Dear Professor:

This newsletter provides teaching tips and summarizes article abstracts for case discussions for the following topics:

Abercrombie & Fitch’s Style Sense Wears Thin with Some Shoppers (Chapter 5)
For a Drugstore, ‘Nice’ Isn’t a Panacea (Chapter 2)
Hershey Learns at Retail Stores How to Get Its Candy Into Your Head (Chapter 4, 18)
Books Inc. Owners Write Formula for Success (Chapter 5)
Mobile Monday: Macy’s iShop (Chapter 3)
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TJX Move Upscale May Blur Lines in High-End Retail (Chapter 5, 14)
In China, Walmart Presses Suppliers on Labor, Environmental Standards and Walmart Unveils Plan to Make Supply Chain Greener (Chapter 5, 14)
Walmart Tightens Delivery Deadlines (Chapter 10)

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.warrington.ufl.edu/mkt/retailcenter/research/publications.asp
Teaching Tips

Additional Material for Teaching Retail Classes

A new website, part of the University of Florida Miller Center for Retailing Education and Research, provides materials for retail class instructors including:

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

The website is available at http://warrington.ufl.edu/mkt/retailcenter/teachretail/

Please consider sharing your materials with other instructors through this website by sending your course syllabi, classroom exercises, projects, teaching types, etc. to bart.weitz@cba.ufl.edu or mlevy@babson.edu
Abercrombie & Fitch’s Style Sense Wears Thin with Some Shoppers

Elizabeth Holmes Wall Street Journal, February 3, 2010

Use with Chapter 5, “Retail Marketing Strategy”

Even a good relationship can go bad, particularly if one partner changes and the other don’t. That’s the lesson Abercrombie & Fitch (A&F) executives are learning as they watch their once-popular assortment gather dust. Teens have moved on from logo T-shirts and torn jeans, leaving the teen retailer’s preeminent position vulnerable to competitors like Aeropostale and American Eagle Outfitters (AEO).

The down economy has impacted all retailers in this category, but A&F’s 2009 holiday sales figures were among the worst in the industry, even after the company reversed its policy on discounts and offered promotions and reductions averaging 14 percent per unit. December sales were down 19 percent in stores open at least a year and, for January, the picture was equally dim: Abercrombie was expected to post another drop of over eight percent. Competitors reported gains in both months. One problem, says a retail analyst who regularly visits malls to see what’s in style, is that the A&F look has gone stale. Another is that A&F under-promotes accessories relative to its competitors. Aeropostale and AEO are successfully promoting this category, which tends to have a high profit margin. Finally, A&F was slow to lower prices in response to the economic slump.

In an effort to bring back some of the magic; Abercrombie is focusing on its fashion. The company’s chief executive has replaced the executive vice president who previously selected female fashions for the stores, and the Hollister chain upped its order for spring dress styles. Hollister is the lowest-priced brand carried by A&F. However the competition is also revising strategies to tempt teens. While Aeropostale stocks shelves with fashionable items in addition to its traditional offerings, American Eagle is adding variety to its assortment to tempt shoppers.

Fortunately for Abercrombie, its relationship with the overseas market seems more promising. Shoppers in Milan, Tokyo, and the U.K. find nothing stale about A&F fashions and nothing wrong with prices that are twice those charged in the U.S. However even success in the international market may not push A&F back into the lead among teen retailers as the economic slump has affected this market as well.

Discussion Questions:

Why is A&F having problems?
A&F is losing ground relative to its competitors because of the economic downturn, because the retailer didn’t lower prices in response to the downturn quickly enough, because it is under promoting accessories, and because its fashions are no longer appealing to its primary market.

If you were A&F’s CEO, what would you do to turn things around?
The CEO seems to have made a wise move in replacing the executive vice president who was in charge of selecting female fashions since that individual wasn’t staying abreast of teen style. However, rather than taking that position myself, I would hire new talent with experience in both teen fashion and teen marketing and provide that individual with the resources to perform the necessary groundwork on campuses and in malls to understand the current fashion “must haves.” I would also stock and promote more accessories since they are lower-priced but have a higher profit margin. This approach would satisfy a teen urge to purchase something fashionable without A&F having to discount deeply. In both the U.S. and international market, I would monitor sales and trends very closely to determine when discounts and promotions would contribute to sales without negatively impacting the chain’s brand or causing unnecessary economic losses.
For a Drugstore, ‘Nice’ Isn’t a Panacea


Use with Chapter 2, “Types of Retailers”

Not that long ago, the butcher knew which cut of meat you preferred, the bookstore owner could make recommendations for a good read for you and for the people on your gift list, and the local pharmacist inquired after your mother’s health when you stopped by for candy bar. But business models have changed, and personal interactions of that kind seem, to many people, as antiquated as a rotary phone. The new model stresses wider inventories and reduced prices, while the older one focuses on personal relationships and personalized services.

The numbers make the future of the small independents seem clear, especially for pharmacies: In the past forty years, the number of independent drugstores in this country dropped from 35,000 to either 16,920 or 22,728, depending on the definition of chain and independent. The number of Walgreens, CVS, Rite Aid, and similar chain drug stores has increased from 31,325 to 36,738 since 2000. While some independents have closed, others have sold to chains because they were unable to resist attractive deals and tired of struggling against their larger competitors. Many small drugstores gave up in response to new bureaucratic requirements such as a federal government mandate that pharmacies become accredited to handle Medicare business. The accreditation process costs thousands of dollars, and the paperwork took one family-owned drug store six months to complete.

But customers still value service. Many clients of Tepper Pharmacy in Wynnewood, Pennsylvania, remain loyal because they remember the pharmacist staying open on Christmas Eve or during a blizzard to fill prescriptions, or because they can receive custom fittings for orthopedic braces. Tepper employees have been with the store for years, so they are members of the community. In contrast, CVS pharmacists turn over frequently: One store had 10 different pharmacists in 12 years. Tepper’s isn’t the only independent with good service. Surveys conducted by Consumer Reports in 2008 and 2003 show that consumers rate independents ahead of all chain drug stores for service.

Independents are taking other steps to remain competitive. Associations with wholesalers help them minimize costs, and a national association trains pharmacists to run an independent business. To compete with mail-order prescription companies, Tepper’s current owner made arrangements with insurance companies that allow him to fill 90-day prescriptions. The efforts are making some difference. Cost-wise, independents fall in the middle when compared to chains. Overall, however, their efforts may be insufficient. Sales to chains and closing of independent stores outpaces opening of new independents, and the junior Tepper, who took his father’s advice and became a pharmacist, suggested his own child choose a different career.

Discussion Questions

How can an independent ma & pa store compete successfully against large national chains?

Since independent stores are usually at a disadvantage in price and selection, they must compete with superior service. Services may include staying open or reopening to accommodate customer needs or offering services, such as custom fitting for orthopedic braces, not available at chain drug stores. They should also look for ways to partner with other independents, wholesalers, and insurance companies to keep prices down.

Do you think they can survive in the long term?

Students may go either way on this. Here is a sample answer: No. Despite the support of an association and arrangements with insurance companies to be more cost-competitive, today’s shoppers are more interested in value, efficiency, and convenience than in personalized service. Additionally, family-owned businesses are either viewed as old school or are unfamiliar to the new generations of shoppers.
Hershey Learns at Retail Stores How to Get its Candy into Your Head


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

To find a marketing approach that will yield a competitive advantage in both the short- and long-term, The Hershey Company has invested nearly $300 million in advertising and conducted extensive research in grocery aisles to better understand its customers. The results include profiles of the “loyal indulgers” who routinely drop the company’s candies into their shopping carts, the “practical value seekers” who base their sweet selections on cost rather than emotional attachment or brand loyalty, and the “detached occasionalists” who rarely succumb to the demands of their sweet tooth. Using this information, Hershey will partner with key retailers to build profits.

The roll-out begins this year with pilots in some retail stores to test the success of front-end displays designed to get candy into the cart the moment customers enter the store, register racks that prominently display Hershey products during check out, and color-coded and segmented candy aisle displays intended to attract consumers to Hershey candies. The company is also testing the efficacy of technology to promote its products while customers are in the store, including digital advertising on grocery store “smart carts” and promotions sent directly to smart phones. To appeal to the hand-to-mouth munchers, bite-size bits of Almond Joys, Reese’s Peanut Butter Cups and chocolate drops will find places on the candy shelves this year.

Meanwhile, the company continues strategic initiatives to increase its international market share by purchasing small companies and by tailoring packaging to global markets. Hershey’s Kisses, for example, sport gold foil rather than silver in China because research indicates Chinese prefer the color gold.

Discussion Question:

How has Hershey’s research on consumers helped them sell more products in retail stores?

*The Hershey Company has been conducting consumer research in grocery store aisles to form clear profiles of their customers. The company has segmented these consumers into loyal candy eaters, who will always seek out Hershey products; customers who shop price rather than brand; and shoppers who only purchase candy infrequently. This information helps them target all marketing efforts to their primacy audience. The company is now testing new display approaches at the front of the store, within the candy aisle, and at check-out. Hershey is also revamping its merchandise and packaging to attract more consumers by making more of its products available in mini pieces that are easily popped in the mouth and by tailoring packaging to the preferences of international markets.*
Books Inc. Owners Write Formula for Success

Andrew S. Ross, February 21, 2010

Read more: http://www.sfchron.com/cgi-bin/article.cgi?f=/c/a/2010/02/21/BU6S1C48G7.DTL#ixzz0lB6qNxLS

Use with Chapter 5, “Retail Market Strategy”

Books Inc. has beaten the odds before. Founded in 1851 under a different name, this independent bookstore survived moves, fires, new owners, and construction before becoming Books Inc. in 1946. Then the company faced the jaws of the national chain bookstores in 1996, a challenging period for independent booksellers that forced Books Inc. into Chapter 11 bankruptcy and the sale of 10 of 12 stores. Yet a year later, Books Inc. emerged again, rebuilding to a chain of 11 stores in the Bay Area and one in Disneyland. Now the owners face new threats: electronic books, Amazon.com, and the big-box stores. While not immune to this challenge, Books Inc. has employed strategies that may, once again, help it survive.

Among the owner’s tactics are avoiding malls, which have proven fatal to some of the superstores, and locating stores in neighborhoods with high foot traffic. The stores are also small, relative to both chain bookstores and to other independents in the area and selection in each store is tailored to the surrounding community. Owners Margie Scott Tucker and Michael Tucker also view their stores as “good neighbors”, donating a portion of proceeds from designated shopping nights to local schools, offering discounts for community book clubs, and responding to the community’s needs in whatever way they can. Independent bookstores have also found strength in numbers, forming and strengthening associations among themselves to combat the power of chain stores and working with other independents in the community to promote local shopping. Michael Tucker is president of one of these influential associations, the American Booksellers Association.

As part of their emergence from Chapter 11, the Tuckers computerized their systems, which give them greater control over ordering, returns, accounting, and other business processes. These systems and the lessons learned from the bankruptcy help the Tuckers track income and expenses for every store. In an industry where profits are as low as two percent, controlling costs is vital.

Help may also come from book publishers, who have the lesson of brick-and-mortar record stores to learn from. The demise of those stores hurt the entire music industry. While independents only account for 10 to 12 percent of overall book sales, any loss can hurt publishers, and the threat of extinction looms large for book producers as well as for book sellers.

Discussion Question

What can small retailers like bookstores do to stay alive?

Small, independent retailers need to capitalize on their strengths to survive. This means focusing on the ability to tailor inventory and promotions to their local community and serving their community in any way they can to ensure customer and community loyalty. They also need to ensure stores are located appropriately to attract customers, sized correctly to avoid excessive overhead, and take appropriate measures to strictly control costs. Finally small retailers can join forces with other local businesses or with other similar retailers through national organizations to give them more influence and power.
Mobile Monday: Macy’s iShop


Use with Chapter 3, “Multichannel Retailing”

The race is on to find new applications for internet-ready hand-held devices that will build sales for retailers but, so far, many companies are simply retrofitting their Web site to the smaller format. Not so Macy’s, which built its m-retail app from scratch to make online browsing and shopping quick, convenient and easy. The home page gives twelve department options—for the home, bed & bath, men, women, juniors, kids, beauty & fragrance, shoes, handbags & accessories, jewelry & watches, sale, and top rated—plus a holistic search box, access to offers, and a direct link to the customer’s shopping bag. From within a department, users can select category, brand, and/or price using scrolling wheels and their retrieve all items that match search parameters by clicking the Go button. Users can also browse for a specific item using the top-rated option to find merchandise in that category that other shoppers have rated highly or by selecting the sale option and then using the scroll wheels to further refine their search. Once a selection is made, only two clicks are required for purchase. Using an existing macys.com profile makes checkout even easier.

Hitting the offers button generates a list of promotions and coupons, including a message about valid dates. Promotions are also available at checkout. The store information screen provides store address, phone number, hours, and links to directions, street views, and options to send the information, store it in memory, and to search nearby. This last option may be helpful to a user searching for a restaurant or hoping to complete other errands. The app also features a click-to-dial feature so users can easily call a Macy’s store for additional information.

Macy’s iShop capitalizes on the GPS capabilities of iPhones by providing directions, information on in-store events, and in-store savings coupons for the nearest Macy’s store. The on-screen bar-coded coupon can be shown at checkout to receive the discount.

Discussion Questions

While many retailers are trying to find their way into the world of m-commerce, Macy’s seems to be on the forefront. What are some of the features of Macy’s iShop?

Macy’s iShop takes advantage of the navigational tools available with iPhones to make browsing for products easier and also to make it easy to find the closest store, in-store promotions for that location, and in-store events. The browsing features allow users to find products by department, category, brand, and/or price, and also to search for a specifically sought-after item that is on sale or that has been rated highly by other shoppers.

Which features do you think would be most useful to you?

The most useful features for me would be finding out if the Macy’s store closest to me has the item I need and being able to access discounts during my online shopping session. I think I would also use the “search nearby” function within the store locator tool so I could get other errands done at the same time.

Which iShop features do you think would be the most useful to others retailers for competitive purposes?

I think other retailers would access Macy’s iShop to determine information on promotions and discounts, which they could then match, and to view what customers consider top rated. This information could be factored in when competitors select their own assortments. I imagine other retailers would also review pricing information through Macy’s app and use that data when setting their own prices.
Cellphones Let Shoppers Point, Click and Purchase

Stephanie Rosenbloom, www.nytimes.com, February 27, 2010

Use with Chapter 16, “Retail Communication Mix

Retailers large and small are betting on the future of mobile shopping, vying for new applications that will offer customers convenience, better value, or simply a novel way of shopping. Combining these applications with more detailed customer profiles could lead to a shopping experience so personalized that cell phones can direct customers to the location of every item on a grocery list and produce coupons. In many cases, these apps could replace staff, a move that helps retailers trim expenses. Or the expanded use of technology could result in a consumer backlash against privacy violations and lost sales for individual retailers as consumers gain the power to find the lowest price with a few clicks on their iPhone.

Applications available or in the testing stage include a technology called ScanLife that allows customers to scan bar codes on merchandise to obtain additional product information and Presence, which offers coupons based on shopper’s presence in the store. Shoppers must sign up for Presence, which also contains predictive capabilities that enable it to suggest additional purchases to complement those already made or offer store coupons based on an individual shopper’s historical spending and browsing habits. Scanning features, such as those offered with ScanLife, allow customers to scan an item through a shop window and purchase it, even when the store is closed. This technology also allows shoppers to compile wish lists or gift registries by pointing phones at desired merchandise. Applications capitalizing on GPS functions can direct shoppers to the right grocery store aisle for items on their list or generate coupons based on a customer’s location in a store. Simply turning into the cereal aisle, for example, could summon coupons for instant oatmeal to the customer’s mobile device. Finally retailers are testing consumer response to moving loyalty programs from plastic cards to mobile phones.

Drawbacks to these applications include the need for shoppers to agree to being electronically tracked while in the store and customer irritation if the applications malfunction or produce inaccurate information. While mobile technology companies and retailers are positive about m-commerce, consumers may stay a step ahead on how mobile technology affects the shopping experience. Applications like RedLaser allow consumers to scan product bar codes through the cell phone’s camera and compare prices on the Web. With that kind of savvy shopping, retailers may have to work hard to recoup the costs of implementing an m-commerce program.

Discussion Questions

What m-commerce applications are retailers experimenting with?
Retailers are testing mobile applications that allow customers to learn more about a product or to purchase it by scanning it with their phone, that enable the creation of wish lists and wedding registries through phone scanning, and that track a shopper’s progress through a store and offer promotions based on the customer’s location. Other applications will help direct shoppers to desire products within stores make purchase suggestions or offer discount coupons based on current or historical purchases, or track loyalty programs on a mobile device rather than via plastic cards.

Pick the top three most useful from your perspective. Why did you choose these?
I think the most useful applications are those that help shoppers find merchandise within the store and that offer promotions based on past and current shopping since these applications save time and money and reduce frustration. The application that offers additional suggested items, which reminds me of the Amazon.com feature, also seems useful in many instances. For example, if a shopper drops ground beef, hot dogs, and condiments for a barbeque in the cart and the application prompts the purchase of buns, then a second trip to the store may have been avoided.
**Services Combines Social Media, Marketing**

*Sarah E. Needleman, Wall Street Journal, February 23, 2010*

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

Start-up companies that integrate social media and marketing have garnered impressive successes for some of their retail clients, but the services aren’t a magic marketing solution for all businesses. In an impressive example of success, a men’s suit and shirt tailor located in Chicago offered a one-day promotion that offered customers a $225 gift certificate for $95. The card could be redeemed any time over the ensuing year, but at least 50 cards had to be purchased before any of the cards became valid. In an ordinary year, the store sells about 100 gift certificates. That day, it sold 850 as customers activated their Twitter and Facebook networks to alert friends to the deal and ensure the cards were validated. The founder and chief executive of Groupon, the start-up that launched the campaign, noted that requiring a quota before the deal is good motivates consumers to spread the word. Over half the gift certificates went to first-time customers, which the retailer hopes will lead to repeat business.

A second start-up, FourSquare Labs Inc., provides a mobile phone application that allows users to “check in” at a participating business. Check in is validated using GPS technology to ensure the customer is actually at (or near) the business. Customers accumulate points toward a reward based on how many times they check in or notify their Twitter and Facebook friends about their whereabouts. Other campaigns involve receiving a free food item for beating the current incumbent for most check-ins or recommending a menu item or available activity, such as a game of chess in a coffee shop, via the customer’s social network. One burger joint in Milwaukee noted a 30 percent increase in sales for menu items promoted through their FourSquare campaign.

Success comes at a price. The Chicago store reaped only 50 percent of the earnings from the gift card sales, while the other half of profits went to Groupon. Additionally companies need to offer deals that are hot enough to motivate consumers to contact their social networks, and they need sufficient manpower to accommodate the resulting business. The four employees at the Chicago men’s store, for example, maxed out at 850 gift card sales in one day. Finally these services aren’t applicable to some types of businesses and aren’t available in all cities.

**Discussion Questions**

**How are small businesses using social media to deliver marketing and promotional strategies to their customers?**

Small businesses are combining marketing and social media by offering very attractive promotions that are only valid if a minimum number of people participate. This threshold inspires consumers to contact their friends via social networking sites such as Twitter and Facebook to get them to participate in the promotion as well. Other small businesses are using an application that allows customers to earn points by “checking in” on their mobile devices or to earn free food by recommending a menu item or activity to their social network.

**What are the tradeoffs of the social media-driven marketing strategies mentioned in the article?**

While these strategies bring in impressive results, they are costly. The start-up companies take a large piece of the profits, and the deal must be sufficiently attractive to motivate customers to contact their friends. Many of the businesses currently using these strategies are small, and they must ensure they are properly staffed to handle the upsurge in sales activity. Also these strategies aren’t applicable to all types of businesses and aren’t available in all cities.
BrainTrust Query: Lessons From the Starbucks Turnaround

Mark Price, Retail Wire, February 3, 2010

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

A year ago, Starbucks sales were in need of a double shot of espresso, and store closings had escalated to venti levels. But the company managed to correct its slide and, despite the economy, manages to entice customers to pay $4 for a cup of coffee that’s available at the McDonald’s down the street for less than half that amount and available at home for pocket change. Starbucks’ margins are up 4.5 percent and hundreds of new locations are planned for locations in the U.S. and abroad. Success is partially attributable to price increases but, more importantly, they can be tracked to initiatives that improve the customer experience.

Among these initiatives are the reintroduction of the popular Pikes Peak blend and Via instant coffee, healthier snacks, tempting new snacks that aren’t healthy but go great with a cup of java, a more customer-focused sales staff, and a new loyalty program that offers perks like free WiFi access and a free cup of coffee on the customer’s birthday. The company is also utilizing the power of the Internet to solicit suggestions from customers and, to prove they care, Starbucks employees respond to those comments. My Starbucks Idea (mystarbucksidea.com) invites customers to share ideas, vote on other people’s ideas, and join the discussion between company employees and customers. It also features a question of the day that helps the company determine the popularity of products or marketing strategies. For example, March 23 was free pastry day; customers with either the printed invitation or an image of it on their mobile device could select any pastry from the case. Two weeks later, the question of the day asked whether customers tried something new (49.3 percent) or chose their usual pastry (50.7 percent).

Customer suggestions range from using ceramic cups and mugs to a free extra shot on Mondays to help caffeine-aholics start the week in a better mood. Other recent suggestions that received positive votes include offering dark chocolate espresso drinks and bringing back the inspirational quotes on the disposable cups. In addition to product ideas, the site solicits contributions for new experiences in areas like ordering, picking up, and payment; and for atmosphere and locations, as well as for new ideas for community or global involvement such as green initiatives or showcasing the work of local artists. The site also profiles the weekly Starbucks Idea Partners, who are the employees available online to respond to customer ideas and questions. Naturally, their profiles include their favorite Starbucks drink.

Discussion Questions

What has Starbucks done to improve its financial performance?
To improve financial performance, Starbucks employed a number of marketing strategies complemented by an Internet site that allows employees and customers to communicate. Strategies include raising prices, bringing back Pikes Peak blend and Via instant coffee, adding healthier snacks to the food offerings, introducing a new frequency-based loyalty card, and training sales staff to be more engaged with customers. Customers can suggest improvements through the company’s online community, My Starbucks Idea. Starbucks employees respond to these ideas and some of them are selected for implementation.

Which of these factors do you believe is the most important? Why?

I think the online community is most important because it indicates the company is interested in and committed to its loyal customers. To justify its higher costs, Starbucks needs to offer an experience that is superior to other stores selling coffee. It makes good sense that the people who are willing to pay more for a Starbucks drink should be enrolled in the perfecting of their java experience.
The Fight Over Who Sets Prices at the Online Mall

Brad Stone, Wall Street Journal, February 8, 2010

Use with Chapter 15, “Retail Pricing”

Online retailers and manufacturers are locked in a pricing dispute that arguably harms consumers. The battle escalated following a 2007 Supreme Court ruling that granted manufacturers increased power to set prices and placed the burden of proving this arrangement hurt consumers on retailers.

In the absence of negotiations between retailers and manufacturers on price thresholds, both parties set prices based on their independent needs. For online retailers, this may mean deep discounting to gain market share and presence on search engine results and comparison shopping sites. Manufacturers, on the other hand, want to preserve profit margins and must also consider the needs of their brick-and-mortar stores, which often cannot match online prices. These stores may then drop the manufacturer’s products rather than trying to compete with Internet prices.

Following the Supreme Court decision, manufacturers set minimum price thresholds and insisted retailers respect that bottom line in their advertising. Manufacturers view product pages on e-commerce sites as advertising and employ software to ferret out retailers violating the pricing policy, so online retailers like Amazon and eBay were tethered to price minimums that could be higher than competitor’s. In response, these retailers elected to hide prices until a product is added to a shopping cart, thereby avoiding detection by manufacturers. This practice conforms to the letter of the law because the lower-than-minimum price isn’t advertised, but not to the spirit since prices are still set below the manufacturer’s minimum. It also results in products being by-passed by comparison shopping search engines and undermines consumer ability to quickly locate the best deal. Online retailers also note that the absence of prices confuses customers.

Book publishers have their own slant on this issue. In an attempt to protect profits from hardcover sales, publishers (essentially the manufacturer of physical books) hope to set the prices of electronic books and have online retailers like Amazon settle for a commission for acting as an agent. That skirmish ended in a settlement after Amazon removed the publisher’s physical and electronic books from their site. However the battle continues and the major online companies are lobbying for a change in the 2007 ruling. The goal, say proponents of a change, is for lower prices for shoppers.

Discussion Questions

Why are some multichannel retailers not putting the price of products with the product description?

Some multichannel retailers don’t post product prices with the product descriptions because manufacturers have the right to set minimum prices for their products and they are aggressively pursuing retailers that advertise prices below those minimums. Online product descriptions are, in the manufacturer’s opinion, advertisements. By keeping the price hidden until the product is in the consumer’s shopping cart, online retailers are managing to offer more attractive pricing to customers without detection by the manufacturer’s software search capabilities.

How has the 2007 Supreme Court decision allowing manufacturers more power in setting retail prices affected retailers, manufacturers, and consumers?

Retailers have had to sacrifice search engine optimization, especially in regards to comparison shopping searches, or else abide by the minimum price thresholds. Observing these minimum prices could result in reduced market share. Manufacturers have managed to stave off deep discounts which could affect profitability and also cause brick-and-mortar partners to stop carrying their products because of an inability to match online prices. However the decision has put them in a more antagonistic position with retailers. From the consumer’s perspective, this battle has resulted in inconvenience because of the extra step involved to view pricing information. It also reduces the power of comparison shopping sites and potentially forces consumers to pay higher prices since the lowest-price information isn’t readily available.
Do you think the Supreme Court decision should be changed? Why or why not?
This is an interesting question that addresses the intersection of a free market economy and emerging technology. Ideally attorneys representing manufacturers and online retailers should reach a compromise that reinforces partnership and recognizes the symbiotic relationship between manufacturers, retailers, and customers. If discounting forces manufacturers out of business, everyone loses. If manufacturers force retailers to maintain uncompetitive pricing levels, then the retailers and consumers lose. However if manufacturers and retailers set prices that don’t allow for discounting, then the comparative shopping power of the Internet is lost and consumers are stuck with higher prices. A Supreme Court could then issue a new decision based on the compromise.
TJX Move Upscale May Blur Lines in High-End Retail

Phil Wahba, Reuters.com, February 1, 2010

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

Over the past year, TJX stores have experienced rising sales and attracted new customers despite—of perhaps because of—the country’s economic woes. The off-price retailer, which sells through T.J. Maxx and Marshalls chains, ordinarily fills its racks with rejects or products over-runs. However since even the upscale shopper has reduced spending, luxury retailers have found themselves with excess merchandise, which they have passed on to TJX. The presence of more designer clothing has attracted a new brand of TJX shoppers who are looking for upscale merchandise and not just lower prices. With more shoppers coming through the doors, TJX has become an attractive outlet for manufacturers. TJX also offers easier sales terms for manufacturers than those offered by full-price retailers, and the combination of these factors has motivated manufacturers to increase production specifically for TJX. At the end of 2009, the news was all good for TJX, with December sales substantially ahead of the competition. Analysts predict the trend will continue, a vote of confidence that is reflected in the rising value of TJX shares.

But TJX’s long-term pre-eminence is far from guaranteed. The TJX supply chain is heavily dependent on its ability to buy department store returns at less than wholesale prices, and this resource will shrink as store buyers reduce orders in response to tighter consumer purse strings. Since off-price rivals, such as Ross Stores Inc., vying for the same merchandise and experiencing similar success, TJX may experience problems keeping designer merchandise in its stores. Additionally the presence of more designer products positions TJX in more direct competition with upscale giants like Saks Inc. and Macy’s Inc. at a time when some of these retailers, like Bloomingdale’s, is preparing to open its own chain of discount outlets. Finally leaning too heavily on high-priced items can change the TJX image so that customers seeking value go elsewhere. If shoppers looking for attractive discounts on high-end merchandise aren’t satisfied with their TJX experience either, the company may find it has lost both its loyal and its new-found customers.

Discussion Questions

Why is TJX doing so well?

* TJX is thriving because it pays below-wholesale prices for merchandise department stores cannot sell. In a down economy, department stores that didn’t compensate for reduced consumer spending have found themselves holding merchandise from top-designers and have sold this inventory to TJX. The presence of this high-end merchandise in T.J. Maxx and Marshalls has attracted a new breed of customer in addition to the discount shoppers who ordinarily frequent these stores.

What are the risks associated with its new positioning and strategy?

* Since TJX’s supply chain depends on over-ordering in department stores, the company could suffer shortages of high-end merchandise as these stores correct their ordering. Adding more upscale merchandise to their stores also blurs the differences between the off-price retailer and upscale competitors like Saks Inc. and Macy’s Inc. Bloomingdale’s plans to open its own chain of off-price outlets draws these retailers into even closer competition and weakens TJX’s image in the consumer’s mind.

Why do vendors like to sell to TJX?

* Vendors like selling to TJX because the company has easier sales terms than full-price retailers. These terms help protect the manufacturer’s margins.
Walmart Vendors in China to Meet Higher Standards

Steven Mufson, Washington Post, February 26, 2010

Walmart Unveils Plan to Make Supply Chain Greener

Stephanie Rosenbloom, New York Times, February 26, 2010

Use with Chapter 5, “Retail Marketing Strategy” and Chapter 14, “Buying Merchandise”

In an effort to be good global citizens and, not coincidentally, to improve its image with consumers and position itself to save money as energy costs rise, retail giant Walmart is going green. Earlier this year, the company vowed to reduce greenhouse gas emissions from its supply chain by 20 million metric tons in the next five years. The responsibility for this reduction falls primarily on Walmart’s suppliers, who are being asked to examine all aspects of their production to find ways to minimize environmental impact, although Walmart sustainability executives will help determine the best strategies for individual suppliers.

In China, home to more than 10,000 Walmart suppliers, Walmart chief executive Lee Scott made the company’s position clear: “Meeting social and environmental standards is not optional.” Historically neither China nor Walmart has demonstrated concern for pollution or for the treatment and living conditions of workers. However pollution in China has reached levels where it threatens growth, and Walmart has been criticized for its focus on low price at the expense of environmental and labor concerns, so both the country and the company are now focusing on change. In many cases, the threat of losing Walmart’s business has had more impact on suppliers than government fines. One Hong Kong-based manufacturer whose largest customer is Walmart has revamped its entire factory to reduce energy waste and sulfur dioxide emissions, treat wastewater that was previously poured into the municipal sewage system, minimize packaging, and improve recycling. Closer to home, Walmart has undertaken initiatives to improve the energy efficiency of its truck fleet and to create a global index that will measure the environmental impact of its product and make that information available to consumers.

Walmart is also looking to improve both environmental and social standards in the food chain at home and abroad. This initiative, which is of particular interest to Chinese consumers following last year’s milk contamination problems, focuses on getting independent farm cooperatives to use less pesticide and more organic fertilizer and to conserve water when possible. Fruit meeting Walmart’s quality standards is tagged with a bright label to draw customer attention, and farmers meeting these standards are guaranteed a minimum price to help offset the additional cost of producing safe food. In the U.S., which boasts higher food quality standards, Walmart’s milk, bread and meat suppliers have been challenged to reduce the carbon lifecycle of their products.

While these measures improve the environment, they certainly don’t hurt Walmart. Reducing waste throughout the supply chain helps keep costs down, and economists note that investment in environmentally sound technology and practices helps companies save money in the long run since energy prices are certain to increase. Walmart critics are even less impressed by the company’s social and environmental messaging. Conditions for workers in many of Walmart’s Chinese factories remain deplorable despite the retailer having suspended over 100 suppliers for a year and severed relations with 35 others over poor work conditions. Problems like overcrowded living quarters, excessive work hours, and inadequate pay persist, these critics believe, because of Walmart’s insistence on low prices. Other criticisms include Walmart’s global expansion, which increases the company’s carbon footprint, and store locations which, because of the size of the stores, tend to be outside major metropolitan areas and therefore force customers to drive further.
Discussion Questions

What is Walmart making its suppliers do besides offering it very low prices?
Walmart is asking suppliers to improve social and environmental practices, including reducing energy usage, treating wastewater, minimizing packaging, using recyclable materials, reducing the use of chemical fertilizers in the food chain, complying with work hour standards for laborers, increasing worker pay, and improving working and living conditions for workers.

Are these new requirements good for business as well as for the environment? Explain your answer.
Requiring suppliers to find ways to reduce waste and improve energy efficiency will help reduce overall costs in the supply chain and help both Walmart and its suppliers prepare for rises in energy costs. In addition to saving money, these new initiatives help Walmart improve its image with consumers.

From what you know about Walmart, do you believe that they are a socially responsible company? Explain your answer.
I don’t believe Walmart would require changes in the social or environmental practices of its suppliers out of the goodness of its heart. If there were no “win” for the company in these actions, they wouldn’t occur. However Walmart is in a position to send a powerful message to its suppliers and to other companies, and I appreciate them sending a message that helps improve the environment and worker’s conditions rather than one that stresses low price over any other consideration.
Walmart Tightens Delivery Deadlines


Use with Chapter 10, “Information Systems and Supply Chain Management”

A recognized leader in supply chain management, Walmart has furthered tightened its control of distribution channels by imposing deadlines on shippers moving product to Walmart distribution centers (DCs) and levying fines against shippers who miss the deadline. The deadline, known as the “must arrive by date” or MABD, is preceded by a four-day window during which delivery must occur. Shippers must deliver 90 percent or more of their loads within the window to avoid the fine, which amounts to three percent of the cost of goods sold.

Because of Walmart’s size, this new policy reverberates throughout supply chains both domestically and abroad. Spurred by the desire to retain Walmart’s business and to avoid fines, suppliers are re-examining their demand forecasting and working with trucking companies to improve efficiencies. In some cases, shippers may reduce shipments and consolidate loads, an approach that provides the added benefit of reducing the company’s carbon footprint. Suppliers may also ship earlier, re-calculate lead times, find new carriers, re-negotiate contract terms with carriers, or pass the penalty on to their carriers. This last tactic could affect a carrier’s willingness to work with a shipper and cause a restructuring of partnerships throughout the industry.

Walmart’s stated reason for the change is to ensure a better customer experience or, as company spokesman John Simley puts it, “This is about trying to maintain a steady and productive flow of goods through the supply chain, so we’re ready to receive the things we’ve ordered...It all boils down to the customer experience at the store. Our customers depending on finding products in our stores at the time they need them.” But the move is also part of Walmart’s ongoing effort to control its inbound inventory and drive efficiencies into its supply chain.

Discussion Questions

What new shipping requirements is Walmart imposing on its suppliers?
Walmart has imposed a four-day window of opportunity during which suppliers must deliver a minimum of 90 percent of its loads each month or face economic penalties or, potentially, loss of Walmart’s business.

What impact does this new requirement have on Walmart’s supply chain?
The new requirement is forcing suppliers to review and correct demand forecasting and lead times, work with trucking partners to ensure on-time delivery, and, in cases, renegotiate terms with Walmart for how product moves through the supply chain. These changes can be felt throughout the supply chain and give the retail giant tighter control over its inbound inventory, ultimately improving supply chain efficiency and ensuring customers can find the products they want when they want them, even as the company reduces inventory.