Dear Professor:

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

- Best Buy Without Circuit City
- Wal-Mart's Sustainability
- The Death of the Department Store Business Model?
- The Elderly Become the Most Attractive Segment
- Luxury Retailing on eBay
- Blog-Based Customer Service
- The Financial Health of Retailers
- Online Retailing
- DVD Rentals from a Vending Machine
- Self-Service
- Teen Specialty Stores Not Faring Well
- The Right and the Wrong Way to Discount

The articles in this and past newsletters are sorted by chapters in Retailing Management, sixth edition. If you are interested in the textbook 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
CLASS DISCUSSION TOPICS

17 of Business Week’s Top 25 in Customer Service are retailers
See Chapter 19 in Levy & Weitz

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A slide show on Business Week customer service champs
http://images.businessweek.com/ss/09/02/0219_customer_service/2.htm

Review for an Exam

One suggestion for conducting a review session for an exam is to have students to play a game similar to “You Want to be a Millionaire.” Select a student for a volunteer (you might offer extra credit to student participating). Prepare 8 multiple choice questions with four potential answers. If the student answers all eight, he/she gets a prize. The student has two life lines – (1) eliminating two of the four potential answers and (2) requesting a vote of the class.

Materials Available on the Internet

Family Dollar’s Retail Strategy  Powerpoint slide show with notes – use with Chapter 5 Levy & Weitz
http://www.cba.ufl.edu/mkt/retailcenter/docs/powerpoint/familydollar.ppt

ESRI website for looking up the geodemographic profile of a zip code. You can enter a zipcode in class and get information on the lifestyle clusters living in the zipcode – use with chapter 7 and 8 Levy & Weitz
http://www.esri.com/data/esri_data/community-tapestry.html

ESRI website for sample reports for profile of a trading area
http://www.esri.com/software/bao-us/about/demographic.html
ABSTRACTS OF RECENT RETAIL ARTICLES

Best Buy Without Circuit City

Use with Chapter 5, “Retail Market Strategy”


Now that Circuit City has declared bankruptcy and closed its doors on the consumer market, Best Buy is the only leading player remaining in the electronics field. To remain on top, the electronics megastore is implementing aggressive plans to compete with its latest retail adversary: Wal-Mart.

Wal-Mart previously stocked just a modest selection of big brand television sets, video games, and mobile phones, but it has amplified its electronics departments; sales increases compared with last year totaled 5.1 percent. Wal-Mart also offers competitively low prices on electronics, which appeal to the suddenly sparse sensibilities of consumers victimized by the down-sloping economy.

Best Buy focuses on the in-store experience and promotes more interactive stores in which customers can interact with the technology, not just peruse products resting inertly on shelves. The store’s showrooms are more captivating and exciting than Wal-Mart’s warehouse-like displays. Best Buy also plans to compete with Wal-Mart on price though to gain a further edge. Whether this goal means shooting for the stars—that is, the great strategic payoff of profit—or simply keeping its head in the clouds remains to be seen.

Best Buy also knows that employees in the retail stores are crucial to the customer experience. They must possess a positive outlook about the entire Best Buy experience, as well as wide-ranging knowledge about the company’s products.
The current chief operating officer of Best Buy did not go to college; he worked his way through the ranks, starting as a humble retail employee. Based truly on his personal experience, he knows that the store is where everything happens. Even as Wal-Mart attempts to mimic Best Buy’s strategy by making its electronics showrooms more impressive, Best Buy’s relies on its spirited, plugged-in, and unique employees, which makes its competitive advantage likely to persist against rival stores.

**Discussion Questions:**

How is Best Buy planning to compete with Wal-Mart for consumer electronic sales?

*Best Buy is competing with Wal-Mart on price and also focusing on the in-store experience with an interactive environment and knowledgeable and friendly staff. The new Best Buy strategy to include Wal-Mart in its competitive analysis comes as the United States is suffering a recession and consumers are forced to choose the least expensive options.*

Do you think this strategy will be successful?

*It depends on what you call “successful.” It makes no sense to try to compete with Wal-Mart on price, so Best Buy must find another method. The strategy can only be successful if they focus on the in-store experience more than on the price.*

**Wal-Mart’s Sustainability**

*Use with Chapter 14, “Buying Merchandise”*


In the face of widespread criticisms for working with suppliers that engaged in unsafe, poor, and environmentally unfriendly practices, Wal-Mart has created a supplier agreement that mandates all manufacturers must be audited by third parties, as well as by the retail giant.

Wal-Mart earned itself a negative reputation in the 1990s because of the inhumane conditions in the factories that produced its apparel. Nongovernmental organizations accused the company of labor violations and abuse in 15 factories; in Bangladesh for example, workers were forced to work 19-hour shifts and made only $20 per month. Federal prosecutors also brought a complaint against it for dumping hazardous waste in Oklahoma City.

More recently, Wal-Mart has fought hard to change consumers’ and suppliers’ perceptions of its image. It began with public relations campaigns but also has made some company changes that will enable it to lead the retail industry. In particular, Wal-Mart is closely monitoring all of its more than 1,000 suppliers, and by 2012, it will require them to achieve the highest environmental and social ratings to continue supplying the retailer.

The company believes that by starting with the source of production and maintaining a high standard throughout the supply chain, it can create better business practices overall. Wal-Mart also asserts that any company that cheats on overtime, use of child labor, dumps waste and chemicals, fails to pay its taxes, and does not honor its contracts also it will compromise on the quality of its products.
Thus, Wal-Mart’s new supplier agreement will need to include checks and balances. Suppliers that are pushed to provide the lowest prices may have a difficult time sticking to the higher environmental standards. Outside auditors also may not want to report abuses by a manufacturer that risks losing Wal-Mart as a client, because doing so might mean the auditor also has no more audits to make.

Discussion Questions:

What is Wal-Mart doing to toughen its buying standards?

*Wal-Mart is requiring third-party audits and unannounced audits by Wal-Mart. It will require suppliers to maintain a high level of environmental and social standing, which includes wages and child labor regulations.*

How do you think these changes will impact its vendor relations?

*Vendors will find it difficult to maintain a high level of environmental sustainability while keeping costs as low as possible. However, vendors may appreciate Wal-Mart’s initiative to improve practices that are degrading society and the environment.*

The Death of the Department Store Business Model?

*Use with Chapter 2, “Types of Retailers”*


Department stores are suffering in this economy. But many analysts argue that their troubles are not really due to the economy but rather reflect the way the stores operate. In that case, even the end of the recession would not mean the return of the successful department store.

The current market contains ten prominent department stores that earn more than $3 billion in sales: three luxury sellers (Neiman Marcus, Saks, and Nordstrom), two mid-tier sellers (Macy’s and Dillard’s), three value chains (JCPenney, Kohl’s, and Sears), and two regional chains (Bon-Ton and Belk).

Tremendous consolidation in the industry has made for greater efficiencies but also meant many corporations lost touch with their customers. Macy’s, as a national chain, makes corporate decisions but also realized it needed to know its customers better. Therefore, it launched the My Macy’s program to ensure each store would have a local feel, with a set percentage of merchandise unique to that store.

As this consolidation has progressed, shoppers’ behavior has changed, but the department stores have not kept up with such changes. Aspirational shoppers spend less on luxury, instead mixing different price points and brands. Stores like Zara and H&M produce the latest fashions quickly and cheaply, giving consumers an alternative to slower, more expensive department stores.

At a department store, a consumer in need of a little black dress must paw through every vendor’s section of dresses, often in various sections of the store. Merchandising by vendors’ name, the typical approach adopted by department stores, may not be the best way for consumers to shop.
Vendors are also catching on to the downfalls of department stores and turning to their own direct lines. Estée Lauder, the best protected department store cosmetics brand, is even selling to consumers online. In the same market, Sephora stores make it easy for vendors to sell to the consumer. There are many ways to sell, and department stores appear to be falling behind the curve in their proffered methods.

Discussion Questions:

What are the trends in department store retailing?

Department stores are having a hard time staying in touch with who their local customers are, because they have become large, mostly national chains. Vendors that typically only sold their merchandise to department stores are now selling directly to the consumer.

Do you shop in department stores? Why or why not?

I shop in department store for the large variety of merchandise available. However, it is difficult to find what you really want, because it is confusing to shop as a result of the store’s layout, which is not very intuitive for me.

The Elderly Become the Most Attractive Segment

Use with Chapter 4, “Customer Buying Behavior”


For the past few years, talk has centered on the enormous spending power of the Tweens, college students, and young professionals with their seemingly endless wants and incomes. The segment that got largely ignored, by both marketers and the media, was older consumers—Boomers and grandparents.

But companies are beginning to realize that Boomers could be the most stable segment available in terms of their income and assets. These customers, aged 47–63 years currently, exhibit different characteristics than the generation that came before them. Unlike the traditional reputation of older consumers, they are comfortable with new offerings, such as digital media, but they also still enjoy print magazines and TV.

Television shows like CBS’s 60 Minutes and CSI continue to earn top ratings, meaning they have not lost the degree of advertising revenues that shows targeted toward younger viewers have. To appeal to this unique generational cohort, networks have realized they cannot just keep showing vintage I Love Lucy reruns but instead need reality series like The Cougar, a celebration of an older, good-looking woman being pursued by younger men.

In another medium, the Web site ebeanstalk.com, which sells children’s learning toys, believed its target customers would be younger people starting a family. But through more research, it realized that 40 percent of its buyers were grandparents purchasing toys for their grandchildren.

The Boomers have paid off their mortgages and are the least likely to be laid off when companies downsize. By next year, they also will likely account for the highest median income, which should accrue to the 55–64-year-old age group. By 2015, 59 percent of U.S. grandparents will be of the Baby Boomer generation. These customers also exhibit appealing shopping behavior for marketers: 60 percent of Boomer households buy beer, 60 percent buy carbonated beverages,
and 55 percent buy candy, even though these products generally are marketed to younger consumers. These customers are also willing to pay full price, something the younger segment seems to reject out of hand.

**Discussion Questions:**

**Why are retailers going after older consumers?**

*Retailers are going after older consumers because they have high stable incomes, are more willing to pay full price, and are receptive to traditional and digital media.*

**What do these recent findings suggest about market research based on demographics?**

*These findings show that it is not sufficient to consider just one type of demographic to segment consumers. For example, if firms only considered age, they would not realize the spending power of the Boomer segment, because they would just consider them “older consumers.”*

**Luxury Retailing on eBay**

*Use with Chapter 2, “Types of Retailers”*


Retailers that sell high-end designer products tend to bunker down behind elite barriers. But high-end Dallas retailer Stanley Korshak is going where other retailers have feared to venture.

The boutique sells Christian Louboutin high-heeled shoes for $900 and Kiton sportcoats for $5,700. In a bad economy, these exorbitantly priced items have not moved as even luxury consumers cut back on their spending. Most specialty stores in this industry avoid selling online, because Web sites cannot offer the luxury of trying on and feeling high-end clothing. This store even visits clients’ homes to perform wardrobe consultations and offer specially selected clothes that clients can try on in the comfort of their own spaces.

When Stanley Korshak started an eBay account to sell its unsold clothing last year, it sold only 16.5 percent of its listings. But of the 815 items listed for at least 90 days, the 151 items that sold earned it sales of $37,239. The retailer also started to mass e-mail the 70,000 customers in its database and set up a Facebook page.

The company remains unsure about its strategy for discounted sales on eBay. It does not want to link the company’s Web site to its eBay site, but consumers can quickly discern the connection: Merchandise they buy on eBay gets delivered in the same luxurious packaging. But to keep customers from perceiving the retailer as a discount house, Stanley Korshak must continue to balance and separate the sales channels.

Before deciding to sell on eBay, the company did not consult with its vendors, which would probably have disapproved, because eBay sales cannot foster the brand equity that they work so hard to develop. Companies that sell luxury goods have to make a profit though, and selling merchandise on eBay may become a necessity for survival.

**Discussion Questions:**

**Why are high-end designer retailers reluctant to sell merchandise online?**
High-end designer retailers do not want to deteriorate their brand by selling their high-quality merchandise online. They want customers to feel the clothing and try it on, which ensures they get the full luxury experience. Stanley Korshak has resorted to using eBay to sell its merchandise at a deep discount, but doing so could anger its vendors, which may not approve of the selling of the merchandise through this channel.

What are some other options high-end retailers might have for turning over inventory in the poor economic climate?

An alternative option might be to increase service levels, such that consumers believe they are getting a good value even when they pay exorbitant prices. If stores can offer personalized, in-home services, consumers might be willing to pay for them.

Blog-Based Customer Service

*Use with Chapter 19, “Customer Service”*


The newest trend in retailing is to seek opportunities to provide customer service. Retailers are even searching the Web to join conversations about their company and looking for customers who seem unhappy.

Unhappy customers on the Web often talk about their poor experiences and influencing their readers, that is, other customers online, who then gain a negative opinion about the retailer. It is in the company’s best interest to stop this negative publicity immediately, and the best way to do so is to please the customer from the start. Customers who otherwise would be “detractors” thus can become “advocates” for the brand if the company treats them well. That is, they continue to talk about their experiences, but now their references are positive, so readers gain a more appealing sense of the brand.

For example, Best Buy discovered a customer blogging on Noobie.com, a consumer technology advice blog, to write that “Best Buy broke my son’s heart on Valentine’s Day,” because the Madagascar DVD bought from Bestbuy.com did not come with the “plush penguin” gift that was supposed to arrive with the order. The company immediately sent the customer two plush penguins for free. The customer then shared this recovery experience on the blog. Had the company not been trolling the Web though, it may not ever have known about this service failure.

When a customer experiences a service failure and then has it resolved expertly, that customer often becomes more satisfied with the brand than if his or her experience were positive throughout. In the case of the complaining parent, Best Buy’s actions and the resulting blog comment prompted more than a dozen positive comments from other users talking about Best Buy in a positive light.

The company may be only extinguishing small fires on a person-by-person basis, but doing so can affect many more people with whom that one person shares her or his experience.

**Discussion Questions:**

**How does Best Buy find out about service failures through the Internet?**

*Best Buy searches for customers who are writing about their bad experiences on blogs.*
Could/should other retailers utilize these procedures?

Yes, it is important to turn “detractors” into “advocates” of the brand. By turning a service failure into a great experience, retailers can gain not only those particular customers back but also attract the many customers that they will tell about their experience.

The Financial Health of Retailers

*Use with Chapter 6, “Financial Strategy”*


All retailers are struggling in the current economic climate, yet they still need to show investors that they will weather the storm. Many of them are searching for ways to convey optimism without resorting to lies or misleading information about their performance.

The amount of debt that retailers have, when that debt will come due, and the amount of cash available are key variables in any company’s financial outlook. Some chains with a lot of debt are not too concerned, because as long as sales keep coming in, their debt is not a problem. Wal-Mart and BJs Wholesale Club have managed to maintain good sales, largely due to the nature of their business, that is, selling food and necessities at low prices.

Other companies are structured such that they can prevent major problems. Saks Fifth Avenue has more than $600 million in debt, but it also owns 70 percent of its store locations, which it could sell if necessary. And whereas Claire’s maintains $2 billion in debt, and Macy’s has $8 billion, other specialty retailers continue to do well in the downturn, including Aeropostale, Buckles, and Hot Topic.

To protect themselves from bankrupt retailers, vendors often analyze the retailers’ financials. Retailers that seem to be at risk might not receive inventory. The vendor is mitigating its risk, but it also is losing customers. The retailers lack sufficient inventory to stock the stores, which will lead to a downward spiral. Larger retailers probably have sufficient power to prevent such shipping stoppages though.

In this sensitive environment, public relations and word of mouth among consumers and publications may mean the difference between an empty shell of a store and success.

**Discussion Questions:**

*If you were to invest in a retailer, what financial metrics would you use to evaluate its overall health? How would you use these metrics?*

*I would look at the amount of debt the retailer has, as well as the amount of sales that it brings in to support that debt. I would also look at the structure of the business, such as whether it owns its real estate. Finally, I would consider the retailer’s supply chain, including its relationship with its vendors, to evaluate whether the store is likely to continue to be successful."

Online Retailing

*Use with Chapter 5, “Retail Market Strategy,” Chapter 16, “Retail Communication Mix”*
In the business model created by the Internet, consumers can accumulate virtual goods and services for no money, as on sites such as Facebook, MySpace, Kayak, and Hulu, which do not charge customers for their services.

Such companies give most of their offerings to customers for free, though they might charge small amounts for a few items. In a bricks-and-mortar store, retailers might offer a brownie for free and then sell 99 of them. In the online world, retailers give away 99 for free to sell 1.

To make money, these online companies therefore turn to advertising fees. But advertising on the Web is ubiquitous, and fees are decreasing because the ads appear to be of little interest to customers. For example, Facebook could offer a targeted ad to a high school-aged girl, but that does not mean she will click on it.

In a blended approach, these companies try to acquire customers by offering them free services and then, as their capacity grows, require that they pay for premium services. Google is the leader in offering everything for free, including word processors and spreadsheets. Microsoft therefore started offering free Web versions of its business software free to small and start-up companies. As these companies grow though, Microsoft hopes they will upgrade and start to pay for the service.

Picnik.com, a free photo editing site, allows users to adjust and crop their photos or add special effects. Users can post the retouched photos to Flickr or Facebook, but to get the premium version, with its more advanced editing tools, they have to pay $24.95 per year. From Pogo.com, users can download free games, but if they pay $5.99 per month, they can avoid the ads on the site.

Twitter, the most popular microblogging site, is still trying to determine how to make money. Some possibilities include charging companies whose tweets are recommended to consumers. YouTube sells advertising for very low rates, but Digg, the news sharing site, does not make any money.

**Discussion Questions:**

**How do “free” online sites make money?**

Many free online sites are making money through advertising fees. Others are hoping that their customers will upgrade to the premium service level, for which they can be charged. Still others have yet to make any substantive profits.

**Describe some of your favorite “free” online sites.**

My favorite free online site is Facebook.com, where users can network for free and even give free virtual gifts to their friends. Although I find the cheesy ads on the site annoying, I realize that I would rather put up with them than pay for the service myself.

**DVD Rentals from a Vending Machine**

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

If you thought vending machines were only for drinks and snacks, check out the sight of machines in airports that offer iPods through a dispenser. Or visit your local grocery store to find a rental DVD vending machine.

Redbox, the movie rental kiosk, was introduced by McDonald’s, which realized that consumers liked the functionality, convenience, and speed of vending machines. These kiosks are located in convenient locations such as supermarkets, drugstores, restaurants, and convenience stores.

Redbox currently maintains 12,900 kiosks throughout the United States—four times as many as there are Blockbuster locations. A single Redbox kiosk contains 700 DVDs and 200 movie titles and earns approximately $50,000 in annual revenue. In response, Blockbuster has decided to enter the vending machine market and placed them in 600 stores, available for $1 per night.

The new concept is a concern for Hollywood studios though. The widespread popularity of inexpensive rentals among consumers causes them to fear that consumers will not purchase DVDs if they can rent them for just $1 per day. Universal Studios even tried to prevent Redbox from distributing DVDs until they had been released for 45 days and encouraged wholesalers not to sell to Redbox.

Most of Hollywood’s profits now come from DVD sales; for many films, box-office ticket sales do not even cover the costs to produce the movie. If consumers also have the option to view a DVD for $1, paying $15 to own it might not make sense anymore. DVD sales dropped 13 percent in the fourth quarter of 2008 and are expected to drop another 6 percent in the first quarter of 2009, though whether these dips reflect the effects of Redbox remains to be seen.

Discussion Questions:

Why is Redbox so successful?

Redbox offers discounted DVD rentals in very convenient locations.

Do you think that this success is sustainable?

Yes, it is sustainable, because though Blockbuster and other companies may compete with their own DVD vending machines, Redbox already has more than 12,000 kiosk locations.

Self-Service

Use with Chapter 17, “Managing the Store,” and Chapter 19, “Customer Service”


Intel developed technology that allows self-service kiosks to act as “super associates” that offer information about products in the store or comparison items, recognizes customers, and suggests appropriate products for each customer.

Most current kiosks just print tickets at the train station or airport, snapshots, or coupons. A traditional kiosk offers benefits for businesses because it fulfills customers’ simple requests at little cost to the company. However, tomorrow’s kiosks promise to be much more sophisticated.

Kiosks that can emulate checkout counters, maintain personalized information, and display comparative products might be valuable for retailers, especially if they interlink across chains. For
example, cosmetics departments could use them to show customers how they would look with different beauty products and various hair colors. Department stores might enable customers to scan price tags and then recommend complementary items.

Kiosks also might enhance the customer experience by offering more information than customers otherwise could find easily. With modern technology, customers could pay for their purchases by waving their cell phones near the kiosk. Other kiosks might include a screen that allows customers to manipulate the images, just as users of the iPhone can on their touch screens.

For certain retailers, more sophisticated kiosks will be valuable as a means to check a price or offer a promotion on a similar product. Others will enjoy the benefits of checking out customers and enabling them to pay faster and avoid lines. However, retailers need to be sensitive to how much technology customers want; a store with only kiosks and no sales associates might drive a customer away from the robotic, dehumanized environment.

Discussion Questions:

What can the newest generation of kiosks do that earlier versions could not?

Newer generation kiosks have more information available, which customers otherwise would need Internet access to find. The kiosks can interact with customers and offer a personalized experience based on who is standing in front of the screen.

Would you use these kiosks? Which ones?

Yes, I would use the kiosk for information purposes, price checks, additional promotions, and checkouts. I would not use a kiosk for everything though. For example, a cosmetics kiosk would not be of use to me, because lighting and screen variation nuances can make the color of makeup look different than it would on me.

Teen Specialty Stores Not Faring Well

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


In the belief that by ignoring niche markets of teenaged consumers, they might risk obsolescence, retailers have opened various concept stores in recent years to appeal to a wider range of the attractive market. For example, American Eagle, Abercrombie & Fitch, Aeropostale, and Pacific Sunwear all introduced additional, highly targeted brands.

But the economy caught many of them by surprise and forced the retailers to kill off the niche brands after suffering huge losses. The teenage market may consist of subsets of consumers, such as surfers, skaters, or preppy kids, but there are not enough customers to support each version.

American Eagle’s Martin & Osa, Abercrombie & Fitch’s Ruehl and Gilly Hicks, Aeropostale’s Jimmy’Z, Tiffany’s Iridesse, and Pacific Sunwear’s One Thousand Steps and Demo all represented efforts to pursue specific, niche markets, none of which could be supported. Aeropostale is still trying, so as it closes its Jimmy’Z stores, it is opening P.S., a format for petite young teenagers who have trouble finding their size. But how many actual customers can these stores really serve?
Buckles and Hot Topic instead have concentrated on their mainstay brands, enabling them to perform beyond expectations just as their competitors are suffering. A store brand is a long-term investment that cannot chase a short-term trend. Even mainstay brands should be experimenting with larger, not smaller, scales. At certain levels, the vast number of niche stores simply cannot maintain a sustainable customer base.

**Discussion Questions:**

**In general, how are concept stores focused on younger customers doing? Why?**

*Concept stores that are focused on niche markets of the younger customer market are not doing so well, because the market is saturated. In this poor economy especially, these concept stores will have trouble being successful.*

**The Right and the Wrong Way to Discount**

*Use with Chapter 15, “Retail Pricing”*

**Tom Ryan, “The High Cost of Discounting,” Retail Wire, March 20, 2009.**

Discounting can be extremely detrimental to a brand’s equity. Thus, even when discounting is necessary, it must be performed correctly.

In a recent survey, 70 percent of consumers indicated that they believed discounted prices meant that the brand was overpriced initially, and 62 percent thought the product was old, about to expire, or generally undesirable. In contrast, with regard to undiscounted products, 64 percent of consumers thought they were popular and a good value.

Retailers discount products because they want to get rid of inventory to make room for the new merchandise. It also helps them recoup inventory costs before the product is obsolete.

In the course of the current recession though, consumers have gotten much more savvy in their purchases. Most consumers now believe that brands eventually will be discounted, or that discounted products will be discounted further, so it is worthwhile for them to wait.

Retailers that constantly hold sales, such as department stores, suffer from diminished brand equity, because consumers know that eventually, everything will be discounted. Luxury brands that formerly did not discount were discounted so heavily in the fall that consumers now believe that these products are overpriced at their regular retail levels.

All these forces mean that retailers that want to get rid of their inventory are in a bind. They should have no more than two clearance sales per year, which should encourage customers to pursue the good deal but also prevent the low prices from affecting brand equity. Another approach might involve indicating that an item has been discontinued. Otherwise, discounting just for the sake of discounting only tells the customer that the product was not a good value to start.

**Discussion Questions:**

**What signal does a price cut offer to customers?**

*Price cuts signal that the product may be old, expired, or unwanted, leftover merchandise. Customers also view brands that are discounted as poor values when they are at full price.*
How do customers feel about merchandise that is not discounted during a recessionary period?

Customers view merchandise that is not discounted as being more valuable, though they still may not buy it rapidly enough to enable retailers to turn over their inventory.