Dear Professor:

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

- Whole Foods? Try Whole Pay Check
- Green Hotel Rooms
- Technology and Advertising in Stores
- Zappos Continues to Lead in Retailing
- Catering to Pensioners
- Pricing Fixing Is Legalized
- Getting in with the College Crowd
- Retailers During the Holiday Season
- Consumer Behavior Online
- Urban Outfitters Grows
- Moving the Global Economy to the Neighborhood
- Rooms to Let, Women Only

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
Whole Foods? Try Whole Pay Check

Use with Chapter 15, Retail Pricing, Chapter 16, Retail Communication Mix


Whole Pay Check! Whole Foods has earned this dubious nickname because of its $12 bags of cherries and natural, air-chilled chicken that sells for $6.99 per pound—all in a beautifully merchandised store with pre-prepared foods and various luxuriant edibles. But since its stock price peak in 2006, Whole Foods has dropped more than 70 percent.

Even before the economy took a downturn, consumers viewed the retailer as exorbitantly priced. The recession makes consumers even more reluctant to shop in the store as they consider the various other options available for buying food. Grocery stores originally tried to tailor their merchandise to compete better with Whole Foods by beefing up organic product lines. But Whole Foods now is trying to downscale its image and show customers that it is more competitive on price than it may appear.

During Value Tours, customers get a tour of a store, featuring price comparisons with other grocery retailers. On an item-by-item basis, Whole Foods is actually very competitive on price. Moreover, Whole Foods claims it will not downscale quality, but when the same quality gets compared, prices are comparable to those in other stores.

There is no question that consumers at all levels are feeling pinched in the economy and are trading down to less expensive products. For example, a consumer may still buy wine and cheese, but perhaps at lower quality or with a less prestigious brand. Customers that are committed to organic food might still purchase organic produce and milk but not the organic cereals or packaged items found in the center of the store.

Although Whole Foods is trying to cater to its more value-conscious customers, it is having difficulty communicating that goal. Customers still see beautiful stores with the same fresh, special merchandise mix. It simply does not communicate “value.”

Discussion Questions:

How is Whole Foods communicating its price competitiveness to its customers?

Whole Foods is conducting value tours during which customers can move throughout the store and see price comparisons for comparable products in other stores.

Will Whole Foods be able to shed its “Whole Pay Check” reputation?

Whole Foods will have to continue to prove to its customers that it has good prices on similar market baskets. Consumers will slowly gain trust over time, but the expensive reputation will not disappear overnight.

Green Hotel Rooms

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

American companies and consumers increasingly are becoming more environmentally friendly, yet one industry that remains slow to catch on is hotels. Consumers just seem unprepared to make sacrifices for the environment in a setting like a hotel.

In Europe, consumers are much more accepting of conservation practices, because their energy costs have been higher for a long time. The US is only recently relative to Europe, taking energy costs more seriously. Many hotels in Europe feature master switches that turn off all the power in the hotel room when the guest leaves. European hotels also have dual-flush toilets to conserve water; when one hotel in San Antonio installed such toilets, it saved 60 percent of its total water costs.

According to the Starwood hotel chain, people want to live luxuriously when they are not at home. And environmentally friendly practices often do not go with luxurious. However, the chain that owns Westin and Sheraton hotels has opened a “green” brand, called Element, which features rooms with natural light, in-room recycling bins, and faucet filters to substitute for bottled water.

Yet even these rooms lack master switches; the chain worries that customers with safety concerns will not want to walk into a dark room, and others will not accept a room that has not had any air conditioning all day. However, Element is considering a semi-master switch that turns off just the lights and television. The Jane Hotel in New York City uses a small brass cylinder attached to the hotel keys; when a guest places the cylinder in a slot near the door, the power goes on in the room. These hotels face a real conflict though: If they cannot please their customers, they will not survive to benefit the environment.

A Shanghai hotel claims to be carbon neutral, but in the United States, a green hotel may be suitable only in lower-priced markets.

Discussion Questions:

Why are American hotel chains reluctant to put too many environmentally friendly aspects into their hotel rooms?

American hotel chains have worked hard to create a luxury image and excellent customer service; in this very competitive industry, even small things can upset customers and drive them to a different brand. Many green features seem inconvenient and thus unappealing, such as air conditioning that only works when the guest is in the room.

Technology and Advertising in Stores

Use with Chapter 17, Retail Communications Mix, Chapter 18, Store Layout, Design, and Visual Merchandising


Traditional advertising is a thing of the past; today, companies are trying to reach consumers in ways that match their lifestyles, which include DVR so people do not have to watch commercials and mobile phones that offer access to virtually unlimited information.
In-store advertising is very effective for reaching consumers; they are already in the store, and a quick ad can remind or entice them to purchase. Aroma Espresso Bars, for example, place point-of-sale ads at cash registers, so when customers order a cup of coffee, the digital display immediately shows a croissant. If the customer instead orders a sandwich, the display suggests some drinks to accompany it. The store has experienced a 68 percent increase in sales of beverages and desserts as a result of this in-store ad—just by promoting a complement to an already selected product.

Digital signage in stores likely will grow dramatically in the next five years. Seventy percent of purchase decisions are made in stores, so an in-store ad enables consumers to act immediately on their desires. The digital aspect also allows the ad to target customers more specifically. The resulting temptation is hard for customers to ignore!

Consumers like technology, and companies like (and are willing to pay for) the ability to target these consumers at opportune times. However, ads that run longer than seven seconds usually lose customers’ attention. Companies must be careful to avoid too much digital signage as well, because overcrowding and an abundance of messages can cause confusion.

When it comes to digital in-store signage, Europe is ahead of the United States. The clothing retailer New Look places digital ad screens in waiting areas outside of dressing rooms. Some retailers have experimented with using dressing rooms as selling areas by offering products, like a scarf, while a customer is inside of the dressing room, trying on a dress that could benefit from some accessorizing.

**Discussion Questions:**

**Why are companies excited about digital in-store signage?**

*Companies are finding it harder and harder to target their customers with traditional advertising. Because the majority of purchasing decisions actually occur in the in-store environment, companies can offer ads that create a perfect impulse situation for the consumer. Companies can also specifically target consumers with different ads depending on their preferences and wants at the time.*

**What are the risks associated with in-store advertising?**

*In-store ads must work fast; otherwise, they will lose customers’ attention. In addition, if used too broadly or frequently, these ads could make a store look cluttered or unattractive. Stores must ensure that the style of the ads fits the stores’ image.*

**Zappos Continues to Lead in Retailing**

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

_Ellen Davis, “How Zappos.com Streamlines its Channels,” NRFtech, August 11, 2008._

Zappos.com operates multiple retailing sites on the Internet. Its discounter site 6pm.com, its couture site, its outlet stores, and its main site all contribute to the various ways that Zappos adds value for its customers.

Zappos ensures that it keeps committed employees by offering a $1000 incentive to quit for anyone who wants it. The company believes that if an employee is willing to take $1000 in order to leave, then their commitment to the company is not strong enough, and the employee should
be replaced by someone that really wants to work there. The company also is unconventional in the way that it operates; it even directs customers to competitors if it is out of stock of an item.

Its retailing genius stems from its excellent customer service. Zappos has a 24–7 call center, 365-day return policy, and free overnight shipping. Its customer service is so great that it has become a core competency for the company, which now handles customer service and fulfillment for brands like Clarks, Stuart Weitzman, and Taryn Rose. Zappos is also adding product categories—eyewear, electronics, housewares, watches, and jewelry—to cement its reputation not as just a shoe company but as a customer service company.

To support its customer service efforts, Zappos uses an inventory management system that assigns each item a serial number, enabling constant tracking, even after an item gets sold, so that if it is returned, the company still knows the history of that item. Any item returned more than once gets inspected for potential defects. In a warehouse with 4 million units, the inventory system allows for rapid order fulfillment. Although the company says the cut-off time for next-day delivery is 3:59 PM, Zappos can actually receive an order by 10:00 PM and still deliver the product the next day.

Zappos also displays its foresight in the way it communicates with customers. From Zappos TV to Zappos blogs and campaigns using Twitter and Facebook, as well as mobile technologies, the company is looking at various ways to interact with their customers.

**Discussion Questions:**

**How does Zappos provide customer service?**

*Zappos provides excellent customer service by always having people available to help at call centers, a wide-open return policy, and overnight shipping. The company likes to surprise its customers by sending products even faster than expected. Its inventory management system and strong company culture supports this service with quick order fulfillment and employees that really care about their customers.*

**Catering to Pensioners**

*Use with Chapter 5, Retail Market Strategy*


Pensioners, or elderly customers, make up a larger portion of the U.K. market than do children younger than 16 years. Recognizing this important demographic trend, Tesco has decided to launch a new store to cater expressly to these older consumers.

The idea might not seem that radical, but shopping in the United Kingdom generally is not friendly to customers older than 65 years of age. Shelving in smaller stores often is too high to reach, signs are too small to read, and staff are not especially accommodating. The new Tesco stores will feature brighter lighting, lower shelves, larger type on signs, and easy-to-move, lightweight shopping carts (or trolleys, in British lingo), which can roll down wider aisles that provide nonslip flooring.

This move is not just for the current population of pensioners; in 20 years, half of the European population will be older than 50, so retailers must begin catering to the needs and wants of this customer base. Tesco is a successful retailer that is constantly making changes to fit its customers.
Tesco’s new store, located near a hospital and next door to New Castle University’s Institute for Ageing and Health, is not the first for older consumers; Kaiser Supermarket in Germany already is dedicated to them. This store opened in 2005 and has surpassed sales projections with its customer base made up of more than 60 percent people over the age of 50 years. As companies tune in better to these customers’ wants, people may even flock to the grocery stores for general entertainment and relaxation. At Kaiser Supermarket, they already enjoy massage chairs, sure to eliminate any trolley rage.

Discussion Questions:

Why is Tesco catering to the older customer segment?

The number of people over 50 years of age is growing dramatically. The older customer segment will be even more substantive in coming years, especially compared with the traditionally important youth segment. By starting now, Tesco will be able to refine its products, services, and retail formats to ensure it appeals to this important older segment.

What sort of atmospherics are most appealing to older consumers?

Because of their physical limitations, many consumers prefer well-lit stores that enable them to get around easily and without barriers. Music should probably be soothing rather than loud or distorted. Stores might research what kind of scents would most appeal to this target market.

Pricing Fixing Is Legalized

Use with Chapter 15, Retail Pricing


Price fixing is typically not allowed, but lately, the setting of minimum prices or resale price maintenance as dictated by manufacturers, is now common practice in certain situations. Manufacturers like to establish minimum prices, because it helps them maintain a brand image. They worry that retailers that discount products could diminish their brand equity in consumers’ minds over time. Previously manufacturers could only recommend a retail price, not control what a retailer did with those recommendations and actually charged its customers.

Retailers want to turnover merchandise, and a great way to get rid of obsolete products is by discounting them. Manufacturers and retailers have different goals, so even though a product may be obsolete because it is a fashion item, the manufacturers still do not want to see the product being marked down. Other forms of pricing adjustments can be in the form of coupons or special promotions on a product.

Discount retailers exist on a business model of offering lower prices from the beginning, so manufacturers can become upset with this immediate price reduction on their products. For example, the discount retailer BabyAge’s customers expect to find more competitive prices than other Baby goods retailers. Some of the manufacturers that it works with no longer want to sell to the retailer because it offered prices that were too low.

Although it remains illegal for companies to collude by fixing prices, because it violates the Sherman Antitrust Act, modern courts are beginning to rule on the legality of minimum prices on a case-by-case basis. The controversy notes that minimum prices may protect brands, but if they go too high, they leave room for cheaper products, which may not be of the same quality, to gain
market share. This becomes anticompetitive if the price discrepancy is so great that consumers cannot justify the added value for the higher priced product.

Markets in the United States should be free and competitive. However, more control inflicted by the manufacturer onto the retailer may cause what it has attempted to avoid.

Discussion Questions:

What is resale price maintenance?

Resale price maintenance is a minimum price that is dictated to a retailer from a manufacturer. The retailer cannot sell below that price or it will be violating its agreement with the manufacturer.

Is retail price maintenance good or bad for consumers?

There are arguments for both sides here. In the short term, it likely would keep prices higher, and it represents a form a price fixing, which courts generally consider bad for consumers. However, in the long run, retail price fixing might help protect good quality in branded products, which increases consumer confidence.

Getting in with the College Crowd

Use with Chapter 7, Retail Locations


This fall, 18.3 million students are enrolled in collegiate institutions—a 26 percent increase from a decade ago. Spending by these college students is estimated at $53 billion, 10 percent more than last year. It is no wonder that companies are galloping onto campuses to target these students.

Temporary pop-up stores on college campuses can help build brand recognition but also generate revenue. Victoria’s Secret’s Pink brand can produce $20,000 in sales in one day on a college campus. Pink has a presence at 31 schools, with 5 more to be added this year, for which it prints college-themed sweatpants and t-shirts. Another brand that loves the college market is Kiehls, a skin and hair care company, that enjoys the same amount of sales per square foot in its temporary campus stores as it earns in its normal stores.

Yet many colleges are making it more difficult for companies to get on campus, in an effort to minimize commercialization. For example, the University of Florida rejected the Pink brand’s efforts to sell on its campus, and the University of Minnesota has cancelled its agreement with the brand. According to Florida, if it allows companies to start selling on campus, it would become a commercial zoo.

Universities also want to avoid cannibalization of sales from on-campus stores that sell similar products. San Diego State University denied Havaianas entry because its own sandal store would likely lose business to the brand. The University of Alabama wanted its own sweatpants and fleece clothing to sell and therefore rejected Pink’s presence.

To operate successfully on college campuses, brands must offer some value-added feature that benefits the school. For example, a brand might sponsor a student group and help that group raise money. Pink has sponsored a sorority at the University of Tennessee and interviewed students for internships at other schools. As an environmentally sustainable company, the clothing brand RVL7 can claim it offers educational opportunities and forward-thinking practices.
Discussion Questions:

Why are college campuses hesitant to allow brands to sell in temporary locations on campus?

College campuses want to maintain the integrity of the academic environment. They fear that the commercialization of the campus will turn the school into a giant mall rather than a learning institution. Schools also want to ensure that their own stores can prosper, and competing products would put the school stores at risk.

Retailers During the Holiday Season

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


The idea of the holidays tends to bring a smile to everyone’s lips, including retailers, which enjoy the majority of their sales from consumers who ramp up their spending for end-of-the-year holiday gifts. But this year, no one seems to be grinning.

Retailers already have experienced sluggish sales, and they predict this holiday season will be the worst since 1991. Retail Forward predicted that sales would rise 1.5 percent in the last quarter—but that was before the global financial crisis.

Discount stores like Wal-Mart and Target, warehouse clubs like Costco and Sam’s Club, and dollar stores such as Dollar General probably will gain the most ground during this economically tough holiday season. Customers increasingly trade down to alternatives that are more cost effective. For low-income consumers, dollar and discount stores will provide the greatest value; for middle-income consumers, warehouse clubs likely offer the best value.

Yet all retailers are preparing for slow sales by limiting the number of salespeople and carefully managing their inventory. Others hope to attract shoppers somehow; Victoria’s Secret will offer personalized gift cards with the recipient’s name, and Target’s gift cards will also function as digital cameras!

As sales in department and other full-price luxury stores slow, Costco hopes to gain a great opportunity to buy more branded and high-end merchandise than it previously would have been able to access. From Lily Pulitzer dresses to Tag Heuer watches, Costco plans to continue to “wow” its customers with unexpected brands and merchandise value.

The recent global finance crisis directly affects the financial sector, which employs most of the high-income customers in the United States. High-end retailers such as Saks Fifth Avenue and Tiffany & Co. earn up to 20 percent of total sales from New York City flagship stores. Even luxury retailers feel the pressure to make sales this year.

Discussion Questions:

How will retailers be able to encourage consumer spending this holiday season?

Retailers will have to emphasize the value that they are providing to consumers, as well as have exciting reasons for the customer to spend their limited disposable income. As consumers trade
down, retailers likely will try to make seemingly mundane gifts, such as gift cards, more attractive and easier purchases for customers.

**Consumer Behavior Online**

*Use with Chapter 4, Customer Buying Behavior, Chapter 18, Store Layout, Design, and Visual Merchandising*


When online, consumers behave differently than they do when shopping in an actual store. Only 3 percent of customers who browse an e-commerce site actually make a purchase, so companies can no longer measure just the number of visitors to their sites. Instead, they need to know how many customers are making purchases, that is, the conversion rate that turns them from visitors to customers.

The analytics company 7 Billion People wants to personalize the online experience for every customer, because its research shows that the crucial factor missing from online shopping is emotional. Face-to-face gestures, including body language, tone, and verbiage, drive sales in stores.

Even Amazon.com, the e-commerce idol, has a 60 percent abandonment rate and a very low conversion rate. Customers place items in their virtual shopping carts but then never check out, thus abandoning their shopping cart. It is the equivalent to going to the grocery store, loading up a cart, and walking out without anything because the customer decided that he or she no longer wants the items in the cart.

For its most recent model, 7 Billion People tracks 15 primary attributes that categorize customers into eight different “portraits.” Some of these attributes include customer motivation, buying methodology, site presentation, and preferences. The data then can predict frequency on the site, returns, abandonments, and conversion rates.

Yet each customer has different expectations when shopping online. Shopping cart abandonment might occur because the customer did not like a long and rigid checkout process. Others might appreciate the complicated process, because it gives them the impression that their transaction is safe. One cruise company found that 85 percent of customers were abandoning their carts in the fourth step of the checkout process. With such information, the company can customize its offerings and improve checkout processes, which should increase conversion rates while decreasing shopping cart abandonment rates.

**Discussion Questions:**

**What are some reasons that customers abandon their shopping carts?**

Customers abandon their shopping carts when shopping online because they are not 100 percent confident in the products, the company, or the process that they are going through. For some customers, the checkout process gives them some insight into the trustworthiness of the company. If a customer does not feel that the transaction is secure, or the checkout process requires too much time, he or she likely will abandon the cart.

**Urban Outfitters Grows**

*Use with Chapter 5, Retail Market Strategy*
Urban Outfitters Inc., which owns three brands—Anthropologie, Free People, and Urban Outfitters—has experienced growing sales even in an economic downturn as other retailers are struggling.

The company plans to open 45 stores by the end of this year, for a total of 300. Anthropologie is opening its first store in Europe, and the company is also introducing new merchandise concepts.

Urban Outfitters’ brands are unique, and their style is cool because it is not widespread. The company believes that each brand should have no more than 250 stores, which would reach the maximum point of saturation. Brands that become too big or have too many stores lose the cache on which they originally were based. Since store opening growth has reached that maximum level, Urban Outfitters must create new concepts to continue to grow.

Its Terrain store, a gardening and antique center, targets Baby Boomers—quite a change from its clothing retailing history. The company also has launched a high-end women’s clothing line called Leifsdottir, sold in Bergdorf Goodman stores.

Urban Outfitters remains cautious in tough economic times, noting that no one is really bulletproof. The company stumbled in the past by moving too far ahead of trends, such as stockpiling leggings and 1980s-style clothing before people were ready for them. Yet the retailer’s great information systems can track sales based on color, sleeve type, and other attributes, which produces more information than just the knowledge that a specific item sold successfully. The company can reorder on the basis of such broad information.

Urban Outfitters’ competitors, such as J.Crew, are adding merchandise and unique displays that edge closer to the eclectic appeal that Urban traditionally has offered. Urban Outfitters wants to make sure that it leads these trends and that consumers continue to patronize its stores, even as their wallets may shrink.

Discussion Questions:

What is Urban Outfitters depending on to maintain sales in these poor economic times?

Urban Outfitters is depending on the merchandise mix that it has and continuing to seem cool in the minds of its customers. By opening new concepts, it is expanding its target audience. It is also making good use of its information systems to better predict the types of merchandise that will be popular among consumers.

Moving the Global Economy to the Neighborhood

Use with Chapter 10, Information Systems and Supply Chain Management, Chapter 14, Buying Merchandise


Rising fuel costs are changing the way that companies do business. In the past, U.S. companies would outsource manufacturing, obtain materials from all across the world, and then ship the goods to the final destination.
For example, Tesla Motors manufactured 1000-pound automobile battery packs in Thailand, shipped them to Britain for installation, and then shipped the nearly assembled cars to the United States. This model made sense when fuel prices ranged around $10 per barrel, but now that the price has risen to $125 a barrel, transportation costs overwhelm such supply chains. Moving goods is very expensive, and many items, especially those with smaller margins (e.g., food), have simply become too expensive to transport. If they were available and the transportation costs were passed on to consumers, avocados from South Africa would cost a U.S. grocery shopper as much as a rib eye steak.

In the new economy, the neighborhood effect instead is catching on; it tries to put factories close to both the suppliers of components and final consumers to reduce the transportation costs. But for many companies, existing supply chains mean that they still rely on massive container ships; a 40-foot container ship sailing from Shanghai to the United States today costs $8000 compared with $3000 a decade ago, and it moves slower too, in an attempt to save fuel.

Just-in-time systems aim to have components arrive at the exact time they are needed, in an effort to minimize warehousing costs. But modern companies may be forced to buy whichever components are available in the vicinity of their place of need, rather than buying the cheapest products in the world.

Finally, due to outsourcing, the United States may have lost significant production skills. However, the advantages of closer production and decreased transportation costs may mean that more companies, especially those specializing in heavy goods (e.g., furniture companies IKEA and La-Z-Boy) will be turning to increased domestic production in the various places they sell products.

Discussion Questions:

How are rising fuel costs affecting the global economy?

Rising fuel costs are making goods significantly more expensive. Outsourcing production is becoming very expensive, because though the products are being produced for lower costs, the transportation costs to move the goods to their next destination are high, adding a significant surcharge.

What is the neighborhood effect?

According to the neighborhood effect, by using producers located near the initial suppliers and the final consumers, companies can cut down on extra transportation costs.

Rooms to Let, Women Only

Use with Chapter 4, Customer Buying Behavior, Chapter 19, Customer Service


After World War II, when more women were entering the work force, it was important for them to feel safe if they had to travel, even in hotels that, at the time, consistently announced room numbers at check-in and forced guests to walk down dark hallways. Separate floors for women resulted in an attempt to increase their sense of safety; today, such ideas are enjoying a resurgence.
Modern women’s-only rooms offer Victoria’s Secret robes, blow dryers, and vanity mirrors, along with free cocktails, extra concierge services, and exclusive lounges. Formerly, these services were offered primarily on club levels or executive level floors—which mainly targeted male travelers. In Times Square, the Women’s Travelers floor at the Crowne Plaza provides yoga mats, wash mitts, bath salts, and a spa-style room-service menu. Other hotels offer cookies, flavored coffees, skin moisturizers, extra soft socks, and massage chairs.

Many employers also appreciate hotels that cater to women, because the comfortable atmosphere can result in more successful business trips and encourage other guests to discuss business in the common lounges. For female-oriented businesses, such as Mary Kay, this appeal is especially beneficial.

Female customers are likely to choose hotels that offer extra pampering and services. These customers will also be more loyal to the chains that are offering them superior services and amenities with their hotel room.

Although hotels are happy to satisfy their female customers, if not enough women book rooms, they face a serious problem, because the rooms on specific floors can only be given to women even if the rest of the hotel is sold. In some areas, women-only floors just may not be feasible; in these cases, the hotels can offer women more luxurious rooms and add in special amenities for a surcharge.

**Discussion Questions:**

**Why is it important for hotels to cater specifically to women?**

*Hotels cater to women by offering extra amenities that they likely find appealing and thus may bring in more customers. Female travelers have a lot of options when it comes to hotel rooms, and after a busy work day in a location far from home, the special services from a hotel can be very appealing.*

**What are some of the services that hotels position as for women?**

*Some of the amenities include in-room products such as bath salts and bath robes. The hotels also offer special lounges with free cocktails to encourage socialization in a comfortable environment.*