Dear Professor:

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

- How Much is an Amazon.com Customer Worth?
- Inner City Lacks Grocery Stores
- Wegmans Practices What It Preaches
- McDonald’s, Starbucks, and Dunkin’ Donuts Compete!
- Retailers Want to Recruit the Most Talented Candidates
- Retailers and Returned Goods
- Special Grocery Stores like Trader Joes Offer the Unexpected
- Target Takes a Stand Against the Bloggers
- Redefining the Frozen Yogurt Industry
- Tiffany & Co. Repositions its Brand

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How Much is an Amazon.com Customer Worth?

*Use with Chapter 3, Multichannel Retailing, Chapter 19, Customer Service.*


You may be surprised how much an Amazon.com customer is really worth to the company. Apart from having a well-run Internet business, Amazon.com has always focused its strategy around its customers. The Internet retailer began as a book e-tailer and now sells most things under the sun including an array of Web services. It also allows merchants to sell goods on the Internet site. So, Amazon sells everything, what else?

Jeff Bezos, the company’s founder and CEO, has an “obsession” with customers. The customer experience is an important competitive advantage at Amazon.com. Amazon.com figures out what their customers want and how to get it to them quickly. In one instance, a customer ordered a $500 Playstation3, intending it to be a Christmas present. When the package did not arrive, the customer realized upon tracking it, that it had already been delivered and signed for, but it was nowhere to be seen. The conclusion was that it was most likely stolen. The customer told Amazon.com about this situation, and with little questions asked, sent the customer another Playstation3, and without charging additional shipping charges.

Not only did Amazon.com save a customer’s Christmas, but that customer will probably be loyal to Amazon.com for the rest of their life. Amazon.com lost $500 plus shipping on a mistake that was not even their fault. In the end, this customer is also going to communicate their extraordinary experience to everyone because this is truly remarkable.

Maintaining a customer-centric company means the money spent on customer service does not reach the bottom line in the short term. For example, the customer service recovery stated above cost the company a considerable amount of money, but in the long term the company is hoping to have gained a life-time customer.

Amazon Prime program allows customers to pay an annual fee of $79 to receive unlimited two-day free shipping. The company reckons that in one year, it has over $600 million in forgone shipping revenue. Although some Wall Street analysts may frown on “unnecessary costs,” Amazon has 72 million active customers, or those that spent $184 per year on the site. The average spending per customer the previous year was $150.

**Discussion Questions:**

How does Amazon get and maintain loyal customers?

*Amazon.com maintains loyal customers by focusing on their needs and providing on-time service. By having effective service recovery to go along with its products and services, customers are likely to be return customers.*
Inner City Lacks Grocery Stores

*Use with Chapter 7, Retail Locations*

**Chris Kenning, “Cities Study Dearth of Healthy Food,” USA Today, January 20, 2008.**

Poor neighborhoods in urban areas such as Louisville, KY, Detroit, MI, and Philadelphia, PA have a shortage of full-service supermarkets. There are an abundance of convenience stores, but these stores do not sell fresh fruits and vegetables, nor meats.

The health departments have gotten involved in this disparity because of the correlation between health problems and the lack of quality food choices available. Without having healthy choices available, these people frequent the convenience store for potato chips, pop and ice cream. These foods do not provide people with the necessary nutrients, not to mention the high fat and sugar content that these foods contain.

Sometimes going to a supermarket can mean an hour-long bus ride in which the person can only buy what he/she can carry with them. Making such an effort to get fresh food is not commonplace among most people in these areas. Researchers are trying to figure out whether the residents’ health really improves with a full-service grocery store in close proximity. The consumers in the poor urban areas may be so accustomed to poor quality food choices that a large grocery store may not change their habits, but actually make it easier for them to buy more of these same types of foods. Nutritional education may be necessary in minimizing this gap for people.

The Louisville Health department is providing incentives for small convenience stores to carry fresh produce and increase nutrition awareness. They are also introducing farmers markets. In Philadelphia, the Fresh Food Financing Initiative has spent $22 million in projects to build supermarkets in these poor urban areas, and refrigerators for corner stores to carry more fresh produce.

**Discussion Questions:**

*Why do some cities lack full-service supermarkets in lower-income neighborhoods?*

*Full-service supermarkets would rather situate themselves in high-quality neighborhoods where they can sell higher margin goods and not have the risks that occur in lower-income neighborhoods.*

*What are some cites doing to solve the problem?*

*Cities are investing large sums of money to build grocery stores, introduce nutritional educations, and bring farmers markets into the areas.*

Wegmans Practices What It Preaches

*Use with Chapter 5, Retail Market Strategy*

**Matt Glynn, “Wegmans Will Stop Selling Cigarettes, Citing Health Concerns,” Buffalo News, January 05, 2008.**

Wegmans grocery store is known for leading in health and wellness. As of February 10th, Wegmans will no longer sell cigarettes, pipe tobacco, chewing tobacco, snuff, and cigars in its stores because they are very destructive to a person’s health.
Wegmans does not accept promotional dollars or displays from tobacco companies which means that its tobacco products are never discounted. For this reason, their tobacco products are not competitively priced to stores that do accept these slotting or promotional revenues.

By not accepting these promotional dollars and not pricing cigarettes competitively, it already is deterring the purchase of cigarettes from its own stores. Even though people can still go to a nearby store and purchase the cigarettes, Wegmans does not want to be responsible for such purchases.

The American Cancer Society is hoping that other retailers will follow suit and also discontinue the sale of cigarettes. Tobacco products and accessories account for about $5.4 billion in sales in supermarkets per year. In convenience stores, tobacco sales can account for 15 to 30 percent of the store’s total sales, excluding its gasoline sales.

Critics are saying that people should still have the choice whether they want to buy cigarettes and not have a grocery store make that decision for them. The critics are also saying, if the company wants to be a leader in health and wellness, then it needs to discontinue any products that are unhealthy such as beer, butter, and fatty meats. However, Wegmans says that cigarettes are in a different category of unhealthy because there is not an appropriate moderate use of the products. For products like butter, when used in moderation, is not bad for one’s health.

**Discussion Questions:**

**Why did Wegmans stop selling cigarettes and tobacco products?**

*Wegmans stopped selling tobacco products because it wants to be a leader in health and wellness and cigarettes are destructive to a person’s health.*

**Do you think this is a good move?**

*Yes, this is a good move because Wegmans has stood out as a leader and this may help to start a trend for retailers to stop selling the products.*

*No, this is a bad move because consumers should have the choice to use or not to use products especially if they are not illegal.*

**McDonald’s, Starbucks, and Dunkin’ Donuts Compete!**

*Use with Chapter 4, Customer Buying Behavior, Chapter 5, Retail Market Strategy,*


Not many people could have guessed that McDonald’s, Starbucks, and Dunkin’ Donuts would all be in the specialty coffee market and actually be taking each other’s market share. Speaking “Fratalian,” is not the only option, English is also acceptable when ordering a Latte.

Starbucks has made their products more convenient by adding drive-through windows, breakfast sandwiches, and lunch items, while Dunkin’ Donuts has made their products upscale with the addition of espresso based drinks, and celebrity status with the face of Rachael Ray. McDonald’s, the newest competitor, is renovating the interior of its stores and adding automatic espresso machines to improve on its total atmosphere.
McDonald’s does not want to alienate its customers by making the restaurant appear too upscale, but at the same time wants the customers to see the coffee being made by a barista to entice them to buy the product. In addition to espresso drinks, McDonald’s is expanding its bottled drinks selections into energy drinks, which have been a growing category industry-wide.

McDonald’s is keeping their coffee selection limited as compared to Starbucks that can make hundreds of drinks. McDonald’s offers three flavors: vanilla, caramel, and mocha. The price is also 60 to 80 cents less than their competitors at $1.99 to $3.29. The company is educating the baristas to know that a former Starbucks customer may ask for a “Grande Latte”, which should be interpreted as a Medium-sized Latte.

Starbucks has grown quickly, but with this growth has diminished the theatrical European sit-down experience that it was originally popular for. Today, 80% of Starbucks orders are consumed outside of the store. The average income and education level of Starbucks customers have also gone down. Customers are more concerned with grabbing their coffee on the way to where they are going, quickly, as opposed to taking time out to enjoy the coffee. Starbucks has supported this consumer behavior rather than maintaining the original experience.

The company realizes that its original experience is its competitive advantage and that other companies like McDonald’s cannot replicate it. Baristas need to memorize customers’ drink orders, and make genuine conversation with customers in order to differentiate themselves from the competition. As specialty coffee becomes more commoditized with the spread of it across mass-market companies, Starbucks will maintain its service level that it originally pioneered.

**Discussion Questions:**

Describe how McDonald’s and Starbucks are changing their market position?

*McDonald’s is improving the interior of its restaurants and adding specialty espresso machines to improve their customer’s experience. Starbucks has added convenient ways to make its products more accessible to more consumers like adding drive-through windows, adding locations, and increasing its product lines.*

Do you think their new positioning strategies will work? Why or Why not?

*Yes, McDonald’s has continuously made its product offering more upscale, but still maintaining a likeness to its customers. For example, it started out selling hamburgers and French fries, but has adding health conscious items, salads, and premium desserts of the years. Its addition of espresso machines is another step in this direction. Starbucks will also be successful by going back to its roots of fostering the fact that consumers can enjoy their beverage in the store, rather than grabbing a cup of joe and racing to the next errand.*

**Retailers Want to Recruit the Most Talented Candidates**

*Use with Chapter 9, Human Resource Management*

**Susan Reda, “Retailers Expand their Efforts to Lure – and Reel in – Top Executives,” Stores, January 2008.**

Retailers are trying to figure out ways to recruit the best talented employees that can be great leaders in the future. The retail industry has to compete with the financial and CPG (Consumer product goods) companies that are also hiring these same people at potentially higher wages. The 500 largest U.S. companies can expect to lose half of their senior managers in the next five years according to the Bureau of Labor Statistics, showing a real shortage for top employees.
Macy’s, JCPenney, Saks Fifth Avenue, Kohl’s, Wal-Mart, Polo Ralph Lauren, Neiman Marcus, Starbucks and Lord & Taylor are all companies that are emphasizing the importance of recruiting great employees and training them to grow in the company. The recruitment strategies and training programs are important for luring talented people to the company as well as retaining them in the long-term.

Many companies are looking to hire individuals that can take on more responsibility, and be in middle management. The Gen Y, or recent college graduates, are interested in working on legitimate projects that they can see the results of rather than menial tasks. This is changing the training process because today’s management had a different approach of working through the ranks to building a career for themselves.

JCPenney has a strong presence on college campuses as well as an internship program. About 80 percent of the recruits that go through the training program continue with the company in real positions. Retailers are being innovative by partnering with colleges, especially colleges that have retail centers, as well as making their training program more attractive than other companies.

Employment branding is a new concept that may be important in helping companies to differentiate their recruitment programs. “JCPenney & You…A Perfect Fit,” is the tagline for JCPenney. At Home Depot it’s “A Team. A Future. A Career. What Will you Build?” By branding these programs, it can help for potential candidates to at least pay attention to the program or job that is being offered.

Starbucks actually spends more on recruitment and development than it does on advertising. The company has an intense training program, and allows current employees to recruit potential candidates if they recognize a customer that would be a good fit.

Discussion Questions:

Why do retailers have a talent shortage?

Retailers have a talent shortage because there are many companies that are going after the same candidates. College graduates maybe looking at financial or CPG as well as retail companies for a position.

What are they doing about it?

Companies are beefing up their recruitment strategies and training programs as well as partnering with colleges so that they can have a strong presence on the campus. Some retailers are actually branding their employment/recruiting programs to differentiate themselves from other companies.

Retailers and Returned Goods

Use with Chapter 19, Customer Service


Costco formerly had a no questions asked return policy which meant it returned everything from carrots to computers without a receipt over an unlimited period of time. The company realized that the returns for electronics and computers alone was about $100 per year. Many retailers are
tightening their return policies as consumers have taken advantage of returning items that are not necessarily worthy of return.

With the no questions asked, unlimited return policy, customers could return a TV for no reason, buy a newer TV that now cost less than when they had originally purchased it, and then walk-out with cash from the difference in price of the new purchase. Return fraud has become a growing problem and now accounts for $3.5 billion. This can occur from items that are stolen, used, or returned as defective, even though they are not.

Retailers are making attempts to cut-down on return fraud and sometimes can anger an innocent customer. Customers that make excessive returns may be banned from a store or sent a notification to shop elsewhere. Excessive returns can be defined as three times in 45 days or five times in 90 days. While this may prevent some return fraud, many customers return items legitimately in which case these customers will not be happy to learn that they need to commit to their purchases more fervently.

Costco is trying to protect the innocent customers through their hotline, where employees help customer understand how a product works and helping them through any problems that may have occurred.

Customers have to be aware of retailers’ concerns with returns. It is important to keep receipts and gift receipts as well as to read fine print about the acceptable return period. Purchasing products online can be more difficult because returns may entail paying for shipping, as well as the intangibility of it makes it so that products may be returned more often than in the store when a product has been previewed before purchasing.

**Discussion Questions:**

**What are retailers doing about excessive or fraudulent customer returns?**

*Retailers are shortening their return policy windows and eliminating their no questions asked policies. Customers that do not have a receipt are less likely to be able to make the return for the price that they may have paid for it.*

**Why are they changing their return policies?**

*Retailers are changing their return policies because of the growth in return fraud, either from stolen goods or outdated goods being returned as “defective,” even though there is nothing wrong with them. This sort of returns especially in electronics can be costly for retailers.*

**Special Grocery Stores like Trader Joes Offer the Unexpected**

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


Trader Joes is a specialty grocery store, offering unique items at low prices. The store originally evolved into what it is today because of strong competition from the fast growing convenience store, 7-Eleven. Today, Trader Joes is not viewed in the same light as a convenience store, especially a 7-Eleven. Its specialty grocery store status is desirable to an earthy crunchy person as well as an upscale shopper looking for exceptional products.
Its limited assortment of products appeals to both gourmands and artists. It only carries 2,000 products compared to 30,000 at a regular grocery store. Trader Joe’s focuses on the special items, either prepared or organic foods, rather than the mass-market products. It does not sell brands like Coke or Budweiser and also does not sell every type of laundry detergent. There is one kind of laundry detergent, and 10 kinds of hummus for example. Trader Joe’s has Joe-Joe’s cookies at Christmas that look like Oreos but taste like Girl’s Scout’s Thin Mints.

80% of Trader Joe’s products are private label compared with 16% at regular grocery stores. The company develops small businesses to become their vendors, making the products they sell exclusive to their store. So, between the limited assortment and the products only available at Trader Joe’s, their selection is very special and hand-picked. Many grocery stores like Kroger and Safeway are catching on to the success of private label brands and increasing their private label to national brand ratio.

Trader Joe’s focuses on the customer experience by mimicking the shopping experience to a vacation. All of the employees wear Hawaiian shirts, give out food and drink samples from huts and also use nautical terminology. The employees as a result also feel relaxed and can operate in a fun environment. Full time employees earn $48,000 per year on average, and have the opportunity to make six figures annually. Creative people are motivated to work at the store because the company provides health-care benefits for even part-time employees that may be an artist or a musician as well.

Discussion Questions:

What makes Trader Joe's successful?

Trader Joe’s offers unique products, while still offering everyday low prices. It focuses a tailored assortment that is minimal compared to a traditional grocery store, but offers greater depth in important categories such as hummus, and less depth in less important categories like laundry detergent. To complement its mainly private label products, its employees concentrate on delivering the best customer experience. The company treats its employees well with higher than typical compensation and benefits. Its vacation theme makes for a fun environment for both the employees and customers to function in.

Target Takes a Stand Against the Bloggers

Use with Chapter 16, Retail Communication Mix


Target’s new advertising campaign shows a woman making a snow angel in the open position, with her crotch centered on the retailer’s logo, the bull’s eye. These ads are featured everywhere including outdoor billboards in Manhattan’s Times Square.

This has received considerable criticism from blogging communities especially ShapingYouth.org. The president of this non-profit organization phoned Target herself saying that this is not an appropriate message and that it was too suggestive for the company to convey.

Target did not want to address the comments made by ShapingYouth.org because it was not a traditional media source. The company said that it only communicates with traditional sources like television stations, and newspapers, because they are closer to their core audience or Target shoppers. This feedback from Target was not taken lightly and ultimately spread quickly through the online community.
For a cheap-chic retailer like Target that seems to be very fashionable and likely to participate in new media are really not what they seem at all. Target basically dismissed the blogs, and the people involved in them, as being irrelevant. While Target is a large company and feels that it should focus its energy in media areas that reach more people, completely ignoring feedback for an ad that is borderline racy, especially for children, may not have been the right decision. A picture of this ad can be found at: http://www.flickr.com/photos/bennett4senate/2173666425/

Target’s bloggers are absolutely its customers, or else they would be blogging about some other company. If the company is going to publish an ad campaign that is as suggestive as this, they should be prepared to support their decision rather than ignore comments from ethical organizations.

**Discussion Questions:**

What did Target do to offend the blogging community?

*Target offended the blogging community by not responding to their comments. The retailer does not believe that its core customers are in blogging communities.*

If you were their public relations officer, how would you have handled the situation?

*I would have responded to their inquiry and concern. The comment originated from an ethical organization that is concerned with humanity and children.*

**Redefining the Frozen Yogurt Industry**

*Use with Chapter 4, Customer Buying Behavior*


In the 1980s, the concept of frozen yogurt really took off as an alternative to ice cream. By the 1990s though, when government agencies allowed ice cream companies to advertise their “reduced fat” on their labels, sales of frozen yogurt suffered a sharp decline.

Although it began as a frozen yogurt shop, TCBY sold ice cream too during the period 1996–2004. Today, it has changed its focus yet again to concentrate on its core frozen yogurt product. The chain thus is renovating its stores and gearing up for greater consumer preferences for frozen yogurt again. The appeal is not just the lower fat of frozen yogurt but also other positive attributes, such as its ability to boost people’s immune systems and assist in weight loss. Other competitors entering this market similarly are attempting to communicate a healthy image.

Pinkberry opened in 2005 in West Hollywood and quickly is spreading across the country. The frozen yogurt shop offers more tart tastes in its vanilla and green tea flavors, along with toppings like almonds, coconuts, mangos, and raspberries. Each serving contains 70 calories, and yet customers will spend anywhere from $5–8 to get a taste. To match its minimalist approach to its products, the chain’s stores adopt matching décor with loud, upbeat music.

Howard Schultz, the chair of Starbucks, invested $27.5 million in Pinkberry through his venture capital firm and appears to be trying to move it down the same road Starbucks has traveled. Expectations are high, including a plan for achieving a Pinkberry for every 10 Starbucks in the country. Pinkberry also is adopting Starbucks’s approach to location: Its stores are convenient to where women spend much of their time, such as schools, hospitals, movie theaters, and fitness centers. Pinkberry thus appears to have found a stellar combination: healthy, trendy, and yummy.
**Discussion Questions:**

How is Pinkberry differentiating its product compared with its competitors?

*Pinkberry offers more sophisticated, tart flavors and toppings. However, it is adopting a plan very similar to the one Starbucks has used, which focuses on the overall experience.*

How is Pinkberry pricing its products?

*Pinkberry’s prices certainly appear to be on the upper end of the frozen yogurt market. Because its product is unique, with new types of flavors and a cult-like brand following, it can do so without losing too many sales.*

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**Tiffany & Co. Repositions its Brand**

*Use with Chapter 16, Retail Communication Mix*

**Jesse Serwer, “Thinking Outside the Jewel Box,” Shopping Centers Today, February 2008.**

Shopping for a bracelet for yourself? Want to avoid all the men shopping for engagement rings at the same time? Tiffany & Co. has the answer: a smaller concept store called Tiffany & Co. Collections that the company hopes will enable it to penetrate existing markets even further.

Tiffany & Co. Collections will target customers shopping for themselves rather than for another. Priced at $100 to $15,000, the jewelry offerings will not include any engagement rings or high-priced statement jewelry. However, that does not mean that the Collections stores will offer lower quality or a different assortment than traditional Tiffany & Co. stores; rather, its jewelry selections will represent a subset of classic Tiffany lines. In comparison with most Tiffany & Co. stores, which average around 5,000 square feet, the Collections stores will be limited to approximately 2,000.

The most quickly growing segments for Tiffany & Co. include both the $10,000–$50,000 range, mainly engagement rings, and the $500–$1000 range, featuring mostly less-expensive silver jewelry. By focusing on jewelry that costs less than $15,000 and excluding engagement rings, Collections stores will extend the brand to many customers. Because shoppers will be less focused on particular items, the store will be merchandised based on trends rather than on categories.

Many styles that are overlooked in a Tiffany & Co. store can be highlighted in the new store. Tiffany watches, which account for only about 3 percent of the company’s sales, will receive special emphasis. In partnership with Swatch Group, it also will create some new styles, including Tiffany’s Atlas, Tiffany Grand, and Tiffany Mark.

Tiffany previously sold its inexpensive silver jewelry (less than $150) in traditional stores, and though these items sold well, they also diminished the company’s brand image for core customers. The company’s mass-market approach in a separate store setting should have a different effect and likely grow the brand’s market reach. The repositioning of its brand also might enable it to grab market share from other companies that offer jewelry, such as local jewelers or even Hermes, with its line of comparatively inexpensive jewelry.

**Discussion Questions:**

Who is Tiffany & Co. Collections' target customer?
Tiffany & Co. Collections targets the customer shopping for him- or herself and spending less than $15,000 on jewelry other than engagement rings.

Is Tiffany & Co. going to alienate its core customer by opening a concept store that appeals more to the mass market?

No, Tiffany & Co. will not alienate its core customer, because it is offering the lower priced jewelry in a separate store. Although more customers will have access to Tiffany jewelry, different customers should frequent each store.

Yes, Tiffany & Co. will alienate its core customer, because the smaller store concept offers a smaller selection of the same jewelry. At the end of the day, Tiffany jewelry will be more accessible to the mass market and thus offer less exclusivity.