August 2009

Dear Professor:

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

- Marketing to Mom and Grandma
- Changing Back at Starbucks
- Best Buy's Best Marketing Buys
- Department Store Layout
- Big Lots' Big Image Revamp
- Little and Nimble
- Inner-City Grocery Stores Sell More than Potato Chips
- Integrated Multichannel Retailer: Build-A-Bear
- Luxury Brands Care Too
- Inducing Loyal Loyalty Card Use
- Mark (down) Smart
- The Smartest Place to Shop: Consignment
- Opening Fashion Options for Women of Size
- A Transformation at eBay
- Have a Coke and a Friend: Retailers on Facebook

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
Teaching Tips

Chapter 2 - Independent Retailers

George Whalin, in his new book *Retail Superstars: Inside the 25 Best Independent Stores in America*, reviews 25 outstanding independent retailers. Many of these retailers are family-owned. You can find a slide show of these retailers at http://images.businessweek.com/ss/09/06/0619_best_independent_stores/index.htm

Chapter 5 – Attractive Emerging Market for Retailers.

India, followed by Russia, China, and the United Arab Emirates, are the most attractive emerging retail market according to the 2009 A.T. Kearney Global Retail Development Index. You can find the full report plus the factors used to evaluate the emerging markets at http://www.atkearney.com/images/global/pdf/2009_Global_Retail_Development_Index.pdf

Videos on the Web

Amazon has recently acquired Zappos, a billion dollar Internet-only, shoe retailer. Two videos related to the acquisition are (Chapter 5):
Bezos talks about Amazon and Zappos http://www.youtube.com/watch?v=-hxX_Q5CnaA  Jeff Bezos providing the rationale for the acquisition
http://www.youtube.com/watch?v=tFyW5s_7ZWc  description of Zappos’ corporate culture

A service provide by Netflix is recommendations of movies that subscribers might be interested in seeing. An interesting video describing the challenges of making good recommendations is at. (Chapter 19)

American Apparel is an innovator in using RFID to keep track of individual items. A video describing this application is at (chapter 10):

Additional Material for Teaching Retail Classes

We have developed a website to provide materials for retail class instructors. The site, part of the University of Florida Miller Center for Retailing Education and Research website, has:

- Nine syllabi from instructors
- Classroom exercises
- Team projects
- PowerPoint slides
- Copies of this newsletter and the previous issues
- List of retail links, cases, and videos

Go to http://www.cba.ufl.edu/mkt/retailcenter/teachretail
We would appreciate any material you would be willing to share with other instructors. Please send your course syllabi, classroom exercises, projects, teaching types, etc to bart.weitz@cba.ufl.edu or mlevy@babson.edu
ABSTRACTS OF RECENT RETAIL ARTICLES

Marketing to Mom and Grandma

Use with Chapter 4, “Customer Buying Behavior”


For years, fashion marketers ignored older consumers and focused almost exclusively on buyers younger than 35 years of age; online retailers and sites simply followed that lead. Yet older consumers spend more on apparel than their younger counterparts, even online.

The younger buyer tends to like online fashion sites, such as Stylecaster, ShopFlick, or SmashingDarling, that highlight the latest video and social networking capabilities. But few older buyers can find much to socialize about on these sites, because few of the offerings are suited to their tastes. Based on these shopping sites, it might seem like women older than 35 years never browse the Web—an assumption that could not be more untrue. Indeed, women over 55 years are the fastest growing segment on the Web, and women in the 55–64-year-old age cohort exhibit the fastest growing sales rate for online apparel.

At Saks Fifth Avenue, whose average online customer is 42 years of age, shoppers spend approximately $400 on each visit. By showing more product angles, such as the inside of a handbag, Saks appeals to these careful consumers. Silhouette shots to show the scale of handbags and jewelry in proportion to a person's body offer additional, helpful information. In contrast, fancy, interactive components, such as online videos, appeal less to these consumers. By recognizing what its older target market prefers and then providing it, Saks has earned great success online, with sales levels second only to its New York flagship store.

MyShape.com, a designer e-retailer that takes a customer’s body measurements and recommends clothing that should fit and would be appropriate for her body type. For older consumers, this beneficial service can save a lot of time, as well as a lot of the hassle associated with returning items that just don’t look right on an older body.

Discussion Questions:

Why do so many retailers and other markets target the younger, 18–34-year-old market?

Retailers perceive this age cohort as the most attractive market, because these consumers have a lot of disposable income and minimal responsibilities, which allows many of them to spend more of their money on apparel. This market is also very fashion conscious, which often translates into purchasing more apparel more often.

Why should retailers be targeting the older consumer market?

There is a big opportunity for retailers that target older consumers, because many do not at this point. Older consumers also have more disposable income to devote to apparel than do younger consumers.

What changes and adjustments would retailers and their vendors need to make to shift their focus to the older consumers?

They would have to change the look and feel of their Web sites and offer more features that these customers prefer in their purchase process. The retailer also needs to buy and promote
merchandise that is better suited to older consumers. For example, a 50-year-old woman likely will not be wearing a miniskirt.

**Changing Back at Starbucks**

*Use with Chapter 5, “Retail Market Strategy,” and Chapter 19, “Customer Service”*

**Julie Jargon, “At Starbucks, It's Back to the Grind,” The Wall Street Journal, June 17, 2009.**

Sometimes even great retailers make a tactical error. Starbucks faces more competition than before, especially from less expensive alternatives such as McDonald’s and 7-Eleven. So, to cut costs and increase efficiency, it switched to preground coffee. But without coffee being ground onsite, the stores lost their signature aroma and thus an element of the “romance and theater” that consumers had come to associate with the Starbucks experience.

Recognizing the flaw in its logic, the company has shifted back to its original model: Grind coffee beans each time a pot is brewed.

In another service failure, Starbucks was suffering too many stockouts of brewed coffee. Customers had to wait for a new pot or leave without their coffee, even though brewed coffee should be the fastest beverage Starbucks provides, compared with made-to-order espresso drinks. The problem occurred because they allocated a certain type of coffee to a specific coffeemaker. This procedure caused the likelihood of a stockout of a preferred type of brewed coffee to occur 23 percent of the time, and the outages lasted an average of 7 minutes, until the next batch could be brewed.

In response, Starbucks now rotates the type of coffee it brews to prevent a large group of, say, Pike Place drinkers from having to wait for a new pot. Using information about the time of day and the estimated demand for each store, baristas now brew coffee every 24, 12, or 8 minutes. To make the process even more efficient, without affecting the service experience, the grinders are being moved next to the coffee bean bins.

These changes represent throwback to the past, that is, back to the atmosphere that Starbucks grew famous for providing. As Starbucks CEO Howard Schultz asserts, only when customers hear the coffee grinders do they feel like they are in an authentic coffeehouse, getting the real deal experience.

**Discussion Questions:**

**What is Starbucks doing to enhance customers’ shopping experience?**

Starbucks is enhancing the customer experience by changing the operations of its store. It is preventing coffee outages and grinding the coffee beans every time a new pot is brewed.

**How did such a strong retail company get into this position in the first place?**

This experience shows that even great companies can make mistakes, especially in the pursuit of efficiency. Starbucks wanted to cut costs and increase efficiency, but in doing so, it lost some profits because customers did not find as much value in their experience. It also shows that companies need to be able to recognize their errors and fix them; they will happen to every company, so the point is whether the firm can rebound from its mistakes.
Best Buy’s Best Marketing Buys

Use with Chapter 5, “Retail Market Strategy,” and Chapter 16, “Retail Communication Mix.”


Typically, when a firm increases its marketing budget, its marketing initiatives increase proportionally. But in these tough times, firms must try to do more with less. Even as Best Buy reduces its marketing budget, from $340 to $295 million and by 8 percent in the first quarter of 2009, it is trying to get more out of each dollar spent. To do so, it is focusing more on the effectiveness of its campaigns rather than simply on the dollars it spends, and really effective new media can be far less expensive than traditional television spots.

Circulars in Sunday papers always have shown shots of big-screen televisions and must-have accessories for sale at Best Buy. Now they also include short-code text messages. Consumers can text the code, even as they finish their coffee, to receive information about the product instantly on their cell phone. If they include their zip code, the text messaging service will also indicate where the closest Best Buy store is located.

Circuit City may have left the scene, but Best Buy considers the competition just as fierce, especially when it confronts Walmart, the retail giant. The two retailers share 90 SKUs in the electronics category, so to try to attract customers away from Walmart; Best Buy offers the same or lower price on 70 of them. After meeting Walmart on price, Best Buy brings out its trump card: knowledgeable sales associates, which should give it a competitive edge over Walmart’s low service model.

These competitive actions are no secret—Best Buy trumpets its strategy in its aggressive television ads. For example, in “True Stories,” a customer calls Best Buy from inside of a Walmart. The Best Buy sales associate in the spot asserts, “You’re obviously calling us because we’re knowledgeable. We’ve got the price match guarantee, so why don’t you come on in?” Is the strategy a smart move? Can Best Buy call out the big retailer on the block without incurring some retaliation from Walmart?

Discussion Questions:

How is Best Buy trying to compete with Walmart?

By dropping prices to at or below Walmart’s, Best Buy attracts price-sensitive shoppers; it also reduces their sense of risk by offering a price-matching guarantee. Then, it gains a competitive edge by employing knowledgeable salespeople who can offer extensive and technical assistance.

Do you think this is a good strategy?

This strategy might be effective as a means to attract potential Walmart customers. But Walmart is well-known for retaliating against competitors that go after it head-to-head. I wouldn’t want to provoke the wrath of Walmart if I were Best Buy!

Department Store Layout

Department stores offer a broader selection of merchandise than specialty retailers. Some of them even appear to be turning into miniature malls, with different store-within-a-store shops for each vendor. Department stores allocate specific space to a particular vendor, which makes it stand out as appearing to be slightly separate but still inside the bigger store.

Productive vendors establish a specialty look and feel, with special music, décor, and even staff trained specifically to sell their products. Some such vendors have used the experience they gained within the department stores to open their own retail outlets, outside of and competitive with the department store.

Yet some department stores are now comprised of collections of smaller stores, so customers must shop by collection or vendor rather than by category. Vendors appreciate the ability to show off their entire collections, as they intended, and basket sizes may increase as consumers select more coordinating elements, which benefits the department store. However, a shopper looking for a specific item—say, a white t-shirt—experiences less convenience, because he or she has to visit each vendor’s store-within-the-store to review their various offerings.

The department store’s competitive advantage comes from the access it provides to many brands and thus its ability to drive trends and styles. Perhaps stores-within-a-store are moving department stores away from their very best characteristics.

In parallel contexts, Forever 21’s brands and Whole Foods’s 365 brands get dispersed throughout the store, according to category, rather than located in their own sections in the stores. For a brand to stand alone within a store, there should be a very good reason, such as a new introduction or a temporary marketing promotion. The widespread, indeterminate usage of stores-within-a-store may be killing department stores.

**Discussion Questions:**

**What is a store within a store?**

A store within a store is a small space allocated to a specific vendor. The space provides a different feeling and special décor to match its brand. The sales associates are also trained specifically about the products sold in the store within a store.

**Who benefits from store-within-a-store shops? Whom does it harm?**

Vendors benefit, because they get highlighted in the store. Retailers benefit because their most productive vendors have opportunity to sell even more by creating a unique environment that stands out from the rest of the store. Consumers benefit if they like to shop at brand-specific shops. However, for customers looking for a particular category, the store-within-a-store concept is disastrous, because it forces them to visit each shop to find what they want. If the concept is bad for customers, it also will be bad for department stores in the long run.

**Big Lots’ Big Image Revamp**


Tom Ryan, “Big Lots Tests Upscale Prototype,” Retail Wire, June 1, 2009.

The close-out retailer perhaps best known for its rummage-sale bins has become a truly valuable option for customers in today’s economy. As a result of Big Lots’ recent success with earnings, which exceeded Wall Street’s expectations, the retailer is spreading its wings a bit, testing out cleaner store designs in better locations.

Big Lots buys overstock or out-of-season merchandise from retailers, manufacturers, and wholesalers, then sells it at clearance prices. Customers do not visit Big Lots for particular items; they go on a “treasure hunt” to find unexpected bargains at a great price, which offers the added value of excitement. Customers spend a shocking amount of time—30–35 minutes—browsing the store (for comparison, the average supermarket store visit is 22 minutes).

To keep its overhead low, Big Lots normally locates in secondary locations, with less customer traffic and low-priced leases. But a recent vacancy in a prime location, left by a Linens ’N Things storefront after that chain declared bankruptcy, gave Big Lots the opportunity to open a store nearby high-end tenants such as Saks Fifth Avenue, Macy’s, Brooks Brothers, and Victoria’s Secret.

The new store in an upscale environment gives the retailer a perfect test site for various changes, such as more attractive in-store presentations, brighter lighting, wider aisles, and a cleaner look that evokes a department store rather than a close-out outlet. Big Lots also is trying out some higher quality merchandise that it can grab from high-end manufacturers and retailers, who themselves are suffering sales losses in the depressed economy. The opportunity for Big Lots is huge; if the upscale store succeeds, the retailer plans to implement the new store atmosphere in all its 1,300 retail outlets.

Discussion Questions:

Is there a realistic opportunity for a closeout retailer such as Big Lots to reach more upscale customers and still maintain its core shopper base?

Yes, Big Lots can do both, assuming it can find good deals on overstocks of the high-quality merchandise. It will need to maintain its current merchandise selections and add upscale merchandise to attract new customer segments. If it does so, it can avoid alienating its core shopper base. All customers like clean shopping atmospheres, which make it easier to find items.

What changes will Big Lots have to make to appeal to a more upscale customer?

Big Lots needs to find higher quality merchandise if it hopes to compete with other retailers that rely on a treasure hunt, such as Costco or TJ Maxx.

Will it need a separate brand for the upscale store to make this arrangement work? Why or why not?

Either path might succeed. If Big Lots establishes a separate brand for a more upscale store, customers might not recognize the offer, which could mean existing customers would not shop there but more upscale customers, put off by its low-end reputation, might. If Big Lots does not develop a new brand name for the upscale stores, it could attract both customer bases to the store if it can provide something for everyone.
Little and Nimble

Use with Chapter 6, “Retail Financial Strategy.”


There are some real benefits to being a big retailer—economies of scale, scope, and so on. But in the modern economy, some smaller firms are enjoying the benefits of their size too, especially the flexibility that comes from smaller operations.

One New York–based women’s shoe designer, for example, usually earns annual sales of $4.5 million. But when retail customers balked at spending $170–$350 for the high-end shoes, the retailer decided to offer lengthy credit terms to its customers, in which the women put down a deposit on the shoes in the first 30 days and then paid the rest over the next 60 days. For retailers selling its shoes, the designer (manufacturer) has allowed smaller orders and offered training of retail employees to help sell the shoes. These efforts have helped the designer increase sales by 20 percent in the first quarter of 2009.

Such efforts also have long-term benefits, in that retail customers remember and appreciate the gestures, which can lead to increased loyalty. Overall, the retailer is exceeding customers’ expectations and thereby retaining the customer, which may be the most important metric today.

Most companies are working to cut back on expenses, often by cutting services, but this type of strategy will never impress customers. It is in the worst economic conditions that customers may find the companies that treat them best will be the ones to which they plan to remain loyal, even after the recession ends.

Discussion Questions:

What are some vendors doing to maintain their retailer customer?

Vendors are extending their payment terms, decreasing order minimums, and offering extraordinary service, such as visiting business customers and helping train sales associates.

How do these activities help retailers’ income statements and balance sheet ratios?

Net profit margins increase in some cases, especially if the vendor takes on more of the training expenses for the same sales. Inventory holding costs might decrease, thus increasing inventory turnover, if the vendor allows the retailer to place smaller orders.

Inner-City Grocery Stores Sell More than Potato Chips

Use with Chapter 7, “Retail Locations.”


Inner-city neighborhoods are not known as the sites of lavish grocery stores; most supermarkets in low-income neighborhoods offer limited fresh produce and instead feature low-priced foods with long shelf lives. But government programs, in partnership with nonprofit organizations, are working to change the supermarket landscape.
In a low-income Philadelphia neighborhood, a 70,000-square-foot supermarket, stocked with fresh produce, a pharmacy, and various ethnic products, sits within walking distance of most residents. Before it opened about a year ago, as one resident tells it, she would have to take a long bus ride or pay someone to drive her to a grocery store where she could find fresh products to buy.

Such limited access to fresh foods has helped contribute to the high levels of obesity and diabetes among impoverished citizens. Nonprofit organizations consider these developments deeply problematic, so groups such as Philadelphia’s Food Trust lobbies for more loans and government subsidies that will support supermarkets in lower-income areas.

Some issues remain though. Supermarkets have high security needs and costs, and they likely will not sell many high-priced, high-margin products, such as prepared foods and fresh bread, to people living under the poverty line. In an industry in which 2 percent profit margins are the norm, the added costs and expansion of low-margin products makes it difficult just to break-even.

So the incentives for building new stores in areas that offer less than stellar profit opportunities will need to be very attractive for retailers to take the risk. In Philadelphia, the Food Trust received $120 million in private funds and allocations from its nonprofit efforts to fund 69 projects throughout the United States. Five of them already have failed due to a lack of funds.

**Discussion Questions:**

**Why do inner-city neighborhoods sometimes need a little extra help to attract good retailers and services?**

Retailers cannot produce sufficient profit margins to make the inner city an attractive place to open a store from a financial standpoint. The costs are higher to run a store in the inner city, and the merchandise consists of mostly lower-margin products. Tax credits, government grants, and extra funding could make these projects more viable.

**What sorts of moral or ethical issues are at play in this discussion?**

On the one side, it seems morally repugnant that people with less money cannot buy fresh, healthy foods, simply because they are not available. However, inducing large supermarket chains to enter inner-city neighborhoods also could have some ethically questionable effects, such as if they drive smaller stores out of business. Addressing this issue therefore requires the careful consideration of the interests of all the stakeholders: customers, store owners, taxpayers, policymakers, and so on.

**Integrated Multichannel Retailer: Build-A-Bear**

*Use with Chapter 3, “Multichannel Retailing.”*

**Sandy Smith, “Beary Interactive,” Stores, June 2009.**

The Build-a-Bearville Web site allows some of Build-A-Bear Workshop’s more than 8 million customers to enter a virtual world in which they can create avatars, make friends, and hang out with their very own stuffed animal friends—just as they do in the stores.

In Build-A-Bear retail stores, young customers build their own stuffed animals by choosing the type of animal, stuffing it, choosing its clothes, then bringing it to “life” by inserting a heart and registering it. When customers leave the store, they take with them their personalized stuffed animal and its birth certificate.
Online, the successful retailer recreates the personalized experience by allowing customers to interact with other bear-loving customers. To begin, the users enter the code on the birth certificate of their stuffed animal. After creating avatars to represent themselves, these young consumers see their stuffed animal come to life on screen.

In Build-a-Bearville, children can play games, interact with other avatars, and play through their stuffed animals. Each toy purchased at the store comes with a virtual item to trade or collect in the virtual world. Avatars also can purchase virtual items such as condos or a Segway using Bear Bucks.

Some visitors to the site have yet to get their actual stuffed bears; they can still create an avatar, but to enjoy the whole Build-a-Bearville experience, they need the birth certificate of an actual stuffed animal. That is, the overall experience improves when a customer uses both channels, and this target audience is adept with alternating between the online and real worlds. Technology thus enhances customer satisfaction with the retailer, both onscreen and in stores.

**Discussion Questions:**

What is Build-A-Bear doing especially well in the multichannel space?

*Build-A-Bear is using its virtual world to continue and extend the in-store experience. Customers can take their real-life stuffed animals and bring them to life online, as well as interact with other kids.*

Take the Build-A-Bear multichannel concept and apply it to another retailer.

*Nike has an integrated multichannel strategy whereby a runner can buy a chip, similar to a pedometer, that tracks his or her speed. The customer can then go online and compare running results over time, set goals, and talk to other runners, both in his or her local area and around the world. The technology component thus enhances the retail experience for the customer.*

**Luxury Brands Care Too**

*Use with Chapter 5, “Retail Market Strategy.”*


According to a 2007 study by the World Wildlife Foundation, luxury goods businesses were the most out of touch with ecological trends. In general, luxury brands have prompted criticism for their lack of consideration for carbon emissions or the environment overall.

However, faced with a changing, younger market that does not perceive the same value in luxury brands as its aging core customers, some of them are working hard to change the way consumers feel about them. For example, the French luxury firm PPR has produced a €10 million documentary, *Home*, about the human impacts on the environment. It also created a social and environmental responsibility department that reports directly to the CEO and made executives’ bonuses partially dependent on social responsibility factors, such as reducing carbon emissions and promoting diversity.

A luxury rival, LVMH also has evaluated its carbon footprint and decided to minimize its corporate travel and air-based shipment of goods. Its “Core Values” ad campaign, featuring the tennis player Andre Agassi, rocker Keith Richards, and astronaut Buzz Aldrin, supports Al Gore’s
Climate Project, in that the celebrities each donated some of their earnings to the nonprofit group. Not to be outdone, Ermenegildo Zegna sells an “Ecotech Solar” jacket with solar panels on the sleeves that can recharge a battery and heat up the jacket’s collar.

However, these luxury companies need to be careful to avoid any perception of “greenwashing”—that is, paying lip service to environmental causes to promote their products but not actually committing to environmental causes. The backlash from such activities can be severe, leading consumers to disbelieve any of the companies’ claims in the future.

**Discussion Questions:**

Why are luxury brands including the environment in their business plans?

*Luxury brands realize that their core consumers are aging, and younger consumers care more about the environment.*

What is greenwashing? Why is it not an effective long-term strategy?

*Greenwashing means paying lip service to environmental causes, without really doing anything to support them, to promote a company’s products. Companies that greenwash do not reduce their carbon footprint and only make green claims for marketing purposes; they are likely to lose the trust of their customers in the long term and perhaps forever.*

**Inducing Loyal Loyalty Card Use**

*Use with Chapter 11, “Customer Relationship Management.”*


Most households hold approximately 14 loyalty cards from various stores. But most of those households keep only 6 of the cards active. In the face of the reams of loyalty card offers, customers feel overwhelmed, especially when they receive offers that seem totally uninteresting. Loyalty card preferences also differ by customer—some want cards that improve the customer service they receive, others prefer free items if they purchase a preset amount, and still others enjoy accumulating points to receive a reward. Yet all loyalty programs aim at building customer relationships. So why don’t loyalty cards capture consumer loyalty?

A key reason may be people’s basic preference for instant gratification. Especially among the 80 million consumers in the 12–31 year age bracket, waiting for their rewards makes no sense. Such customers instead exhibit loyalty toward retailers that their friends or family like or that seem cool, according to word of mouth. Loyalty programs need to become far more simple and streamlined so that customers enjoy the benefits that they receive, as opposed to receiving irrelevant offers or waiting an eternity to finally get something free.

That is, successful loyalty programs are those that appear relevant to customers, likely through personalization. If a loyalty card offers a cup of soup after the customer purchases 10 sandwiches, it fails; this customer may not even like soup. Instead, if retailers can learn more about their customers, they can offer a personalized reward program that induces a deeper bond between the customer and the company.

**Discussion Questions:**

What are some of the main problems with most customer rewards programs?
The overwhelming number of customer rewards programs do not offer rewards that interest consumers or encourage loyalty.

Where are the biggest opportunities for loyalty programs?

Retailers should offer rewards and perks to customers on the basis of their previous transactions and what they want to buy. Customers then should exhibit loyalty to the retailer because it knows just what they want.

What type of program or incentives would make you loyal to a particular retailer?

A program that offers me coupons, services, and rewards that I might actually use and could use immediately would be appealing. For example, when my grocery store, where I have a loyalty card, hands me a coupon for an item I’m buying at the checkout line, I think it’s great, and I come back the next time to buy the same item.

Mark (down) Smart

Use with Chapter 15, “Retail Pricing.”


It’s a sign of the times: retailers closing stores and drastically marking down merchandise to survive the economic downturn. But the type of markdowns, and how retailers go about them, are different than those seen in past recessions.

National retailers traditionally offered the same prices and identical markdowns to all their stores, whether located in New York City or a small town in Kansas. But these very different markets have unique demands, and they can support very different pricing levels. Even within New York City, a Banana Republic store in the World Financial Center offered a skirt for $39.99, marked down from $69. At the SoHo store, just a few blocks away, the same skirt was priced at $33.99. The markdowns depend on local demand and inventory levels.

Such an approach, rather than slashing prices across the board, can reveal which products need even further markdowns and which should retain their price, according to the demand for the product. Many retailers are investing in markdown optimization software that might increase their pricing sophistication and thereby earn them more profits, even with less sales. Some of the software promises gross margin increases of 4 percent, along with a 15 percent improved sales-to-stock ratio.

Even without fancy software though, some of the pricing decisions seem almost too obvious: The MyMacy’s program offers local promotions and discounts on geographically specific merchandise, such as swimsuits. Markdowns on swimsuits may make sense in September in Maine, but the retailer might still earn almost full prices on such items in Florida in the same month. Using such tactics should become part of retailers’ strategies to institute markdowns while demand persists for the product, rather than waiting until no one even wants to think about swimsuits.

Discussion Questions:

Why do retailers sometimes use different markdowns in different stores?
Each store experiences unique demand for an item. Just as stores should stock different items, based on their location and clientele, their pricing and markdown decisions should reflect their market segment.

**How do retailers decide which stores should charge which price?**

Retailers might maximize their profit margins by keeping prices higher where the demand is higher and marking down products more where the demand is lower. They also might use software that can show them, with great detail, which stores sell more of which items, and then price accordingly.

**The Smartest Place to Shop: Consignment**

Use with Chapter 2, “Types of Retailers,” and Chapter 6, “Retail Financial Strategy.”

**Rinker Buck, “Consignment Stores Offer Big Brands,” The Hartford Courant, June 21, 2009.**

Consignment stores are bustling! Many young consumers feel good about reselling their clothes to put them to better use, live up to their green ideals, and earn some cash in the process. But with this new type of customer comes a new type of atmosphere.

The Uptown consignment store in Connecticut attracts 35,000 consignors who provide approximately 1,500 new items per day. The store boasts brands such as Nautica, Anne Klein, Brooks Brothers, and Diesel, and it has enjoyed a 30 percent increase in sales compared with last year.

The irony is that the stores’ boom comes as a result of an economy that forces many consumers to cut their costs. Traditional stores—from department stores to specialty shops—keep running sales, training customers to search for prices below the retail cost. This Pavlovian response is great for consignment stores though, because their stuff is always on sale—or at least way below retail price levels. And even as they enjoy the sense of victory they gain from scoring a great bargain, customers can pat themselves on the back for their green shopping, because they have reused and recycled items that others have discarded.

Despite the persistent image of consignment stores as dingy shops selling grandma’s polyester leisure suit, they certainly are joining the modern era, using directed e-mail messages to communicate with customers. One store hosted a “Cash for Your Jeans” promotion, for which it advertised on the back cover of Rare Reminder magazine. Have a leftover pair of Seven for all Mankind jeans? Bring it in and get $10!

**Discussion Questions:**

**What differentiates the strategic profit model ratios for a consignment store from those for a traditional apparel retailer?**

A consignment store sells items for lower prices than can traditional retailers, but its gross margin percentage may actually be higher because it buys things very cheaply and if done well, doesn’t have to take as many markdowns. Its expenses are also lower because most stores do not engage in the same level of advertising or service as traditional retailers. Thus, its net profit margin might be higher. The consignment store also has fewer assets, especially due to the consignment nature of its inventory, which it does not have to purchase. Thus its inventory turnover is likely to be higher. Fixtures in the store likely are less expensive too. Thus, the
A consignment store has a higher asset turnover. Overall, since its net profit margins and asset turnovers may be higher, its return on assets will also be higher.

**Opening Fashion Options for Women of Size**

*Use with Chapter 5, “Retail Market Strategy,” and Chapter 14, “Buying Merchandise.”*


For years, retailers have simply ignored a significant segment of the population: women who wear size 16 or higher. Plus-size figures struggle to find trendy styles, but many are available only in sizes up to 12 or 16. Due to this ignorance, combined with greater obesity rates in the United States, a vast number of women cannot find fashionable clothing that fits.

Apparel sales for plus-size women and girls (age 13–34 years) reached $5.8 billion last year, though of course economic strains hurt spending in this sector, just like virtually every other. In response, the retailer Topshop has partnered with the lead singer of the punk band Gossip to design a plus-size line for its Evans division of the company. Forever 21 has also initiated a plus-size line called Faith 21 which has 250 larger styles. Other style icons could easily represent a fashion line, such as the singers Jordin Sparks, Jennifer Hudson, and Adele or Danielle from *Stylista* on the CW Network.

Both Old Navy and Ann Taylor tried selling larger sizes but now only sell the lines online, whereas H&M has exited the market completely. Reallocation of retail floor space to accommodate new plus-size lines is challenging, and adding a broader size range is complicated and expensive. Furthermore, merchandising plus-size merchandise can be tough because typically customers don't want to shop in a section that sets them apart.

**Discussion Questions:**

**Why are some retailers paying more attention to selling clothes to plus-size women?**

*Companies such as Old Navy, Topshop, and Ann Taylor are pursuing the growing segment of larger women with accommodating sizes in fashionable styles.*

**Why do you think that retailers have ignored this market segment in the past?**

*Retailers have ignored this segment because it is difficult to stock a size run that covers all of the sizes. Currently a normal size run is 0–14, which means eight sizes. To include larger sizes, the retailer would need to add at least five additional sizes of 16–24.*

**A Transformation at eBay**


In the 1990s and early 2000s, eBay led the e-commerce pack. With its communities of buyers and sellers, engaging in transactions with one another, usually using auction-style listings and
bidding, eBay helped consumers find and sellers get rid of novelties, antiques, and items that would never show up in more traditional retail stores.

But the model has been struggling, confronted with an increasingly competitive online environment that offers ever more choices and opportunities for bargains. The industry giant Amazon.com attracts customers with its fixed price listings and free shipping, though its stock dropped 6 percent in the past year. Such a decline may seem bad, but eBay’s stock dropped 43 percent.

Thus, eBay is changing its site in an effort to help buyers and sellers. Making 25 million users happy is a serious challenge though. Consider two eBay sellers as an example: One seller moves large volumes of the same product, such as electronics, which have easy-to-find suggested retail prices. The second instead offers unique items without a specific intrinsic value, like collectible action figures.

When eBay decreased listing fees but increased the commission it received when the item sold, it benefitted the former type of seller with smaller listing costs. But for the second type of seller, the commission increase hurt. In another shift, eBay dropped the listing fee on fixed-price auctions to 35 cents and allowed sellers to list items for 30 days instead of 7. This change again was great for the large volume sellers, but it attracted many more sellers, crowding the listings and increasing competition on the site.

According to eBay, the future is in overstocks and out-of-season merchandise. Antiques and used items may be popular for customers, but the site anticipates that these listings will dwindle as it gears more toward fixed price listings and higher commission structures.

**Discussion Questions:**

Why is eBay devoting more attention to offering merchandise at a fixed price rather than using an auction pricing method?

*Fixed price listings attract sellers with consistent merchandise, who can sell more volume of the same item, whereas an auction-style listing only provides for the sale of one item at a time.*

Who benefits and who loses from this change in strategy?

*Although buyers are not directly affected by the changes to the pricing and commission fees, they may consider eBay an appealing alternative to Amazon or Best Buy if it offers greater consistency in its merchandise. The effect on sellers depends on their eBay strategy. Sellers of low volume novelty items likely stand to lose, whereas sellers of high volume, standard merchandise likely will benefit.*

Is eBay making the right choice in moving more toward fixed prices and away from unique trinkets?

*It may be too early to tell, but eBay built its reputation on its auction-style approach, and moving away from that model seems risky. In addition, increased competition may drive down prices on the site, which could harm the revenues for both sellers and the site. Finally, buyers may be disappointed if they can no longer find strange or quirky merchandise that they couldn’t find anywhere else and therefore may start buying from more conventional sites.*

**Have a Coke and a Friend: Retailers on Facebook**

*Use with Chapter 16, “Retail Communications Mix.”*
Social media remains a huge opportunity for retail marketing, mostly because of the vast number of people whom marketers can reach quickly and easily. On Facebook, brands create profiles, just like a person using Facebook would, to catch the attention of users and keep them engaged with the friendly entity.

On public profiles, users can become “fans” of the brand, which then places the brand on the user’s own profile page. Many brands have attracted a wealth of Facebook fans quickly, but few of them engage these users in a meaningful way. Those that send mass messages encourage their fans to turn away from it, annoyed with the unending stream of messages that fill their inboxes.

One success story thus far appears on the Coca-Cola page: It effectively communicates with fans by posting photos, videos, and status updates, then allowing fans to comment. Two active fans of the brand, Michael and Dusty, received jobs managing the Facebook page, so that it maintains the consistency of a single voice. With these methods, the Coca-Cola Facebook page has grown to become the largest brand on the social network site.

On World AIDS Day in December, Starbucks committed to donating 5 cents to the Global Fund for every drink purchase made that day, so it rallied its 1.5 million fans on Facebook with an invitation to visit their local store to participate. The event, the most viral in Facebook history, created significant excitement and positive feelings toward the brand.

Facebook ads offer another valuable tool. Brands can target specific people or groups according to their psychographic and demographic information. Want to target just women who enjoy running and watching Desperate Housewives? You can, because Facebook will post your banner ads only on the user profiles that indicate this information. With 200 million active Facebook users, marketers are salivating at the opportunity.

Discussion Questions:

How can retailers use Facebook to build their brand image?

Retailers first might attract fans to their pages, where they can post content that their fans might appreciate, such as video, photos, or status updates. Users who engage with the brand generally develop positive feelings toward it.

What are the risks of using Facebook for brand building?

If a brand sends out mass messages to communicate with fans, its image likely will diminish, because users do not like spam. In addition, users are free to express positive and negative opinions on Facebook, so the brand must be ready for both the good and the bad.