Dear Professor:

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

- The Power of Social Networks
- What Makes the “Best” Retailers?
- Do Ethical Purchasing Decisions Include Greens Fees?
- Bargain Hunting for Luxury
- Researching Virtual Shopping
- Grocery Stores Shrink for Convenience
- H&M Grows as the Economy Shrinks
- Leading the Tesco Green Movement
- Effective Loyalty Programs
- Empty Centers
- Hidden Costs in Grocery Retailing
- Zappos’s Hiring

The articles in this and past newsletters are sorted by chapters in *Retailing Management*, sixth edition. If you are interested in the text book please visit www.mhhe.com/levy7e. Simple registration is required to gain access to the newsletters and other instructor materials. If you would like to see this newsletter and the previous editions, go to http://www.cba.ufl.edu/mkt/retailcenter/research/publications.asp
ABSTRACTS OF RECENT RETAIL ARTICLES

The Power of Social Networks

Use with Chapter 11, Customer Relationship Management, Chapter 16, Retail Communications


Retailers are trying to figure out how to leverage the large online communities that have developed around MySpace, Friendster, LinkedIn, Disney’s Club Penguin, and the largest, Facebook, with its 90 million users. Some companies already have entered the scene, whereas others are too scared to even tread in the territory.

Social networks are designed to engage users and develop expansive social playgrounds. Retailers can fit into this picture by engaging on this level. In other words, the environment might help them develop relationships with customers, even if they do not directly increase sales. Companies that can integrate social dialogues are the most successful, because they offer valuable suggestions or relevant information that is interesting to and targeted accurately for the user.

Some companies are afraid though that the openness inherent to these settings leaves them open to negative feedback. Users generally state their true feelings, so a company that wants to avoid any and all negative interactions likely will have difficulty adding business value in this environment.

Corporate “fan pages” are free on Facebook, where users can talk about their relevant experiences with companies, such as J.Crew, QVC, Home Depot, Kohl’s, and Best Buy. Some companies offer contests in which users might win free tickets to events or provide customized wallpaper designs and widgets for users to download.

The Pink By Victoria’s Secret site features videos of its new collection and allows users to upload their own videos. Urban Outfitters even gives users a voice regarding upcoming styles. Such fan pages attract 30,000–70,000 people, which makes sense from a demographic perspective. That is, young and hip companies have a leading presence on Facebook because Facebook users—64 percent women, 63 percent between the ages of 18 and 24 years—shop most often at Forever21, American Eagle, and Old Navy.

**Discussion Questions:**

**Why would a retailer want to participate in social networking sites like Facebook?**

Retailers want to participate in social networks to develop relationships with their customers. They want to have constant interactions with them, even if they are not shopping. Social networks provide a broad platform on which customers spend a lot of time. Retailers want to also spend time with these users.

**What are some retailers doing on Facebook?**

Retailers are offering contests, free tickets, videos of their clothing lines, news, promotions, and so forth. Users want to be able to gain greater information than would be available to them elsewhere.
What Makes the “Best” Retailers?

Use with Chapter 5, Retail Market Strategy


Starbucks, Apple, Google, and Amazon: Four companies people really care about. They may not make the very top of the Fortune 500 list, but they have changed American culture so much that most people cannot imagine living without them.

These companies also seem unique in that they have not invented anything new. Starbucks did not invent coffee, nor the coffeehouse, but it introduced a new routine for customers. Apple did not invent either the computer or the MP3 player, but it has become part of popular culture. If Apple were to disappear, where would people get their iPods and line up for their iPhones? When Starbucks recently announced store closings, many consumers protested—where would they go, if not to their local Starbucks?

These four companies also have been very successful in growing internationally. They are not the most successful of their kind in various countries, yet again, they all have earned significant brand awareness. In addition, crises brought the original founders back to Apple and Starbucks, to reinstil original values back into the company.

These brands have deep relationships with their customers, though in different arenas: Amazon.com focuses on customer service, Apple on product and advertising design, Google on bottom-up creativity. At Google, employees spend 20 percent of their work time on personal projects that appeal to their sense of creativity. In turn, many of Google’s businesses and extensions started with an idea by someone in the company that Google then supported into fruition.

Facebook and Netflix might someday join this list; they have strong relationships with their customers already, but they still need to make a permanent mark as the environment around them continues to change.

Discussion Questions:

What makes the four companies highlighted in this article among the best in the world?

These companies have all changed American culture, not because of an invention that they made but because of the way they were able to develop a deep relationship with their customers.

Can you think of any other companies that might appear on this list?

In addition to Facebook and Netflix, there might be an argument for including older companies, such as Coca-Cola and Ford, as companies that are so well-ingrained in popular culture that it would be hard to imagine a world without them.

Do Ethical Purchasing Decisions Include Greens Fees?

Use with Chapter 14, Buying Merchandise

RetailWire, September 25, 2008.

Many companies specify their policies for conducting business with suppliers and partners, including rules to prevent unfairness that might result from accepting gifts that are designed to sway purchasing decisions. For example, CVS bans any gifts from vendors, and at Wal-Mart, an employee cannot even pay for a vendor’s lunch. But when it comes to charity giving, CVS seems to take a different approach.

Every year, CVS holds its CVS Caremark Charity Classic, a golf tournament featuring well-known golfers that offers $1.55 million in prize money. The four-day event, held at the Rhode Island Country Club, includes the company’s executives, along with many of the company’s suppliers. The event ends with a gala dinner for thousands of guests at the Vanderbilt family’s mansion. The $27,000 drink station flows various martini creations over an elaborate ice sculpture, and the auction includes prizes worth more than $100,000, including golf, game fishing, yachting, and other types of vacations. Some packages suggest the winner could invite one of CVS’s executives on the trip.

The proceeds all go to charity, and the company argues that the event does not constitute trading gifts with vendors because it is not a business event. Yet many of the auction prizes are won by vendor’s executives, after which these vendors enjoy time with executives at CVS in a casual, relaxed setting. This begs the question as to why CVS executives can buy lunch for their vendor participants at the charity event, but if they were doing business, this would not be allowed.

Many people reject the event as a huge party, rationalized by giving money to charity. CVS argues that executives that attend the event, both those of CVS and those of the vendors, are not swayed in any way to do business or provide better deals on products. Participation at the event is voluntary and does not influence whether the vendor does business with CVS.

Discussion Questions:

Do you think that CVS is playing with ethical fire with its annual charity golf tournament?

*CVS clearly is coming close to violating its own and widely established ethical policies. The charity event is one big gift-giving and money exchange, but it is also a social event to raise money.*

Is there reason to question whether those vendors that contribute to the event may be getting better treatment from the chain than those who choose not to participate or who do so on a much more limited level?

*The vendors and executives are spending four days together talking about business, buying gifts, and enjoying good food and great golf. After the event is over, executives have developed better relationships and know that if CVS continues to do business with the vendor, there are other benefits beyond the current transaction. For example, if a vendor purchased more than $100,000 worth of auction prizes, CVS executives are not likely to forget such generosity when it comes time to engage in a business transaction.*

Bargain Hunting for Luxury

*Use with Chapter 2, Types of Retailers*
Neiman Marcus, Saks Fifth Avenue, and Nordstrom evoke luxury, but they also run outlet stores. Until recently, these department stores reveled in their “snob” appeal and avoided close associations with their outlet brands, but in today’s suffering economy, everyone, even upscale shoppers, is looking for bargains.

Saks Fifth Avenue’s outlet store, previously called Off 5th, now contains the Saks Fifth Avenue name—Saks Fifth Avenue’s Off 5th. This move may draw more customers to the outlet and expand the brand’s reputation beyond the stiff atmosphere of the main stores. After opening several new outlet stores this year, Saks already has seen an increase in its outlet shoppers, as well as in the amount these customers spend on each visit.

In these slow economic times, the department store sales are dropping, but the outlet sales are increasing, making it important for the company to focus on this business. These large department stores are even selling some of the same merchandise in their outlet stores. Customers that would normally go to Saks Fifth Avenue for example, can now go to the Saks Fifth Avenue’s Off 5th and receive the same merchandise for a lower price.

In its regular stores, Coach never offers sales on merchandise, because the purpose of such stores is to increase the value of the brand. But the handbag retailer simultaneously runs outlet stores that feature merchandise to be marked down, allowing customers to obtain great handbags and leather goods at lower prices.

From an operations point of view, department stores require fancy displays, dressing rooms, and dedicated customer service staff, all of which costly to maintain. Outlet stores require just an organized layout, which makes them much less expensive to run on a day-to-day basis.

Discussion Questions:

Why are some retailers aggressively opening outlet stores?

Retailers are opening outlet stores to bolster sales that they may be losing from their regular stores. In an economic slowdown, customers often trade down for items that they would normally buy. A regular customer of Saks Fifth Avenue should find it logical to trade down to a Saks outlet store, where he or she could still buy similar designer merchandise but for lower prices.

Should all retailers open outlet stores?

Although stores like Nordstrom and Saks are considered luxury retailers, they can probably get away with an outlet option better than really high-end retailers, such as Tiffany & Co. or Chanel. These latter retailers might suffer too much damage to their brand reputation if they were to open outlet locations.

Researching Virtual Shopping

Use with Chapter 4, Consumer Behavior, Chapter 5, Retail Market Strategy


Most consumers have a plan in mind when they visit a store, whether a list jotted down on the back of an old envelope or mental image of all the things missing from their pantry. By the time
the customer leaves the store though, items not on the list probably have made their way into the shopper’s cart too.

Even when customers prefer a particular brand, the in-store environment can cause them to change to another option because of dollar savings, a healthier option, or a new product. Imagine when you visit the grocery store, you plan to buy bread for peanut butter sandwiches, and then you see bananas displayed in the produce section which seem very appealing for the sandwiches. While picking up the bananas, you see that strawberries are on sale, so you add these to your cart as well.

Consumers routinely shop at one or two stores. Research shows that promotions influence specific sales and can even draw customers to a store, but shopping behavior remains unchanged overall by these promotions. Some in-store promotions are effective, but researching many of the most effective promotions are also the most disruptive to actual store operations.

In order to avoid disrupting store operations, market researchers can create a virtual environment that resembles what a customer would see in stores. The customer can participate simply by viewing a computer screen but still see coupon machines, signage, extra shelves, and other details of the store environment. This way, in-store promotions can be tested before being used in practice.

For example, one study considered whether to offer a two-for-$4 promotion or two-for-$5 promotion. The results indicated no significant differences, suggesting the benefits of the latter promotion in terms of the higher revenue the promoting store would earn.

Virtual testing thus can be very effective for manufacturers and retailers that want fast results but do not want to disrupt their actual store operations. As long as the virtual store has high-resolution images and really gives the customer the feeling of being in the store, it is likely to offer an effective tool.

**Discussion Questions:**

**How is virtual shopping technology being used to measure consumer behavior?**

*Virtual shopping emulates that actual store atmosphere. Companies can test in-store promotions and see the results immediately. Customers can purchase products as they would in a real in-store environment.*

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**Grocery Stores Shrink for Convenience**

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


To offer customers as many choices as they desire, grocery stores have grown, and consumers in turn have come to expect aisles made up of just ketchup and mustard in all different shapes, sizes, brands, and prices. For years, grocery retailers have assumed that consumers want the greatest variety to make a selection. But some grocery retailers are halting the cycle and trying a new strategy using smaller stores and less variety.

For example, Tesco’s Fresh & Easy Neighborhood Markets offer convenience in a smaller grocery format; some U.S grocery retailers are adopting the same approach as well. These smaller formats consist of approximately 10,000 square foot stores, compared with the 85,000
square feet of a normal grocery store. The smaller store allows a customer to navigate the store more easily, find products quicker, and make the entire shopping trip more effective.

Smaller stores offer a tailored assortment of products—one bottle of ketchup, prepared foods, fresh produce, and high quality foods that are conducive to a fast paced lifestyle. Customers realize the benefits when they let the grocery retailer choose the best quality product, including making their decisions easier and faster in the store.

An average grocery shopping trip takes 22 minutes, so it is virtually impossible for a customer to see all 30,000 products in a normal grocery store. Trader Joe’s, one of the first to develop this smaller store concept, offers customers high quality products in a smaller setting to avoid overwhelming them and encouraging a sense of trust that Trade Joe’s will provide the high-quality products they want anyway.

Customers likely will enjoy these smaller formats for several reasons, including the option of a ready-made lunch or dinner on the go. When they need greater variety, customers may return to conventional grocery stores, but for interim trips, smaller convenience stores likely will serve an important purpose.

Discussion Questions:

What growth strategy are food retailers pursuing (market penetration, retail format development, market expansion, or diversification?) Why?

Food retailers are pursuing a market penetration strategy by offering another option to its existing customers. The new, smaller stores will offer convenience and help time-starved shoppers shop for their meals more easily.

H&M Grows as the Economy Shrinks

Use with Chapter 5, Retail Market Strategy


As many retailers close stores or find other ways to shrink in the slowing economy, H&M is opening new stores and entering new markets. For example, the first H&M store in Japan opens this month, accompanied by the high-profile launch of an exclusive line designed by Rei Kawakubo, the founder of the cutting-edge brand Comme Des Garcons. The retailer’s Japanese fan club already boasts 20,000 members.

The increase in retail vacancies because of the tough economic times has allowed H&M to move into prime locations that may not have been available in better economic conditions. It is not uncommon to see H&M located next to premier designer stores, like Gucci or Prada on major shopping main streets. Some shopping center owners even have approached H&M with more attractive lease agreements, trying to entice the popular, low-priced retailer to move into their locations.

As consumers trade down to lower priced alternatives, many of them believes that they can find no better value than H&M. Its prices are lower than those of its main competitor Zara, as well as The Gap, because of H&M’s efficient supply chain and outsourcing network. The retailer has 100 in-house designers who develop clothing, then outsource the manufacturing to a network of 700 suppliers worldwide. By avoiding ownership of factories, H&M can remain nimble and make changes quickly.
To expand its appeal, H&M is also taking the opportunity to introduce new brands: COS (Collection of Style), in London, designed for upscale older customers; Monki, a small chain for teenage girls; and Weekday, which sells outside labels and private-label brands such as Cheap Monday jeans, which also sell at Barney's New York.

H&M is making a variety of decisions in the poor economy which it is able to do based on the nature of its product, the low price, and its efficient supply chain. Its need for large retail locations is making it possible for shopping center owners to fill large vacant spaces. When the economy turns for the better, these locations will be secured for continued success.

Discussion Questions:

Why might H&M be more successful than other apparel retailers during hard economic times?

H&M provides incredible value to consumers who are shopping for fashionable items at inexpensive prices. Compared with its competition, Zara, which is just as fashionable but has higher prices, and The Gap, which is not as fashion forward and does not offer such low prices, H&M is much more appealing.

Can H&M maintain this position if and when the economy improves?

Maybe—it enjoyed some success before the economy tanked, which should continue even if the economy were to rebound. However, in that case, many consumers might start trading up again and spending more on discretionary items, which might mean H&M would suffer some sales declines. In either case though, it should enjoy the advantage of the better locations it has gained recently.

Leading the Tesco Green Movement

Use with Chapter 5, Retail Market Strategy


According to Terry Leahy, the CEO of Tesco, being green is not just about saving the environment; it also means saving costs, which is important for the long-term growth of the British grocer.

Tesco’s current initiatives attempt to save energy through in-store operations, its supply chain, and customer choices. It aims to halve its emissions from stores and distribution centers by 2020. In stores, it uses better insulation and low-energy lighting. In China, stores harvest rainwater and grey water to wash cars and flush toilets. The California distribution center has one of the largest solar panel roofs in the United States.

With regard to its supply chain, Tesco is trying to transport only fully loaded vehicles and reduce the number of empty truck trips.

In its support for sustainable technology research, the company has invested 25 million UK (US$40 million) in the Sustainable Consumption Institute, whose goal is to transition the world into a low-carbon economy. The mission extends beyond just products to include ways in which customers might understand and transition to sustainable consumption on a pragmatic basis as well.
Tesco believes that consumers want to make green decisions, but it is important that they understand green does not necessarily mean more expensive. For example, energy-saving light bulbs reduce carbon emissions and fuel bills, which means a cost savings for the customer. According to Tesco, retailers should lead consumers by making options available for them to purchase.

Tesco’s CEO is confident that concentrating on sustainable technologies and reducing carbon emissions will mean magnified savings in the future; he claims Tesco already has halved its energy per square foot since 2000 and by $4.7 million since last year.

**Discussion Questions:**

**Is going “green” good for retailers?**

*Retailers that are going green are cutting their carbon emissions, but they are also cutting their costs. Customers are also going to prefer retailers that offer them environmentally friendly products that are not more expensive than the comparable higher carbon-emitting products.***

**What can retailers do to be more “green”?**

*Retailers can maximize their transportation emissions by making all trips fully loaded. Within the store, energy saving light bulbs and better installation can reduce energy costs.***

**Effective Loyalty Programs**

*Use with Chapter 11, Customer Relationship Management*


Many retailers offer loyalty programs, but few programs actually create loyal customers. What makes for loyal customers then?

Companies that offer rewards tend to make them inconsistent with customer’s initial motivations for shopping in the first place. Such rewards may prompt a purchase, but they cannot create loyalty, because the customer is only motivated by an immediate reward. Thus, such loyalty programs cannot entice away competitors’ customers, because they lack sufficient reason to endure the switching costs over the long term.

For example, a customer normally shops at The Container Store because of the service that she receives. However, when receiving a coupon to shop at Bed Bath & Beyond, the customer will shop there in order to redeem the coupon, but continue to shop at The Container Store.

Loyalty programs are ineffective because retailers lack knowledge about their customer. Personalized rewards, which offer that which a customer really values, can create loyalty, but mass market rewards create only short-term sales or, even worse, disillusionment about the brand as a result of its seeming irrelevancy.

Purchase motivations can be classified into five categories: economic, or to save money; hedonistic, meaning to feel pleasure; routine, which avoids being disappointed by the purchase; relational, or to gain a relationship with someone in the store; and functional, for which the goal is to decrease the time and effort required to make a purchase. Appropriate rewards depend on the motivations; for example, economic customers want price reductions, whereas hedonistic consumers prefer spa services, and relational consumers want to get invited to special events.
In general, women tend to be more hedonistic and relationship oriented, whereas men are more functional. But retailers need to learn more about their customers than just their gender and determine what each customer values if they want to attract loyal customers who will provide them with sustainable results.

**Discussion Questions:**

**Why do some loyalty programs fail?**

*Loyalty programs do not work because they do not have the target customer as the focus of the program. Many rewards associated with loyalty programs are not aligned with the motivations of the customer. A discount reward might attract a customer for a specific time, but then the customer’s loyalty remains unchanged.*

**How can retailers design loyalty programs to be more effective?**

*Retailers should design loyalty programs according to their knowledge about their customers and what they value. A customer who receives a reward aligned with his or her interests is likely to become more loyal than a customer who just takes advantage of a perk because it is an easy reward.*

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**Empty Centers**

*Use with Chapter 7, Retail Locations*


If retailers struggle, so too must the shopping centers that host them. In the strong economy, developers built shopping center seemingly everywhere, and now they cannot fill all the excess space. Even thriving retailers that could always be counted on to expand, such as Wal-Mart, Home Depot, and Starbucks, are either slowing their new store growth plans or closing existing stores.

Other common shopping center tenants such as the Cheesecake Factory and The Gap are shrinking their store formats to increase sales per square foot; Sharper Image, Linens ‘N Things, and Mervyn’s have all filed for bankruptcy and left their locations permanently. Shopping center owners therefore are turning to extreme concessions, such as free rent, to get retailers into their centers. In some overdeveloped areas, competing malls are within just a few miles of each other, making it even more difficult to secure tenants.

Yet some retailers are finding ways to take advantage of the attractive deals and prime locations that they otherwise would not have been able to afford. Shopping center developers would rather have a tenant paying rent, even at a reduced rate, than a vacancy. This year, new lease agreements are 10.4 percent lower than the asking prices.

Malls succeed only when they are full of tenants, and anchor tenants draw the majority of customers. If an anchor tenant leaves, the other tenants normally do not have to pay the agreed upon rent because the shopping center is not as desirable; the original reason for choosing the location has disappeared.
Shopping center vacancy rates have reached 8.2 percent for strip malls and 6.3 percent for regional malls—the highest rates since 2002. New centers that opened this year are only 62.8 percent occupied.

**Discussion Questions:**

**What factors have contributed to the poor retail real estate market?**

*The overdevelopment of new shopping centers has created a lot of new retail space. However, retailers are contracting in the poor economy, so they either do not want to open new locations or want to leave their existing locations.*

**What are mall developers doing to combat the problem?**

*Mall developers are offering concessions such as reduced rent to make it more attractive for retailers to fill their vacant locations. The mall developers are having to give up long-term lease agreements or rent payments to maintain tenants.*

**Hidden Costs in Grocery Retailing**

*Use with Chapter 2, Types of Retailers, Chapter 5, Retail Market Strategy, Chapter 6, Financial Strategy, Chapter 15, Pricing*


Aldi, a German grocery retailer, has always concentrated on providing groceries at the lowest possible price. And today, though Wal-Mart still clings to its reputation as the lowest-price retailer, Aldi is slowly making inroads into the United States and challenging this status.

With its minimal décor and a small selection of products, Aldi achieves huge cost savings by offering around 1,300 stockkeeping units (SKUs) compared with 45,000 at the average grocery store, which means higher inventory turnover and less spoilage. The few products on shelves are mainly private-label products that offer a greater profit margin, priced 16–24 percent below retail prices at discounters and big box retailers.

Customers bag their own groceries and rent grocery carts for a refundable fee of 25 cents, meaning that the company does not have to hire staff to bag groceries or corral carts from parking lots. Products get displayed in the same boxes in which they arrived, again minimizing the amount of labor needed. To cut hidden costs, Aldi only take cash, which avoids processing fees or worrying about bad checks. Stores are open only during peak shopping hours to minimize energy costs.

In addition to this bare-bones approach, Aldi has added Trader Joe’s to its portfolio in an attempt to implement a low-cost model in a more upscale environment. Trader Joe’s also features mainly private-label products and a limited selection, but customers can find fresh and gourmet products at Trader Joe’s. In this slow economy, Aldi and Trader Joe’s are likely to become the grocery retailers of choice as consumer wallets continue to shrink. Both retailers offer a good option for consumers that are trading down from gourmet grocery shopping or a consumer trading down from their conventional grocery store to something more affordable like Wal-Mart.

**Discussion Questions:**

**How would you expect key financial ratios for Aldi to differ from Whole Foods?**
Aldi will have a higher inventory turnover than Whole Foods because of the difference in SKUs. Aldi will also have a higher asset turnover because it uses inexpensive in-store fixtures and displays compared with Whole Foods.

What is the primary basis for Aldi’s sustainable competitive advantage? Is it really sustainable? Why?

Aldi’s sustainable competitive advantage is that it has built a culture around extremely low costs and “no frills.” Although the lowest price is not normally a sustainable competitive advantage, Aldi’s entire business model is low cost, which differentiates it from a retailer that just cuts costs to boost profits.

Zappos’s Hiring

*Use with Chapter 19, Customer Service*


Zappos has an usual hiring and training strategy: New hires enter an intensive, four-week training program and get an offer to be paid for the work they have done, with a $2000 bonus, if they want to quit immediately. Approximately 2–3 percent of employees accept the package and actually leave.

For a company whose goal is to provide the most outstanding customer service, this strategy serves as proof that the company really means what it says. For those who really want to work at Zappos, this evidence should make them even more dedicated employees who fit right in to the culture. From the company’s perspective, paying employees who quit actually increases the value of the culture and the value for customers.

Other companies also spend thousands of dollars on recruitment and training, so Zappos argues that a trial run plus $2000 is a small price to pay for weeding out those people who would detract from the company’s carefully crafted environment. Many critics assert that Zappos will get many new hires who are not serious about the job but only want to obtain the bonus at the end of a four-week training program. Zappos claims it has not been a problem.

The Zappos CEO and founder does not operate in a conventional manner, and the brand depends on the corporate culture he had built. If employees lack passion for and commitment to the company, the entire business model fails. Many companies sell shoes, but customers like Zappos because of the service that it provides on every single transaction.

**Discussion Questions:**

**What does Zappos do to retain great employees?**

Zappos trains its new employees for four weeks and then offers them a $2000 bonus if they want to quit immediately. The company thus hires only those employees who are really committed to the corporate culture.

Name another retailer where you think such a policy would work. Now name another retailer for which you think it would not work. Explain your choices.
A retailer for which this strategy might work is a brand that depends largely on the people who make up the company, like The Container Store. The strategy would not work for bureaucratic companies such as Macy’s.