their stores to increase their performance with the goal of gaining market share.

High-growth companies can invest in assets that they otherwise may not be able to obtain, such as talented labor. These companies also need to reduce their direct costs or underperforming labor costs.

Wal-Mart’s Aesthetics

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

Wal-Mart is increasing its aesthetic standard, using a new store design that will appear in remodeled stores. Along with eliminating its famous hyphen (i.e., "Walmart"), Wal-Mart is trying to avoid the feel of discount-style retailing and establish a more customer-oriented experience. The new layout should make it easier for customers to find what they are looking for and enjoy themselves.

In the past, Wal-Mart has used the brown boxes that products were shipped in to set the retail display on the shelf. In the new design, it will keep shelves at reasonable heights and make the products look appealing in the aisles. The more colorful aisles will feature HD TVs that advertise the current promotions around the store.

The individual departments will be better connected, so that customers can find what they are looking for and feel a natural progression through the store. Ideally, customers will find this layout not only more enjoyable but also more efficient, causing them to perceive that their shopping trips take less time. Wal-Mart has already changed its logo to signal its focus on the customer experience; the company now is focusing on remodeling existing stores to boost same-store sales rather than consider new store openings. For example, grocery sections will not host transparent bakery counters, so that customers can watch the theatrical baking process and sense that the products are freshly baked.

Wal-Mart is still filled with the signage, showing the best deals and the low prices on which it built its reputation. The new store design may help move customers through the store, guiding them expressly to promotions and colorful displays. Wal-Mart customers often express frustration at not being able to find what they are looking for or having to wait in long checkout lines. The new store design hopes to change these impressions of an inefficient shopping experience.

**Discussion Questions:**

**What changes has Wal-Mart made to its store layout, design, and visual merchandising?**

*Wal-Mart has made the aisles and shelves more aesthetically pleasing by keeping the shelves less crowded, adding more color to the displays, and using HD TVs to communicate promotions. The signage also helps link departments in the store and guide consumers to the products they want.*

**Why did it make these changes?**

*Wal-Mart found that the shopping experience in its stores was very inefficient, because consumers did know where to find the things they needed. It also wants to make the experience more enjoyable and thus cause consumers to feel as though their shopping trips take less time.*

**Shopping for Consumer Packaged Goods**

*Use with Chapter 4, Customer Buying Behavior*


Depending on the category of goods, consumers shop differently, which means that marketers must be sensitive to these nuances to maintain sales.

For example, customers shopping for bathroom cleaners, bar soaps, dishwashing soap, and cotton swaps tend to buy the same brands they had previously purchased. They generally are indifferent to the brand that they use, and choosing the same brand does not require any thought
process. This approach is called the auto-pilot mindset. Consumers will switch to a different brand only when the product they usually buy is out of stock. Marketers therefore need to recognize the great importance of preventing stockouts, because these situations allow customers to buy another company's product.

In the feminine care products, baby diapers, and other habitual purchase categories, the auto-pilot mindset again dominates. However, if a brand undergoes a change in packaging that prevents consumers from recognizing it, they may choose a different product. Therefore, leading brands should to maintain their look and feel, whereas new brands should work to stick out to compete for the customer's attention.

When consumers buy shampoo, conditioner, body wash, toothpaste, and toothbrushes, they look at the different labels and packaging before making a decision. When shopping for hand and body lotions or air fresheners, they are drawn to attractive packaging, as well as the claimed attributes, such as “age-defying,” “shimmering,” “tanning,” or “aromatherapy.”

Finally, bargains draw customers' attention. The sales of toilet paper, laundry detergent, paper towels, facial tissues, liquid hand soaps, and batteries are all likely to be greatly affected by which products are on sale.

Discussion Questions:

How should retailers market different consumer packaged goods?

*If the brand is a leading brand, it should be leery of changing the packaging so that consumers do not recognize it. Product attributes such as age-defying or tanning are likely to catch a consumer’s attention. Non-leading brands have to stand out on the shelf and offer exceptional packaging to attract consumers’ attention. A discount generally helps consumers switch products.*

Local Food

*Use with Chapter 2, Types of Retailers, Chapter 14, Buying Merchandise*

Julie Schmit, “Locally Grown Food Sounds Great, but What Does it Mean?,” *USA Today, October 27, 2008.*

The newest trend in food retailing is locally grown products, brought about in response to the environmental and increasing financial costs (e.g., fuel) of transporting food long distances. Consumers also express positive perceptions about locally grown products.

In particular, 52 percent of consumers claim it is important to buy local goods, and 23 percent of them consider it important to buy organic goods. The problem is that the term “local” has many different definitions. When they see “local” on their foods, consumers tend to believe that the products are being grown at the farms closest to their homes, whereas retailers adopt a greater variety of definitions to associate with these products.

Wal-Mart defines locally grown products those that come from the same state—including products that must move across the state of California or Texas. Whole Foods considers local products those that are produced within 200 miles of the store. For a product to gain an organic label, it must meet certain standards set by the U.S. Department of Agriculture. For example, no toxic synthetic pesticides or fertilizers may have been used for at least three years on the field in which the crop is grown. However, no standard exists for local products, which even could be using dangerous pesticides.
Locally grown products require the retailer to work with many small producers rather than a few large ones. Therefore, the products are more expensive, because they are not being produced with the economies of scale that large producers enjoy.

Small producers also are less likely to experience food audits, but food-borne illnesses can be detected more easily when there are fewer large producers. Retailers such as Wegmans, Wal-Mart, and Whole Foods require their large producers to pass food safety audits, but they do not yet hold their local growers to the same standards.

Discussion Questions:

What does “locally grown” mean to you? What does it mean to retailers?

Locally grown to me means that the food was grown in the same town, or nearby. Wal-Mart defines locally grown as products that were produced in the same state, no matter the size of the state. Whole Foods defines locally grown as those products that did not travel more than 200 miles or 7 hours to reach the store.

What are the advantages and disadvantages of “locally grown” from the retailers’ perspective? From the consumers’ perspective?

The advantages of locally grown products is that they are not traveling as far as other products and, as a result, not requiring as much carbon emissions. They also may be less costly, because of the fuel savings. However, because local food is a relatively new trend in food retailing, the standards are not consistent. Local growing also encourages small producers that fragment the industry, making it difficult to determine the source of food-borne illnesses.

Do you believe that the way some retailers are promoting “locally grown” is ethically responsible? Defend your position.

No, I do not think it is ethically responsible to use the term “local,” which does not have a standard definition. The locally grown trend is still very new, so once a local standard is set, retailers will be able to promote their local products only if they in fact meet the standard. In the meantime, retailers can claim local growing, even if logically, the products are from long distances. It would be ethical to claim “locally grown” and provide the number of miles that the food traveled, or at least the address of the farm that sourced it. This full disclosure lets the consumer decide whether the product is locally grown or not.

Did McDonald’s Introduce Premium Coffee at the Right Time?

Use with Chapter 5, Retail Market Strategy, Chapter 15, Retail Pricing


In a move to grab market share from Dunkin’ Donuts and Starbucks, McDonald’s recently began rolling out McCafes, which offer espresso-based coffee drinks, from cappuccinos to lattes, with a variety of flavorings.

Yet this introduction also means McDonald’s expects its current customers to find premium drinks appealing, even as many consumers are trading down and cutting back on their consumption habits, such as brewing coffee at home instead of buying it on the way to work. McDonald’s new drinks, though priced lower than Starbucks and Dunkin’ Donuts, sell for $1.99 to $2.99—more expensive than the cheapest burger.
McCafes represent a big move by McDonald’s in its effort to be associated with higher quality. Counters in the new outlets hold fresh bananas as evidence that the drinks are fresh. Although most of the food preparation still gets conducted in the back, out of sight of customers, by showing at least some aspects of it, McDonald’s may convince consumers that their food is fresh and prepared properly.

In advertising, McDonald’s emphasizes a contrast with the “snobby” Dunkin’ Donuts and Starbucks drinks. One actor puts on glasses to look like an intellectual; another admits to ordering a beret to fit in to the other chains’ coffee-drinking environment. Outdoor and print ads instead highlight the lower cost of McDonald’s premium drink.

The introduction of 3,000 McCafes created a spike in sales, but sales have since dropped. McDonald’s is also fine-tuning its recipes, such as using chocolate drizzle instead of chocolate powder. But franchisees still have to pay $100,000 per location—a significant expense in a slowing economy.

Discussion Questions:

Will McCafes be successful?

Yes, McCafes will be successful. Espresso-based drinks and a coffee-drinking culture have developed to point that they are mainstream and marketable to everyone. McDonald’s began offering salads a few years back, which was a big change for a chain known for rather unhealthy foods. This successful introduction led to salads becoming part of the main menu. A product like coffee cannot stay a premium product forever, especially when it is available everywhere.

Buying Merchandise for Stores

Use with Chapter 13, Buying Merchandise


One of retailers’ biggest problems pertains to buying the right merchandise for the right customers and having it available to them for sale at the right time. As retailers grow bigger, it becomes harder for them to cater to specific interests, and they move from a local buying approach to a centralized approach.

Among the several benefits that large retailers enjoy, their greater scale enables them to negotiate better prices and terms. Therefore, by centralizing their purchasing, these retailers ensure that all their stores contain uniform offerings. Customers thus know they can rely on Home Depot to stock hammers, every time they visit their local store. In contrast, a retailer that varies its assortment dramatically and constantly may just confuse consumers.

Yet in a country as diverse and large as the United States, consumers represent many different climates, cultures, and local tastes and preferences. In Arizona, customers expect their local Home Depot to have stucco repair kits; in Maine, they want snow shovels. It does not appeal to people in Arizona when snow blowers are on sale. Therefore, localized stores can make customers more loyal to the retailer.

In this, retailers face a serious dilemma between complete centralization and total localization of their buying departments. Home Depot tried consolidating its nine regional buying offices into one central office, only to find that this approach hurt its business. It then analyzed demographic
information and customer preferences to establish 30 different types of Home Depot stores. Regional merchandise teams travel back and forth, from the central buying office to local regions, to ensure that the local stores could choose the specialized products and suppliers that they, and their customers, wanted.

Home Depot’s new hybrid system appears to have proved successful; its gross margins have grown in the past three years. A fine line marks the appropriate mix in the buying system, as JCPenney recently learned as well. The retailer had to consolidate its buying center into a more centralized system, because its assortments were never predictable and differed too much from store to store.

**Discussion Questions:**

Should retailers like Home Depot use a centralized or a decentralized approach to assortment planning?

*Retailers should use a hybrid of the two approaches to assortment planning. By having a centralized office, the company can obtain the best terms and prices on its products, as well as control the uniformity of the assortment. However, it also needs to get input from local regions so that customers do not feel like they are walking into a generic store that will not carry the location-specific products that they may need.*

**Macy’s vs. Marshall Fields**

*Use with Chapter 2, Types of Retailers, Chapter 16, Retail Communication Mix*


When the Macy’s department store chain bought the May Company department stores, its first move was to rename all of the different chains, ensuring one brand and one strategy. This move meant that more than 800 Macy’s department stores dotted the United States. But Macy’s failed to understand that department stores can gain value through their customer service and sensitivity to the local environment.

Included in the Macy’s acquisition were many flagship stores that had become institutions of their cities. Even Marshall Fields most famous flagship store on State Street in Chicago became a Macy’s. The landmark department stores employed experienced sales people who maintained longstanding relationships with fiercely loyal clients. Marshall Fields also carried tremendous nostalgia for Chicago customers who considered it “their” store.

The Macy’s transformation was more than just a name change. Experienced salespeople were replaced with younger, inexperienced employees who received a minimum hourly wage with no commission incentives to help customers. Macy’s eliminated holiday traditions, and then sent Marshall Fields credit card holders a new card emblazoned with the Macy’s name. Local patrons felt like a precious connection had been ripped apart.

Chicagoans continue to protest, calling for the State Street Macy’s to revert back to Marshall Fields. Yet a name change at this point would not change the way the store is run; the differences between the two stores runs much deeper.

Macy’s strategy was to operate more efficiently by scaling back and consolidating. For example, its current nationwide ad campaign, featuring celebrities like Martha Stewart who endorse
exclusive products for the chain, would not have been possible if the stores all used different names.

**Discussion Questions:**

**Why did the Macy’s strategy not ring well with Chicago customers?**

*Chicago customers had grown to prefer the services that Marshall Fields offered. The new Macy’s strategy was a “one-size-fits-all,” nationwide approach, and customers felt like they had lost their existing relationships. The employees that they had worked with for years were replaced, and the store did not continue to support events that local patrons enjoyed and valued from the brand.*

**Private Label Brands in this Economy**

*Use with Chapter 14, Buying Merchandise*


It is the middle-market retailers that are having the hardest time attracting customers, because they represent neither luxury nor discounts. For example, department stores tend to get stuck in this middle, and they suffer the most during a suffering economy.

Customers shop for items that are low-priced or products that offer them a good reason to make the purchase, such as representing a popular trend, brand, or hype. With neither type of appeal, Kohl’s, Dillard’s, and JCPenney have suffered significant drops in their same-store sales from last quarter. In an attempt to improve these rates, department store retailers have begun focusing on exclusive products that they might brand for themselves.

A recent Kohl’s ad campaign, featuring Lenny Kravitz and Hayden Panettiere, highlights its private-label merchandise, including its new line, Abbey Dawn, inspired by pop-rock singer Avril Lavigne. JCPenney now offers a line designed by Kenneth Cole, called Le Tigre, and one designed by Baby Phat designer Kimora Lee Simmons, called Fabulosity. JCPenney also debuted its American Living brand, designed by Ralph Lauren, earlier this year. With all these brand names flying about, at least one of them must attract customers—or so the retailers hope.

In contrast, Wal-Mart continues to perform well because customers still can depend on finding the lowest prices. And yet even this discounter is introducing brand names to boost its sales. It has purchased exclusive rights to l.e.i., which previously sold in department stores.

The private-label strategy seems successful, but retailers must also count on discounts. They simply cannot give customers enough reasons to shop. As all consumers’ wallets shrink, the retailer with the most perks will earn the most customers. By combining a brand name and a low-price strategy for example, TJ Maxx actually has enjoyed an increase in same-store sales that it expects will continue. Customers know that the brand name products they find at TJ Maxx are just plain priced for less than they would be at other stores.

**Discussion Questions:**

**Are brands important when choosing a retailer?**

*Yes, brands are important, because they evoke an additional feeling toward a product. A brand can signal a level of quality; a celebrity-endorsed brand might make a consumer recognize a*
Retailers that can exclusively carry a brand that customers want will be able to gain sales, especially in a poor economy when customers only spend money on things that they really need.

Where to Draw the Line with Technology

*Use with Chapter 17, Managing the Store*

“On the Clock: Are Retail Sales People Getting a Raw Deal?,” *Knowledge@ Wharton*, October 1, 2008.

Ann Taylor’s new scheduling system helps staff its stores more efficiently. But is this tool, often used in other retail environments, really the best choice for this specialty women’s apparel retailer?

Scheduling systems aid fast-food outlets, grocery stores, and Wal-Mart—industries in which the labor required does not change from one person to the next. Therefore, the stores need to increase labor during peak times and decrease the staff during slow times. However, Ann Taylor uses the system to place its best employees or those that have the highest sales per hour in the stores during peak times, leaving weaker employees for the slow periods. This strategy has several, perhaps insufficiently examined, implications.

First, by segregating the best employees, the system may cause a tremendous amount of animosity among the staff. In a sense, employees are being publicly humiliated. At the same time, the underperforming employees are not receiving any increased training to boost their sales, which means the best employees will continue to increase their sales (because they get to work the busiest times), whereas the rest of the staff will sell less and likely lose motivation to the point that they decide to switch jobs.

Second, the system varies employees’ schedules, so they cannot depend on a fixed number of hours. Employees have outside engagements and expenses that they have to pay. A system that dictates that they will work 8 hours one week and 35 hours in another does not make practical sense for them.

Third, though the goal of allocating employees according to their abilities is to deliver the best service to customers, the system may not do so accurately. In particular, if underperforming employees lack motivation or enthusiasm for their job, their attitudes are likely poor, which can make a customer leave the store entirely.

Furthermore, to achieve the recognition of being a top employees, the staff must increase their sales. Therefore, employees may act like vultures, swooping down on every customer who walks in the store or hustling customers through the buying process to make a quick sale. Employees motivated in this sense probably express their uncritical appreciation for everything that a customer tries on, which creates distrust and perhaps a less enjoyable store experience. In this case, Ann Taylor has likely lost a customer.

Discussion Questions:

What are the advantages and disadvantages of computer scheduling systems?

*Advantages: Computer scheduling systems help distribute labor costs according to peak or slow periods during the day. Computers can optimize the labor pools so that there are not a lot of employees waiting around, doing nothing, during slow times, nor is there frantic understaffing during peak times.*
Disadvantages: These computer systems can lower employee morale and motivate employees to focus only on increasing their sales figures for the month, rather than meeting the needs of the customer. Employees that have low morale may even leave the company or not try very hard. Customers who experience “vulture” employees likely will not return for more abuse.

Radio Shack’s New Retailing Strategy

Use with Chapter 5, Retail Market Strategy


According to a recent press release, RadioShack has initiated an exchange program that will enable consumers to earn gift cards by turning in their used electronics. Adopting a consignment-type approach, the specialty retailer may be able to organize this process in its favor.

Many consumers would love some extra cash for the holiday season, so the timing of this announcement reflects some clever marketing. In addition, it provides recycling of no longer used electronic products, purchasing power for consumers at RadioShack, and more customers in stores.

The trade-in process can even be conducted totally online. Consumers indicate the product they will trade in, its condition, and any accessories included, and the site returns a calculated value. A printed shipping label allows the customer to ship the item for free, then receive a gift card or store credit in return.

RadioShack is acting as the intermediary in the trade-in process with an electronic recycling company. Consumers otherwise may not know about the trade-in program. The money that consumers receive for their electronics is substantial enough that a consumer could use their gift card to buy something at RadioShack without spending any of their own money. For RadioShack, they see even this as a benefit because they can offload inventory for the season, develop store traffic, and long term brand equity so that customers in the future will shop at RadioShack.

Retailers that can help consumers come up with some extra spending power should benefit. The result is not just a relationship with the consumer but also an image of caring, not just trying to rip off consumers on their next electronics purchase. Consumers are likely to be able to find something at RadioShack that would make a great gift for someone else or something that is cool.

Discussion Questions:

Why is RadioShack accepting trade-ins of consumer electronics?

RadioShack is helping consumers find extra money to spend in the own store. As the holiday season approaches, consumers are likely to find a lot of attractive purchases at RadioShack.

Would you use the RadioShack Trade-in program?

Yes, I have a lot of electronics that I no longer use, so I could take advantage of recycling the product and getting some dollar credit in exchange. Although I may not be looking for another electronic product in particular, I am likely to find something that I would to spend the extra dollars on at RadioShack.
Target Successfully Sells to Hispanics

Use with Chapter 4, Consumer Buying Behavior


Many retailers have tried to target the fast-growing Hispanic market, but few have successfully achieved this goal throughout their organizations. For example, retailers might run advertising campaigns targeted toward Hispanic customers, but the in-store experience does not deliver any of this promised value.

Target’s most recent advertising campaign, called “Dream in Color,” features successful Latinos including Selma Hayek and Emilio Estefan sharing their stories. Target previously has recognized Black History Month, Asian Pacific Heritage Month, and Hispanic Heritage Month—separately. This new campaign attempts to bring everyone together.

The Target in-store experience then tries to continue this theme with bilingual signage and the addition of Hispanic brands such as Herdez, Goya, and Nestle. The goal is to not section off part of the store for Hispanics but rather to integrate these products throughout the existing store layout. Retailers such as Home Depot, which is also targeting this market, need to understand cultural differences to form emotional connections.

Coca-Cola enjoys the strongest brand loyalty among the Hispanic market. It began its Tienda program in 2004. Tienda provides marketing and sales support to small mom-and-pop retailers and supermarkets; then Tienda 2.0 targeted Hispanic moms, teens, and blue-collar men. The Tienda program runs in 15 markets in the United States, covering 66 percent of the U.S. Hispanic population.

Discussion Questions:

What are retailers doing to appeal to the Hispanic market?

Retailers have Hispanic brands mixed throughout the store as well as bilingual signage. They are communicating this value through televised advertising with successful Latinos.

Why do retailers believe that this market requires special attention?

The Hispanic market is a fast-growing segment. Retailers that can appeal to their interests and needs may be able to acquire them as customers.

The New Plan for Starbucks

Use with Chapter 5, Retail Market Strategy


Starbucks is on the road to revival. The company had rehired its former management and plans to focus on new urban locations, as well as redesigning its store interiors. Of Starbucks’ 17,000 stores, it has closed 600 in the United States that did not meet the threshold for the quality location that the retailer normally demands.

Starbucks has developed a brand based on the customer experience. With increasing competition from Dunkin’ Donuts and McDonald’s, long waiting lines, and a struggling economy
though, its brand strength has fallen, and consumers appear to be wondering why they are paying a premium for coffee.

In response, Starbucks is focusing on urban locations that have a saturated coffee market, because these tend to be the areas where affluent young professionals live and fancy coffee drinks are still trendy. Along with better real estate decisions, the stores will adopt new designs, with energy-efficient lighting, furniture made from sustainable materials, and art on the walls showing the company’s high-quality coffee heritage.

The company believes it is ideally positioned for the recession, because people can go to Starbucks stores as places to socialize or do some work, and the environment will foster a positive experience. The new design also will offer community tables, conducive to human interaction. A Starbucks executive notes that people who spend a lot of time in front of their computers yearn for human interaction.

Starbucks also will reinforce its brand through stores that sell only coffee and high-end espresso beans and Frappuccinos—just as the original Pike Place Market in Seattle operated. Through this comprehensive effort spanning store design, locations, and store offerings, Starbucks may be able to revive its brand image as the best coffee experience.

**Discussion Questions:**

**What has Starbucks been doing wrong?**

*Starbucks grew too aggressively, opening locations in substandard locations and not keeping focused on the customer experience.*

**What is it now trying to do right?**

*Starbucks is closing some of the subpar locations and finding only the best urban spots for its stores. It is also redesigning the interior of the stores to give a “green” image and make them more conducive to socializing, as well as less cumbersome for ordering. To revive its brand image, it will sell only high-end espresso beans and Frappuccinos in certain stores, which will remind customers of what Starbucks once was.*