July 2008

Dear Professor:

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

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Wal-Mart and Fashion

Use with Chapter 5, Retail Marker Strategy, Chapter 14, Buying Merchandise


If Wal-Mart can get shoppers to think of it as an apparel destination, it could help drive earnings. The retail giant has tried moving its apparel from basics to fashion.

Its first attempts largely failed; the prices were out of reach for Wal-Mart shoppers, and skinny jeans generally do not flatter its core customers. Because fashion apparel earns 30 percent higher profit margins than most other merchandise Wal-Mart sells, the retailer is trying again, offering styles and prices within an appropriate range, cleaning up its apparel department, and trying to make the buying situation inviting for customers.

Based in New York, Wal-Mart’s apparel division works closely with designers and functions in a trend-conscious environment. Along similar lines, the company has hired executives from The Gap to offer fashion merchandising ideas.

Norma Kamali, the well-known designer of jersey garments for Bloomingdale’s and her own line of sportswear in high-end stores, now works with Wal-Mart, as does Op, formerly Ocean Pacific. A 1980s mainstay, Ocean Pacific is now re-launching its brand exclusively for Wal-Mart with casual clothing for everyone. Kristin Cavallari, star of MTV’s Laguna Beach, and musician Pete Wentz appear in ads, surfing or riding bikes and demonstrating the casual appeal of the clothes.

When back-to-school season starts, Wal-Mart will feature a “10-10-10” plan: Offer basic apparel in 10 bright colors, 10 of each in stock, and at prices of $10 or less. Previous clothing collections from the George collection included tailored tweed skirts and knit sweaters, priced in the high $30s. The new fashion-conscious approach to apparel, without trendy pieces, should ring well with its customers.

Discussion Questions:

Why did previous attempts to offer fashion apparel at Wal-Mart fail?

Wal-Mart failed at offering fashionable apparel because its prices were too high, and the merchandise mix was not in line with what its customers wanted.

What is the retailer doing differently this time to attract fashion-conscious customers?

Wal-Mart is offering clothing at lower prices and providing a more casual merchandise mix. Its is also aligning its clothing with well-known stars who will be recognizable to customers.

Do you think it will be successful? Why or why not?

Yes, Wal-Mart will be successful, because it is offering casual clothing associated with a star from MTV, but all items will cost less than $10.
From Cookie-Cutter to Customization

Use with Chapter 5, Retail Market Strategy, Chapter 14, Buying Merchandise


Macy’s CEO, Terry Lundgren, set out to consolidate the department store industry by buying rival May Company and renaming all of the outstanding names—such as Robinson’s, Kaufmanns, and Marshall Field’s—as Macy’s. With the consolidation, Macy’s planned on synergy and cost savings in its marketing costs, as well as increased power with its vendors.

What it did not plan on was a same-store sales decline of 1.3 percent in 2007. Plain-spoken Chicagoans, for example, voiced their anger in no uncertain terms when the new owner converted the landmark State Street Marshall Field’s into a plain old Macy’s. Macy’s soon decided to revamp its strategy of rolling out the cookie-cutter approach across the country and switched to an effort to bring a local atmosphere to each of its stores, but the new concept has required a slow process.

Among the combined company’s more than 800 stores, it will focus first on stores in major cities, such as Chicago and Seattle. Instead of consolidating purchasing, 15 percent of merchandise in stores will reflect local preferences, as determined by local executives. From a management perspective, Macy’s will lose central control to the local markets.

Perhaps Macy’s should have checked with other retailers; Best Buy and Wal-Mart know that consumers want to find a unique, appropriate selection in their local stores. Without this selection, consumers will turn to their various other options available through the Internet.

If Macy’s can successfully localize even a small percentage of the store, it should ring true with customers, yet its size hinders this strategy. Bloomingdale’s, also owned by Macy’s, has a clear understanding of the developments in all 40 of its stores nationwide. However, for more than 800 Macy’s stores, it is more difficult to have a clear understanding of what exactly is going on.

The local approach depends on local executives staying in touch with local customers and sales associates and gaining a strong understanding of what is going on in the market. Of course, local executives will make mistakes in displays and product choices, but they are more likely to learn from these mistakes going forward than anyone else would. In Chicago, Macy’s has already started to sell merchandise by local designers.

Discussion Questions:

How and why is Macy’s changing its assortment strategy?

*Macy’s is changing its assortment strategy because its same-store sales have dropped from the previous year. The department store wants to offer its customers products that they cannot necessarily buy on the Internet and customize its offering to meet local preferences. There are many shopping options available to consumers today, so Macy’s localization strategy aims to give customers a reason to choose Macy’s over other retailers.*

How might Macy’s have avoided its mistake in trying to use a one-size-fits-all strategy after purchasing other retail chains?

*It appears that Macy’s should have done more market research, with both customers and other retailers. Customer research could have shown Macy’s that locals identify with their local stores, especially well-known ones like Marshall Field’s in Chicago. Competitor research would have indicated that many retailers try to differentiate their offerings to meet local consumers’ tastes.*
2008 Retailer Stars

Use with Chapter 2, Types of Retailers


While many retailers are closing stores, declaring bankruptcy, and struggling to keep the lights on, others are well positioned for these challenging economic times. The International Council of Shopping Centers forecasts that 5,770 stores will close this year, likely including The Sharper Image, Bombay Company, Ann Taylor, Liz Claiborne, Talbots Men, and Talbots Kids.

Retailers that sit in the “middle” in terms of pricing and product selection appear more likely to have a hard time of it, because consumers simply do not need to buy an average item. Products that either represent the high end or offer great value will be the ones that consumers either find exciting and special enough to buy or absolutely need.

Thus, Wal-Mart is collecting Target customers who are ready to trade down for the basics. Target performs well in its home furnishings and apparel categories, but in tough economic times, customers do not spend their discretionary income in either of these categories. Rather, they save for food and other nondiscretionary items, which Wal-Mart offers to customers for the lowest price.

Urban Outfitters and Anthropologie also are expected to do well in the modern environment, because their artsy merchandising, with unique displays and funky clothing, should stand out from the retailing crowd. Their excellent customer service and flashy assortment should grab people’s attention.

Costco, a warehouse club that allows customers to buy in bulk for volume discounts, offers affluent customers the appeal of a treasure hunt approach; its assortment is always changing. The great deals may apply to a high-end item like diamond jewelry, but affluent customer still see a good value, just as they consider buying a giant box of cereal a bargain.

Finally, luxury retailers with an international presence should have the best time in 2008. Tiffany & Co., for example, can almost always sell its products to affluent customers who still need to buy wedding gifts and birthday presents for the important people in their lives. The tradition of birthday gifts persists even when times are bad. Tiffany might suffer in its affordable luxury product sales, but it likely can substitute for those losses with sales to international customers, who continue to buy the little blue boxes.

Discussion Questions:

Which retailers are doing well during the recession?

Wal-Mart, Urban Outfitters, Anthropologie, Costco, and Tiffany & Co. should all enjoy success.

What do these retailers have in common?

Retailers that will do well offer exceptional merchandise, whether high-end or unique. These retailers also offer good value, whether for nondiscretionary goods or a piece of jewelry, in the minds of their consumers.
Personalization on the Web

Use with Chapter 16, Retail Communication Mix


Have you ever been too late for a promotion? Ever wished that you could have all of the most interesting special offers in one place instead of spread across your mailbox, newspaper, and e-mail inbox? iStorez has the solution: The company personalizes and consolidates the variety of messages that consumers might receive.

iStorez collects shopping newsletters, published by hundreds of retailers and brands, and organizes them for the consumer. The consumer can then determine his or her preferences in an online “storefront” that features the special offers in which he or she might be interested.

The software that iStorez uses turns e-mail newsletters sent by retailers and brands into glossy promotional displays, similar to a fashion magazine. Consumers can quickly search through the content and view attractive ads. The site then receives a commission for any sales that it generates for the brand or retailer. Retailers achieve a greater conversion rate on their advertising, because iStorez repackages the information for consumers who are actually interested in their offers.

Although iStorez has access to the same information as shopping comparison sites, other sites sort products on the basis of their price or descriptive characteristics. Instead, iStorez customizes the information according to the consumer’s profile, developed from what the consumer has bought in the past and mentioned as interesting.

The company ensures that it provides the most up-to-date content so that consumers never receive expired promotions. Future versions of the software will integrate community-building capabilities so that customers can share their profiles with other consumers and provide wishlists.

Discussion Questions:

What is iStorez?

iStorez is software that sends consumers the promotions in which they are interested in a creative advertisement.

How does iStorez benefit consumers? Retailers?

Consumers benefit because they receive valuable messages about products and retailers that attract them. They likely will be happy to take advantage of promotions that they otherwise might not have known about. Retailers will benefit from a greater conversion rate for their advertising dollars because iStorez redirects the advertising information to the most interested consumers.

How does iStorez make money?

iStorez earns commissions on the consumer traffic that it sends to the e-retailer.

Would you use iStorez? Why or why not?

Yes, I would use iStorez because it can help me find all the promotions that I would be interested in by putting them all in one place. Currently shopping comparison sites are price skewed and do not really provide a valuable array of information. Personalization based on my own preferences would also be very useful.
Some Retailers Profit in Bad Economic Times

Use with Chapter 2, Types of Retailers, Chapter 5, Retail Market Strategy


In poor economic times, there is little that retailers can do to encourage consumers to continue to shop. But a depressed economy does not mean consumers stop buying; they just have to change the ways in which they spend their money. Because of the multitude of choices available to consumers, such that the same products appear in both high-end and low-end versions, consumers often “trade down” to a lower-end option and recycle in recessionary periods.

For example, The Children’s Orchard, which sells used name-brand children’s clothes, toys, and furniture, enjoyed a 5 percent increase in sales last year, to $20 million, and already has experienced another 5 percent increase in sales this year. The worse the economy becomes, the more business this retailer earns from customers. Customers sell back clothes that their children no longer wear and purchase what will be most useful for their families.

This trend toward recycling or reusing considers it as a savvy way of shopping rather than a frowned upon practice. The Children’s Orchard offers brand name clothing from GAPKIDS, Gymboree, Fubu Kids, Tommy Hilfiger Kids, and Ralph Lauren at 40–80 percent less than their retail prices. When the economy is good and they have plenty of discretionary income, consumers buy these brands from authorized retailers, but when their spending must come down, The Children’s Orchard offers a great value.

Retailers or resellers that offer a good value and know what their customers want are the ones that succeed, regardless of the external environment. Off-price retailers like TJMaxx consistently offer name brands for lower prices. The overall growth of retail sales in 2008 are expected to be approximately 3.5 percent, but growth in the multibillion dollar resale market should reach 5 percent or more this year.

Discussion Questions:

Why are used merchandise stores doing particularly well?

Stores that sell used merchandise offer quality brands that are in great condition at significantly lower prices. Consumers can get the products that they need and want for a lower price than they would have to pay if they bought from the retailers that they normally patronize.

What other types of retail stores might do well in a recession?

Stores that likely do well in a recession include off-price retailers and discount stores like Target, which offer quality merchandise at lower prices.

Organic Clothing

Use with Chapter 4, Customer Buying Behavior

As they achieve greater awareness of the impact of their purchasing decisions on the environment consumers are demanding more organic clothing. High-end designers like Stella McCartney and Linda Loudermilk have long sold environmentally friendly clothing and shoes to luxury customers. Edun and Fair Indigo launched lines of fashionable, organic clothing. But the organic clothing trend is growing more popular and soon should cover many niches.

For example, the retailer Nau is raising the standard for green clothing. Rather than considering just the fabrics, this company ensures that the production process is safe; it avoids, for example, the toxic dyes that color most bright clothing. Another company, Flocks, enables consumers to visit its Web site (www.theseflocks.com) to obtain information about the precise sheep, goat, or bunny that provided the fabric for a garment. For example, a label might indicate its wool is “Courtesy of Nicole, an alpaca living in Great Britain.”

Four types of customer segments appear in the organic clothing market. The first includes consumers who eat only organic foods, are interested in environmentally friendly lifestyles, and shop at thrift shops to recycle clothes. The second segment contains fashionistas who want organic clothing to create a trendy, stylish image of being eco-chic. The followers, the third consumer segment, will buy green clothing because everyone else is doing it. Finally, the fourth consumer segment wants to buy green clothing as a status symbol that connotes luxury and exclusivity (e.g., a limited edition Stella McCartney).

Despite their differences, all these consumer segments consider buying green “cool”—just in different ways. Buying green fashion may seem a contradiction in terms though; by definition, fashion involves planned obsolescence, or a point at which the item is no longer fashionable.

As the economy softens, the first thing many consumers reduce is their clothing expenditures. Although many consumers claim to be willing to spend more for green clothing, the poor economy may alter this notion as consumers find themselves needing to trade down in their purchases.

**Discussion Questions:**

What are the four “green” customer segments?

(1) Consumers who eat only organic foods, are interested in an environmentally friendly lifestyle, and shop at thrift shops; (2) fashionistas who want some trendy organic clothing; (3) followers who buy green clothing because everyone else is; and (4) status-conscious consumers who buy green clothing to connote luxury and exclusivity.

Why is buying green fashion an oxymoron?

*Fashion is designed to become obsolete; green ideals prioritize recycling and sustainability.*

Do you buy green fashion? Why or why not?

No, I do not buy green fashion, because the merchandise costs more than other garments that I would otherwise purchase.

Yes, I buy green fashion because the clothing is trendy as well as good for the environment, which allows me to make a positive impact.

**Retail Payroll versus Sales**

*Use with Chapter 17, Managing the Store*

The first thing that retailers do in bad economic times is cut costs. For managers, cost cuts usually mean decreasing in-store staffing. Large retailers attempt to achieve payroll goals determined as a certain percentage of sales, so if sales are expected to be down, staff must be adjusted downward as well to avoid a negative effect on profits.

Yet according to a study of a large retailer with more than 250 stores, the effect of in-store staff on profits does not match companies’ intuition. Although the store’s appearance and bathrooms remained satisfactory even when the store had fewer staff, these standards did not drive profits. Many store managers see store cleanliness rankings on their evaluations, so if the store stays clean with fewer staff, their evaluations remain high while they also maintain the preferred payroll-to-sales ratio.

But if cleanliness does not change with staff level, the amount of stock left in the storeroom, instead of retail shelves, does. Items therefore appear out of stock, because no more are available on the shelves, even though more was stock was in the back. Another task that suffered pertained to the percentage of obsolete merchandise that needed to be returned to the distribution center but was not.

As these results show, more staff helps improve the backend operations of the store. By stocking shelves and returning old inventory promptly, stores can enjoy profit increases of 4 percent through replenishment and 3 percent through returned merchandise. It appears managers need to revisit which tasks get ignored when staffing levels are low and schedule employees on the basis of workload rather than sales.

**Discussion Questions:**

*Why is maintaining the payroll as a percentage of sales not an effective metric?*

*When the payroll is kept consistent with sales, the store’s efficiency can suffer as sales decrease. An understaffed store probably has excess inventory in the backroom that should be on the retail shelves and obsolete inventory that needs to be returned to the distribution center.*

*What is a better metric for payroll in increasing profits?*

*Payroll should be calculated on the basis of the workload in the store. Out-of-stock incidents and obsolete inventory affect profits, even when the sales of the store may be down temporarily.*

**Tesco in the U.S.**

*Use with Chapter 2, Types of Retailers, Chapter 5, Retail Marker Strategy*

*Bruce Horovitz, “British Hits America with Fresh Ideas,” USA TODAY, April 6, 2008.*

Tesco, the British grocery store, entered the United States with its Fresh & Easy Neighborhood Markets. Prior to opening these stores, Tesco conducted extensive research on American consumers, yet it still is not meeting its sales goals. Forced to keep working out the kinks, Tesco is trying to learn more about its U.S. consumers.

Fresh & Easy stores are approximately the size of Trader Joe’s outlets, with lots of natural foods and low prices. In the United States, grocery stores typically pursue either high quality or low prices, not both combined. In contrast, Fresh & Easy’s offers prices approximately 30 percent lower than those in conventional grocery stores, and its private-label brand, which encompasses approximately half the products on shelves, is all natural with no artificial ingredients or
preservatives. However, stores also stock such favorites as Coca-Cola and Kraft products among their 3,500 items.

The strategy that Fresh & Easy follows focuses on being fresh and convenient, but it may not be communicating this value in a way that consumers understand. All fresh food sold in the stores is dated, locally sourced, and wrapped in plastic trays with expiration dates. Although the packaging provides a great way to maintain food quality, few consumers are accustomed to it. In its Kitchen Table area, shoppers can even ask cooks to make items to sample them before they buy.

The easy-to-navigate stores feature aisles wide enough for three carts. There are no cashiers but only self-checkout stations. Americans may be used to seeing some self-checkout stations, but the absence of cashiers altogether is a new concept that may imply lower service. Finally, prices are all as marked, and there are no loyalty cards. Although the stores offer tremendous cost savings to consumer, those used to carrying loyalty cards may view the pricing model as higher priced because they do not earn discounts.

It appears that Fresh & Easy may be a bit ahead of its American customers, but perhaps that represents the right track. Conventional grocery stores are updating their product offerings; Whole Foods has gained market share by offering great quality but at high prices. Consumers will likely grow to love the offerings of Fresh & Easy, but right now, they simply do not trust what the chain has to offer.

**Discussion Questions:**

How might Fresh & Easy develop a sustainable competitive advantage?

*Fresh & Easy has started with a concept based on high quality and low prices, which is a great position for the grocery market. To develop a sustainable competitive advantage, it should continue to study its American customers to communicate with them better and ensure it offers what these customers want.*

Why does it seem to be flounderig?

*Tesco has had a rough start in the United States for several reasons. Its concept may take some time for consumers to accept; for example, its self-checkout and lack of loyalty cards may give customers the wrong perception. Others may suspect the quality of the food because of the low prices. Consumers need to gain a trusting relationship with the retailer, which should allow more consumers to discover the Fresh & Easy concept.*

**Target’s Strategy Becomes Mainstream**

*Use with Chapter 5, Retail Market Strategy*

*Sandra M. Jones, “Rivals Take a Bite Out of Target,” Chicago Tribune, March 9, 2008.*

Fashion once was the exclusive provenance of high-end stores that offered high fashion at high prices. With the emergence of the Internet, fashions can be replicated so quickly that designs are accessible to the mass market. Target was the first retailer to begin marketing trendy apparel and home goods to the masses by bringing in well-known designers such as Isaac Mizrahi, Michael Graves, and Proenza Schouler from the high-fashion world.

The competitive advantage of offering low-priced goods that also were attractive has been duplicated by many retailers, including Wal-Mart, Kohl’s, JCPenney, and H&M. Analysts even argue that Target has lost its business focus because it no longer can claim to be the only player in the fashionable market. Everyone is now its competitor.
Target’s fashion movement was started by Isaac Mizrahi, who will be ending his partnership with the retailer this year. However, through its Go International program, emerging designers will create limited-edition lines for Target every three months. Mizrahi products represent approximately 3 percent of Target’s apparel and accessories business. After his departure, limited-edition lines are expected to cover these sales.

The fast-fashion retailer H&M offers exclusive lines by celebrities such as Madonna and Roberto Cavalli. Steve & Barry’s, a college sports team apparel retailer, hired Sarah Jessica Parker to create a line in which all pieces are priced below $20. JCPenney has partnered with Ralph Lauren to create the American Living line. The largest discount store in the world, Wal-Mart, has also entered the fashion space by hiring Norma Kamali, an iconic sportswear designer who previously designed a line for Bloomingdale’s, to design a line of house wares and clothing.

Although Target may have to find new ways to create excitement, greater fashion awareness among its customers can only be beneficial. Its emerging designer lines are likely to be even more unique than its previous designer merchandise, perhaps enabling it to regain its competitive advantage.

Discussion Questions:

What are retailers doing to compete with Target?

Many retailers are recruiting well-known designers and celebrities to produce exclusive lines for them, similar to Target’s groundbreaking collaboration with Isaac Mizrahi.

How is Target’s profitability being affected by increased competition?

Target is feeling a crunch as competition heats up in the fashion world and the fashion market becomes bigger and bigger. Although its profitability is down now, Target is launching new limited-edition lines that will be unique and likely to attract its customers.

Social Networks

Use with Chapter 16, Retail Communication Mix


The online world continues to evolve, and though the scope of social networks is huge, their revenue-generating potential remains unproven. MySpace and Facebook have earned large valuations but still do not offer a clear picture of where the companies plan on going.

The multitude of social networking sites—Orkut, LinkedIn, flickr, and bebo, to name just a few—are not compatible with one another, so any connections users make in one network must be redeveloped on others. Although this limitation is likely to disappear as social networking becomes more integrated in users’ Web activity, current valuations are based largely on page views and number of users. Thus, a consolidation among networks would make the current model obsolete.

Social networking sites offer great potential because of the enormous crowds that they draw and the instant access they offer to millions of people. Advertisers sense an opportunity for word-of-mouth or social marketing in a viral sense. Yet superior implementation has yet to be demonstrated.
Facebook has tried Beacon, which informs a user’s friends about purchases made by the user from online retailers through its “news feed.” The approach, designed to act as a recommendation system for products that relies on trustworthy peers rather than traditional advertising campaigns, failed because users refused to participate in what they perceived as a violation of their privacy.

Just as e-mail and instant messaging have become nearly universal, social networks likely will grow into expected tools in the Internet community. A user’s preferences will be clear from his or her Web behavior. E-mail accounts might make assumptions according to e-mails opened and sent or how the user records people in address books, such that a “work only” contact will never gain access to party photos posted by the user.

**Discussion Questions:**

**What is the future of social networking?**

*Social networking will eventually experience fewer barriers, such that users will not have to be members of each social network. Networks also might offer new applications in marketing and advertising.*

**What information can a user’s Web behavior suggest for marketers?**

*Users’ Internet preferences likely match their behavior on the Web; if they often visit the Major League Baseball site, they likely would enjoy baseball-related products, for example.*

**Targeting Men**

Use with Chapter 5, Retail Market Strategy

**Eric Wilson, “Big Names in Retail Fashion Are Trading Names,” The New York Times, March 8, 2008.**

Online retailers are improving sites aimed at men, because men seem to provide the “perfect” customer. Research shows that sales recently rose 4.4 percent in men’s apparel, compared with only 1.1 percent in women’s apparel, and 90 percent of men claim they regularly or occasionally make purchases online. They also return less than 10 percent of their apparel purchases, compared with women who return more than 20 percent.

Men tend to spend less time choosing their purchases, buy more merchandise at one time, and keep their purchases as long as the product is good enough. Men’s online shopping preferences thus are being decoded. Neiman Marcus designed its men’s merchandise with the intuition that women would actually be purchasing clothes for the men in their lives. Now, Neiman Marcus is sending more catalogs directed at men and encourages them to visit its Web site.

Now that retailers are actually targeting men, the category is growing even faster. Brooks Brothers halved the time that it takes for images to pop up on its site and provides images of entire outfits so male shoppers do not have to search for each individual blazer, shirt, and pants. In the neimanmarcus.com Tie Shop, viewers can see all of its ties at once.
Compared with women, men tend to want to grab what they want more quickly and finish their shopping. Women often expend the effort to look for the deals and thus do far more browsing, which suggests shopping is an ongoing event. The Web can be used for either research purposes or to actually buy, so both men and women like the efficiency and convenience it offers.

**Discussion Questions:**

**Why are some Internet retailers pursuing men in a big way?**

*Internet retailers are pursuing men because these consumers buy more merchandise at one time and are less likely to return the merchandise if it meets at least satisfactory standards. Retailers also are realizing that men shop a lot online, and when they display and offer the merchandise correctly, they can attract customers who are easier to serve than women are.*

**What are retailers doing to get men’s attention?**

*Internet retailers are increasing their product assortments and merchandising the Web in the way men want to shop, such as by enhancing the features of their sites with faster loading and by displaying entire outfits rather than separate pieces.*

**Local Foods**

**Use with Chapter 14, Buying Merchandise**


A few years ago, “organic” was a buzzword for quality food; today, “local” is what consumers want. Locally grown foods can offer even greater benefits than organic food produced far away and transported long distances.

A locavore is a person whose primary source of food is his or her local foodshed or sellers within a modest radius. The locavore movement focuses on reducing the carbon footprint caused by the transportation of food through the world; members calculate food miles as the distance that foods travel from the farm to the plate.

Although locally grown foods started out as a trend, they have had significant environmental and economic impacts. Whole Foods developed a business around this concept by promoting the growth of local farms, which it defines as those that can ship items to stores in less than seven hours by truck. Whole Foods’ Local Producer Loan Program commits to giving $10 million annually in low-interest loans to small producers and manufacturers of various products, who in turn must meet Whole Foods’ quality standards and use the funds for expansion.

For other retailers, regional buying offices make it easier to source products from local producers. For example, Tesco now offers hundred of new products that it discovered by encouraging smaller local producers to approach it.

Consumers perceive local products as safer, especially when confronted with safety recalls of various food products. The word “local” seems to be a popular buzzword, but its definition
remains unclear—some consider it products that have traveled less than 10 miles, whereas others assume products grown within their state are local.

Many Americans appreciate the idea of supporting local businesses, but they also want the variety of products they can find everyday in their grocery store. It is difficult to maintain a local environment and still maintain such variety; what would we do for our peppers, cucumbers, and spinach during the winter?

**Discussion Questions:**

**What is a locavore?**

A locavore is a person whose primary source of food is his or her local foodshed or within a modest radius of that foodshed.

**What are retailers doing to appeal to locavores?**

Retailers are encouraging local farmers by giving them low-interest loans. They also attempt to reduce the food miles of their products so that they can move foods closer to locally produced products.

**Haggling**

*Use with Chapter 15, Retail Pricing*


Prior to the 1850s, haggling was a common practice. But as department stores began setting fixed prices, customers could no longer haggle in an apparel setting. Today, haggling is commonplace only for large-ticket items, such as homes or, notoriously, when buying a car.

With economy hitting a slump though, shoppers are getting more savvy in their purchases, and many are haggling on every purchase, not just in mom-and-pop stores but with major retailers such as Best Buy and Home Depot. Customers know that the retailers are feeling the impact of the economy and using it to their advantage. Retailers, seemingly surprisingly, are engaging in negotiations and instructing their salespeople how to do so.

Some customers simply threaten to leave if their lower offer is not accepted, but a smart customer should research the product and its pricing in advance to haggle a price that is still fair to the retailer. Retailers are more likely to make the sale, even if they make less profit on it, than to let the customer walk out empty handed. For example, many retail computer systems can now undertake a real-time pricing and profit analysis, which allows sales associated to determine the lowest possible price they can accept for a product.

In the long term, this practice might backfire. Customers accustomed to paying less than the price on a tag undermine the retailer’s pricing strategies. Such customers may come to view the price of an item as always more than what it is actually worth or more than they should pay for it. When the economy starts to pick up again, retailers may continue to confront more price-sensitive customers.

Yet retailers also argue that they are interested in the lifetime value of their customers, which makes them willing to work with customers when economic times are tight. If customers view such attitudes as contributing to a more personal and comfortable atmosphere, they may become
more loyal to the company in the long run—or they may be loyal to the retailer only as long as it offers the lowest price.

**Discussion Questions:**

Can consumers haggle on prices with national retailers?

Yes, consumers are finding that they are able to haggle on prices in certain settings. As the economy slows down, retailers grow more desperate to make a sale, even if it is at a lower price, than forgo the sale completely.

What tips can you provide consumers to be better hagglers?

To be good hagglers, consumers should do their research on a product and the prices at which it is available in other stores. These consumers gain more power in the negotiation, because they know what a fair price will be for both the retailer and the consumer.

**Supply Chain Managers**

**Use with Chapter 10, Information Systems and Supply Chain Management**


Once upon a time, supply chain managers simply negotiated product purchases, but today, the importance and purpose of supply chains in an organization have changed dramatically to become an integral part of a business. In turn, supply chain managers have experienced a type of career change, without ever changing jobs.

Modern supply chain managers must build relationships with foreign suppliers, be adept in supply chain technology, and work with suppliers to lower total product and long-term costs. The technology that supply chain managers employ benefits the entire organization, from marketers to sales employees.

Supply chain relationships are also much more transparent. Parties work together to lower a product’s total cost, deliver it more efficiently, and forecast for the future. New product developments entail a collaborative effort with a focus not on the lowest price a supplier can offer but on the product and services that best add value for the company.

Most suppliers are not limited to the local market, so supply chain managers also must keep up to date on legal and economic environments globally, requiring consistent communication and market intelligence gathering to recognize which geographic areas are most appropriate for certain types of production. For example, China offers low labor costs, but its poor logistical infrastructure can increase the total cost of the product.

Many factors constitute “price saving” beyond the face-value price of a project. Buying products is even more complex as product life cycles grow continually shorter, requiring that supply meet demand in a timely fashion. Supply chain managers thus have become a central part of the operations in a company.

**Discussion Questions:**

How has the job of supply chain manager changed in recent years?
The job of supply chain manager has changed from being a procurement position of finding vendors that can provide the best prices to a central part of the organization. Supply chain managers must develop complex relationships with vendors to lower the total cost of a product, collaborate on future product developments, and use supply chain technology to track products in their production and distribution cycle.

**What changes have prompted the shift in the role of supply chain managers?**

Several elements have led to changes in this role, including global markets for suppliers, the increasing importance of relationships in supply chains, and the greater role of technology.

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**Mobile Commerce on the Runway**

*Use with Chapter 16, Retail Communication Mix*

_Yuri Kageyama, “Mobile Commerce is Japan’s e-commerce,” News and Observer, April 2, 2008.*

Mobile commerce may be emerging in the United States, but it has really taken off in Japan, where cell phones serve every purpose for which Americans use their computers—reading e-mail, finding news, searching for restaurants, blogging, and shopping.

Xavel, a Tokyo-based company, recognized this trend when it launched its biannual Tokyo Girls Collection show. The show, which draws thousands of young women, even allows Japanese consumers to order the items they want immediately from their cell phones.

Xavel also owns Girlswalker.com and fashionwalker.com and makes them accessible to their 7 and 3 million regular readers, respectively, through either computers or cell phones. Toyota, Walt Disney, and Tiffany & Co. have all participated in the fashion shows, and more than 200 companies sell through fashionwalker.com.

Unlike conventional fashion shows, the mobile versions feature fashions that are immediately available and usually more functional than the designed art-like looks that show up on traditional runways.

Traditional fashion shows may create a lot of excitement because of their freshness, but the huge time lag before the items are actually available can be a challenge. Orders placed at regular fashion shows come only from retailers that need merchandise for seasons in the future. At the Tokyo Girls Collection show though, consumers immediately place orders for the specific items that they want for themselves.

**Discussion Questions:**

1. **How is mobile commerce used to sell merchandise in Japan?**

_Xavel has a biannual Tokyo Girls Collection show that millions of people attend. The consumers can order items from the show instantly via m-commerce using their cell phones. Companies such as Tiffany & Co. and Toyota have moved quickly to capitalize on this audience by marketing in this arena.*

2. **How quickly do you think mobile commerce will be a mainstream option in the United States?**

_Many consumers already have started upgrading their cell phones to handle more complex applications. Retailers already are sending text message alerts about items customers might like.*
Thus, as American consumers get more comfortable using their cell phones in these ways, the trend will likely become as mainstream as it is in Japan pretty soon.

Design and Customize Your Own Clothing

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


Many Internet companies hope to personalize every aspect of the Web for the customer. StyleShake does so by enabling customers to design their own clothes, which the company produces on a per order basis. Although items currently must use uniform sizing, soon the company plans to customize the size of its garments according to each customer’s specific measurements.

Personalizing the design aspects of products remains a new idea. Some companies offer personalization in the form of a shoe color or an image on a t-shirt. StyleShake displays photographic images of the pieces that the consumer is putting together and clear images of the fabrics, rather than sketches. When the customer finishes designing a garment, the virtual product looks very real.

From an operational point of view, little of the manufacturing process can be completed in advance, with the exception of some basic pieces. The clothes are made in London by quality tailors. As textile manufacturers continue to move their operations to lower wage countries, many English tailors lost their jobs; StyleShake has been able to take advantage of this development by outsourcing projects to these workers on a per order basis.

Consumers thus obtain a unique item that they designed themselves, made from quality fabric with the best craftsmanship, that costs approximately 99 pounds ($199) for a cotton dress or 149 pounds ($299) for silk. Consumers also can communicate with others in a social network on which “designers” post their designs and receive feedback from others. This consumer dialogue should spur the company’s growth and perhaps get more customers interested in creating their own unique garments.

Discussion Questions:

What is StyleShake?

StyleShake is a manufacturer and e-retailer that allows customers to design their own garments. On the site, customers design their garments; the manufacturing side then outsources production to English tailors.

What are the advantages and disadvantages of using StyleShake from a customers’ perspective?

Customers can co-create their own products and know that they will have a unique design. However, the garment may not fit specifically as they had intended when they created the design, and they have no way to try on styles before ordering them.

Would you utilize StyleShake?
Yes, I would use StyleShake, because I could obtain a truly unique piece of clothing that I have
designed myself. I also know that the garment is of high quality, because the company uses
professional English tailors.

Wal-Mart in the Recession

Use with Chapter 5, Retail Marker Strategy


Wal-Mart sells almost everything using its low-price strategy. When it started out, the strategy
focused on selling general merchandise, but Wal-Mart has expanded its grocery food business in
the past decade and continues to find new ways to provide benefits to its core customers with its
infamous everyday low price strategy.

The softening economy also is pushing many consumers to shop exclusively or “trade down” to
shop at Wal-Mart. Consumers can shop more economically if they do it all in one consolidated trip
rather than driving from place to place. Because of its extremely low prices, Wal-Mart attracts
many grocery customers; its grocery sales increased from 14 percent to 32 percent of its $120
billion in annual sales. Yet for Wal-Mart the challenge comes in the margins, which are slim to
none on groceries.

Therefore, Wal-Mart focuses on grocery consumers in the hope that they will cross over and
complete the rest of their shopping at the big box retailer. If it can attract consumers with low
prices on staple food items, it might be able to entice them to consider Wal-Mart for their flat-
screen TV purchases, and on these higher-ticket items, Wal-Mart profits from higher margins.
This strategy has worked effectively, enabling same-store sales to grow 2.6 percent in an
environment in which most retailers are struggling. If the economy continues to spiral downward
though, even Wal-Mart likely will feel the squeeze of consumers who have less money to spend
on discretionary products.

As further incentives, Wal-Mart offers various services to its core customers, including its popular
$4 generic prescription drugs, onsite health clinics, and MoneyCenters. The MoneyCenters
enable consumers without traditional bank accounts to cash checks, pay bills, and wire
international money transfers. Even if the economy continues to flounder, consumers probably
will continue to appreciate these sorts of services.

Discussion Questions:

What is Wal-Mart doing to lure customer in a weak economy?

Wal-Mart is luring customers with its low-priced groceries in hopes that they will also purchase
other products that they need at the same time. It is also offering various health services and
banking services to attract customers who might not otherwise have access to these services.

If the economy continues in its decline, should Wal-Mart consider altering its strategy at
all?

Probably not; Wal-Mart is so well-known for everyday low prices that it would be difficult for it to
alter its positioning.