Dear Professor:

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

- Why You’re Still Getting So Many Catalogs (Chapter 2)
- Are Retailers Going Too Far Tracking Our Web Habits? (Chapter 3)
- A Netflix Model for Haute Couture (Chapter 3, 5)
- Younger Buyers Challenge Luxury Retailers in Asia (Chapter 4)
- At Ruby Tuesday, Casual Dining Dons a Blazer (Chapter 5)
- Pushing Fresh Produce Instead of Cookies at the Corner Market (Chapter 5, 8, 14)
- Company Stores vs. Independent Retailers: Clash or Peaceful Coexistence? (Chapter 14, 15)
- Retail RFID Today, As Seen Through the Eyes of an Expert (Chapter 10)
- Don’t Worry, Be Happy: The Warranty Psychology (Chapter 15)
- Shady Shoppers Beware (Chapter 17)
- Interactive Digital Displays Finding a Home in Retail (Chapter 18)
- Amid Price War, Three Retailers Begin Rationing Books (Chapter 15)

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

Assignments for Teaching Retail Classes

Materials and suggestions for teaching retailing courses are posted on the website for the Miller Center for Retailing Education at the University of Florida http://www.warrington.ufl.edu/mkt/retailcenter/teachretail.

Under the heading “Support Materials for Instructors” http://warrington.ufl.edu/mkt/retailcenter/teachretail/instructors.asp are descriptions of projects and class room exercises used by instructors such as:

- Describing, comparing, and evaluating the retail strategies (Chapter 5), financial performance (Chapter 6), websites (Chapter 2), shopping experiences(Chapter 4), and visual merchandising store designs (Chapter 18) of retailers.
- Observing the shopping behaviors of consumers in a store
- Acting as a mystery shopper in a store (Chapter 19)
- Using the multi-attribute model to evaluate retailers (Chapter 4)
- Identifying private label brands with retailers
- Analyzing retail locations (Chapters 7, 8)
- Evaluating websites promoting career opportunities for college grads (Chapter 9)
- Dealing with free riding on team assignments

Introductory Quiz

An example of a quiz used by some instructors in the first class to illustrate the importance of retailing in our economy and the retail career opportunities is at http://warrington.ufl.edu/mkt/retailcenter/docs/TeachRetail IntroductoryQuiz.pdf

Additional Material for Teaching Retail Classes

The website http://www.warrington.ufl.edu/mkt/retailcenter/teachretail also has:

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

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 m levy@babson.edu
Pathways to Retail Success Webinar

On January 21st at 2:00pm, Ron Jon Surf Shop President and COO will participate in a Q&A Webinar sharing her knowledge and expertise about the challenges, opportunities and how to be successful in a retail career and answer questions from participants. This webinar is part of a monthly series sponsored by the Miller Center for Retailing Education and Research and the Florida Retail Federation to give college students an opportunity to interact with and learn from C-level retail executives.

Have your students register today for this free Webinar at bit.ly/Pathways02! For more information about Ms. Harvey and the webinar series go to http://www.frf.org/am/RLN/12110.htm

Discussion Topic - The Best Independent Retailers: Surviving and Thriving

At the recent IIR Fusion Conference, Robert Spector, the author of The Mom & Pop Store: How the Unsung Heroes of the American Economy are Surviving and Thriving, talked about what it takes to operate a successful independent store in today's environment. In a world dominated by chains, especially low-priced chains, he identified some key characteristics of independent retailers, and highlighted some of those that he thinks are uniquely successful.

Key characteristics of successful independents:

- Owner-founder needs to think like an independent.
- Have a singular entrepreneurial vision that is hard to replicate.
- Must be passionate about the business.
- Must be persistent.
- Work hard and do whatever it takes to succeed.
- Must be willing to adapt to change.
- Connect to the community.

Here are some independents that Mr. Spector particularly likes:

- Octavia Books, New Orleans
- Hotwire Online Coffee House, Seattle
- New London Pharmacy, New York City
- Murray’s Cheese Shop, New York City
- The Great British Pine Mine, Kensington, MD
- Furst Florist, Dayton
- Wassler Meat Market, Cincinnati
- The Soda Pop Stop, Los Angeles
- Weiss House Furniture, Pittsburgh
- Los Pinarenes Fruteria, Florida
- The Four Way Restaurant, Memphis
- AA Jewel Box, Tustin, CA

Discussion Questions: What’s your favorite independent store? What does it do differently that motivates you to visit it regularly? Is there a lesson in what makes them special for other independents?
Why You’re Still Getting So Many Catalogs

Use with Chapter 2, “Types of Retailers”


It’s increasingly possible to conduct our professional and social lives with an electronic device that fits in the palm of the hand, and mobile commerce is the buzz in retail marketing. So why are our mailboxes still stuffed with paper catalogs?

Because they work, say the folks in the catalog business.

According to The Wall Street Journal, 62 percent of retailers that rely mainly on direct sales claimed catalogs were their biggest revenue generator. In contrast, only 20 percent named their Web sites as the primary profit source. Catalogs even get credit for Web sales: In a study conducted by a consultant for the post office—admittedly not an unbiased player because catalogs generate revenue for postal service—consumers who received a retailer’s catalogs spent 28 percent more on that retailer’s Web site than those who didn’t receive a catalog. Catalogs have it over Web sites in other ways as well: Glossy catalog paper allows for better images of merchandise, and many consumers enjoy looking through them. They are, in short, a highly effective way to get products in front of people and stimulate a purchase.

Okay, so why don’t we have more catalogs in our mailboxes (as if mailing 17 billion of them in 2008 alone weren’t enough)?

Because of the environmental impact, experts say, and because the numbers are changing. Catalogs use more paper than either books or magazines, and many catalogs travel directly from mailbox to trash can. Recycled paper, although being used more frequently in catalogs, isn’t a complete answer because images don’t reproduce as well as they do on non-recycled paper. Initiatives like a “Do Not Mail” list threaten to limit the future of catalogs, and the rising cost of paper, ink, and postage may affect the role of catalogs in the marketing mix in years to come. The Direct Marketing Association reported that the percentage of catalogs that generate a sale declined from over eight percent in 2003 to under two percent in 2007. Meanwhile online sales continue to rise.

To catalog or not to catalog? The answer is that catalogs will continue to have a place in selling goods if they are properly used and targeted.

Discussion Questions:

Is there still a place for catalogs in a green-sensitive world?

Yes. Catalogs are still effective for motivating consumers. However retailers will have to do a better job of cleaning lists and targeting their audiences to reduce paper use, and paper manufacturers will need to improve the quality of recycled paper.
How do catalogs still complement or support e-commerce or brick-and-mortar businesses?

*Catalogs can send consumers to a retailer’s Web site to make a purchase or motivate them to visit the store to purchase an item seen in the catalog.*

3. Are we witnessing any meaningful public backlash against catalog distribution?
While the post office has a vested interest in continuing catalog distribution, environmental groups are calling on the government to set up a Do Not Mail list that commercial mailers would have to honor. If this effort is successful, direct marketers will be spending more of their dollars on online marketing than on print.
Are Retailers Going Too Far Tracking Our Web Habits?

Use with Chapter 3, “Multichannel Retailing”

Are Retailers Going Too Far Tracking Our Web Habits?, Jayne O’Donnell, USA Today, October 26, 2009

Big plate of cookies sounds good to you? It certainly sounds good to retail marketers, even if they have to settle for virtual cookies and not the home-baked kind. Cookies are the online footsteps computer shoppers use when they search, browse, or buy online. This information can be used to personalize promotions and, as Amazon has shown, it can be used to match information on the buying habits of other customers with similar interests to make recommendations. The approach works: Coremetrics, an e-commerce marketing company, found that consumers are 50 percent more likely to open and click through a targeted e-mail than a generic one, and that targeted e-mails generate 50 percent more revenue than generic e-mails.

But the practice is alarming to privacy and consumers groups. It is also objectionable to many consumers, according to a survey conducted in September 2009 by the University of Pennsylvania and University of California-Berkeley. The objections aren’t about targeted advertising, however. They are about the profiles developed from online behavior—information that could be shared or sold without the individual’s knowledge or consent. One woman interviewed for the survey found it “unnerving” that her habits are being documented and her interests anticipated. Reactions aren’t all negative however. Another woman said she appreciates and acts on buying suggestions and offers she receives from online sites she has used.

After reviewing the issue for years, the Federal Trade Commission recently issued voluntary guidelines for marketers. Advocacy groups are pushing for stronger controls, including making the guidelines mandatory. The pressure is leading an increasing number of retailers to disclose what they are doing and to allow consumers to opt in or out.

Discussion Questions

What are the Internet privacy concerns?

Privacy and consumers groups, as well as a number of consumers, are concerned about how the information about profiles developed from online activities is used. The issue revolves around consumers having little knowledge or control over whether the information is shared or sold.

What are the advantages and disadvantages of cookies from a consumers’ perspective?

Some consumers find receiving targeted emails and suggested purchases helpful. Others object to their behaviors being tracked and the information being used in ways they can’t control and didn’t approve.

How do you feel about cookies?

I appreciate the suggestions and have made purchases based on them. However I don’t like the idea that information about me can be gathered or used without my permission. I think the solution is to allow consumers to opt in or out of tracking, including aspects of what information is tracked.
A Netflix Model for Haute Couture

Use with Chapter 3, “Multichannel Retailing” and Chapter 5, “Retail Market Strategy”

A Netflix Model for Haute Couture, Jenna Wortham, New York Times, November 9, 2009

Cinderella has discovered technology and, with the help of Rent the Runway, can have the dress of her dreams without waiting for help from a fairy godmother. Rent the Runway, the fashion equivalent of Netflix, is a mail-order service that allows women to receive high-end dresses at their home, wear them to a wedding or other special event, and then drop them in the mail in a pre-paid envelope. Price for the rental—which ranges from $50 to $200 for a four-night loan for a dress that could retail for as much as $3000—includes dry cleaning. For women with a busy social schedule, Rent the Runway makes it possible to wear a different outfit to every event without emptying their wallet or filling their closet with clothes that may be unfashionable in a year.

Founded by two recent Harvard Business School graduates, Rent the Runway had 2000 women signed up for the service only a week after it began shipping dresses—an impressive number considering the service is invitation only. The business clearly addresses a need, particularly in light of the difficult economy. It’s also been endorsed by the designer community, which sees it as an opportunity to introduce haute couture to a wider audience without compromising the brand.

But despite what looks like early success, Rent the Runway faces some challenges: Women must be willing to rent a dress without trying it on; clothing must be delivered to the customer on time without exception; dresses can be damaged by customers; and fashions change quickly, which could leave Rent the Runway founders with an expensive inventory of little-used dresses that are no longer in demand. The founders have done what they can to mitigate these risks, including allowing women to reserve their dresses in advance, permitting an extra size of a first dress at no extra cost, offering a second-dress option for $25, making damage insurance available for $5, and demanding full retail price if a dress is ruined. Ultimately however, the success of Rent the Runway rests on its continuing ability to offer current styles.

Discussion Question:

Would you rent from this company? (Guys, just pretend.)

I’d rent from this company if I needed a high-end dress because it allows me to extend my wardrobe without spending my entire paycheck. I would never buy anything without trying it on, but Rent the Runway’s costs and policies for getting a different size or trying a second dress make it worth it to give them a try.
Younger Buyers Challenge Luxury Retailers in Asia

Use with Chapter 4, “Customer Buying Behavior”

Younger Buyers Challenge Luxury Retailers in Asia, Bettina Wassener, New York Times, November 18, 2009

If you want to be a millionaire, Asia is the place. In China the average age by which someone has become a multi-millionaire is 15 years younger than in the United States. Throughout Asia, individuals are accumulating greater wealth and economies are booming. These growing nations are an important market for luxury retailers, who have seen their earnings shrink eight percent globally and 16 percent in 2009. But taking advantage of this market isn’t as easy as replicating a Manhattan or Milan luxury clothing store in Shanghai. Reaching these customers involves understanding and responding to demographics, purchasing preferences, and cultural norms that are different from upscale customers in other countries.

Asian buyers prefer sleek modern designs and spacious rooms to the more subdued stores of their American counterparts. They are eager for information on merchandise and expect high levels of service. But even these generalities don’t apply across entire countries. Within China, for example, differences exist between what customers want for luxury apparel in the coastal cities versus inland. As a result, retailers catering to these customers need to analyze sales and solicit customer feedback on an ongoing basis and make the appropriate strategic shifts.

One Italian luxury men’s wear company, Zegna, has shifted its marketing from magazine advertising to in-store educational events for customers. These events include talks by craftsmen about the processes of making ties or shoes and training staff about craftsmanship and textiles. Store planning, the look of each store, and the product mix are also tailored specially to the Asian market. For example, the stores have bigger facades and more space that Zegna stores in other markets, and much of the space in their Hong Kong store is devoted to sports apparel and casual clothing that appeals to the younger shopper.

Discussion Questions

Why are Zegna and other luxury retailers doing so well in China?

Zegna and other luxury retailers are doing well in China because they understand their market and are making the necessary adjustments in store design, service, and collections to attract them.

How is their customer different in China than in other more established markets?

The Chinese customers of luxury retailers tend to be younger than customers of these stores in other countries. They prefer bigger store facades, larger stores, high levels of service and education about product craftsmanship and textiles, and more sports apparel and nice casual clothing.

What are they doing to better meet the need of their Chinese customers?

Luxury retailers like Zegna are analyzing their sales information and soliciting customer feedback on an ongoing basis to make sure they are meeting the needs of their Chinese customers. They are also modifying their collections, developing larger stores with larger facades, and using in-store educational events rather than print advertising to reach their customers.
At Ruby Tuesday, Casual Dining Dons a Blazer

Use with Chapter 5, “Retail Market Strategy”

At Ruby Tuesday, Casual Dining Dons a Blazer, David Segal, New York Times, November 8, 2009

In 1972, Sandy Beall, founder and chief executive of Ruby Tuesday, was a 21-year old with a beer-and-burger joint. Thirty years later, he sat at the top of an 896-store international restaurant empire. Then he decided to shake things up a bit. Ruby Tuesday, he thought, should break out of the casual-dining chain mode by upgrading its food, its service and its décor. In essence, Beall wanted his restaurants to be more Outback Steakhouse and less Applebee’s. His timing wasn’t ideal: renovations to the restaurant interiors began just about the time the economy hit the skids. But Beall hasn’t blinked.

The new menu features lobster tails and suggests wines that will work well with menu options. The menu items are backed by a long process of creation and testing designed to develop stand-out dishes. The bric-a-brac décor has been replaced by leather banquets and dark varnished wood. Managers are given extensive training in “Wow-U”, a program that includes extensive details of rules, etiquette and sales tactics that are intended to be learned and then improvised upon in real-life situations. Managers are then expected to pass this knowledge on to their staff. With the re-branding, Beall hopes to attract a more affluent clientele.

The effort will demand more than surviving the recession, a face lift, and a glass of cabernet. Annual turnover among the lower-level staff is 100 percent annually, making it difficult for “Wow-U” to be consistently implemented. The process of adding or removing a dish from the menu is time-consuming, and making the change across all stores is complex. In addition any change carries the possibility of alienating segments of a clientele base. For Ruby Tuesday, the upgrade led to a loss of between five and eight percent of their base, mostly at the lower income levels. Beall’s comment, said with a shrug, is that “Very few people miss the roller skates on the wall and the bad food.”

Beall’s efforts demonstrate the perils and possible benefits of trying to attract a more affluent market at a time when people are pinching their pennies. Ruby Tuesday’s stock fell from a high of $33 a few years ago to 85 cents in March 2009. But by fall’09, it had rebounded to $6.54. Not a full rebound, but Beall may have reversed Ruby Tuesday’s downward trend by finding a better way to position the chain. According to restaurant industry experts, the strategy is sound in a down economy: “The best a company can do now is steal customers from competitors,” says a spokesperson for Malcolm M. Knapp, Inc., a consulting firm. “And the best customers to steal are the wealthiest ones, because they are actually spending.”

Discussion Questions

What is Ruby Tuesday doing to reposition itself?

Ruby Tuesday has undertaken a full re-branding effort to reposition itself as a more upscale restaurant within the casual dining industry. These efforts include changing the menu offerings, suggesting wine pairings, redecorating, and an extensive training program for managers that covers etiquette, sales techniques, and rules.
What parts of the new strategy do you think will be successful? Which do you think will fail? Explain your answer?

Ruby Tuesday will certainly end up with better food, better service, and an atmosphere that is more attractive to higher-end diners, and bold is often better when it comes to strategic direction in challenging times. However given the recession, I have reservations about the re-branding leading to overall business success. At a time when fewer people in any income bracket are dining out, Ruby Tuesday must overcome the impression that it’s still a run-of-the-mill casual dining experience if it wants to attract wealthier customers. The new ambiance and higher prices make it less likely people will bring their children with them when they dine. Those looking for a family dining experience or unable to afford a sitter will go elsewhere or stay home. Changes and higher prices will alienate segments of their customer base.
Pushing Fresh Produce Instead of Cookies at the Corner Market

Use with Chapter 8, “Retail Site Location,” Chapter 5, “Retail Market Strategy,” and Chapter 14, “Buying Merchandise”

Pushing Fresh Produce Instead of Cookies at the Corner Market, Kevin Granville, New York Times, October 31, 2009

Bodegas in New Jersey, New York, Cleveland, Louisville and elsewhere are improving the country’s health...one banana at a time. Corner grocery stores in these locations are being offered new equipment in return for a promise to stock it with fresh produce and other healthy food options.

Traditionally these stores have offered candy, chips, canned goods, and sugary drinks. They were, in the minds of public health officials, culprits in the national obesity problem. As local supermarkets have lost ground against distant big-box retailers, low-income urban residents—and some of their rural counterparts—have been forced to rely on the corner stores for all their groceries, leaving these individuals with no choice but to eat fattening food. The result of these “food deserts” seems clear: The American Journal of Epidemiology reported that people with no supermarket near their homes were up to 46 percent less likely to have a healthy diet than those with more shopping options. Poor diet, medical studies have shown, can lead to obesity, diabetes, and heart disease.

The approach to improving food options for lower-income urban dwellers varies from city to city, but includes public health organizations or economic development agencies offering equipment, marketing expertise, or neighborhood promotions. Some stories have cleared the candy displays from their check-out lines and replaced them with fruit. Corner grocery store owners in New York receive help securing zoning permits that allow them to display fruit and vegetables on the sidewalk. In Louisville, cash awards are given to small groceries willing to expand their fresh produce offerings.

The effort follows mostly unsuccessful attempts to bring supermarkets into low-income urban neighborhoods using grants, tax credits, and zoning incentives. Big chains were reluctant to open stores because they wanted larger lot sizes than are typically available, they were concerned local residents wouldn’t buy the high-margin foods, and they were worried about crime. Corner markets have their own concerns with the new approach, including spoilage and a clientele that comes looking for a six pack and lottery tickets, not whole wheat bread and a bag of cherries. The important factor, says a coordinator for health promotion research, is to choose the right store owners: those who want to help make their customers healthier, and who believe they can move the healthier foods.
Discussion Questions

Why are cities and private organizations concerned about having healthier food in some grocery stores?

These organizations are concerned about having healthier food in the corner grocery stores in low-income neighborhoods and primarily in urban areas. The concern is that these stores stock unhealthy merchandise like snack food, canned goods, highly processed goods, and sugary drinks. People in these neighborhoods can’t get to supermarkets with healthier food options, so they are forced to eat junk food, which leads to obesity and obesity-related diseases.

Do you think initiatives such as those described in this article are a good use of your taxpayer dollars?

I’m in favor of these initiatives because encouraging healthier eating amounts to preventive medicine. I would rather devote my tax dollars to helping people stay healthy than pay for healthcare once they have developed obesity-related medical problems.
Company Stores vs. Independent Retailers: Clash or Peaceful Coexistence?

*Use with Chapter 14, “Buying Merchandise” and Chapter 15, “Retail Pricing”*

*Company Stores vs. Independent Retailers: Clash or Peaceful Coexistence?, Knowledge@Wharton, October 28, 2009*

A new trend is on the rise: the advent of “the company store next door.” Companies like Microsoft, Apple, Coach, Nike and Ralph Lauren are opening shops, and they are doing it in the same markets where independent retails are already offering the manufacturer’s products. These outlets give the manufacturer the opportunity to have customers experience their products in an environment they can control and to provide one-on-one information about the brand and product. But is this a good marketing approach? Isn’t it inefficient if a store already exists to handle demand? Wouldn’t it cause hard feelings on the part of the independents?

David Bell, a professor of marketing at the Wharton School, and his colleagues probed these questions initially with mathematical models that simulated and analyzed the real-life situation. The results showed that when a company store opened near an independent, it charged more for the same products and spent more on marketing. The models also indicated that the independents charged more in the same situation and marketed more aggressively, creating a synergy that benefits both independent and company store. The research team then took to the malls and used the Internet to confirm the model’s results. In both venues, company stores charged higher than independents for the same products, and in both the company stores offered more in-depth information on the products. These education efforts by the manufacturer can help boost sales for the independents.

Another effect, says Bell, is that company stores set a ceiling price and independent retailers need only stay below that amount to attract customers. Thus they can charge more than they might have if they had only been competing against other independents. This practice obviously drives up the bottom-line cost to consumers. The presence of both company store and independent retailer in close proximity also motivates independents to improve service through better knowledge about the products.

According to Bell, having a company store next door to an independent retailer works best for manufacturers trying to maintain a high-end image. However more research is needed because the trend is still limited in physical locations while in the ether world, manufacturers and independent retails have co-existed all along.

**Discussion Questions**

What are the relative price levels for the same merchandise at manufacturer-owned stores versus independent retailers?

*When manufacturer-owned stores and independent retailers are competing in the same market, price levels are higher at the manufacturer-owned store.*
What are the advantages and disadvantages of having manufacturer-owned stores near independent retailers selling the same merchandise from the perspectives of the manufacturer, the independent retailer, and the consumer?

The independent retailer benefits from being able to charge higher prices that it would have if the competition had been solely from another independent, and it enjoys the advantages of having the manufacturer educate customers about the brand. However, it also sets a higher standard for both service and marketing, so independent retailers must increase their efforts in both areas. The manufacturer benefits by having a brick-and-mortar location where they can have customers use their products in an environment they have created to be sales-oriented, but runs the risk of the customer then making a purchase at the independent store. Customers benefit from improved service, an opportunity to experience the products, and higher-grade marketing efforts. They lose out on price.

For what type(s) of merchandise does it make the most sense for a manufacturer to open a store near competing independent retailers?

Manufacturers wanting to maintain a high-end image for their products will benefit more from opening a company store near a competing independent retailer.
Retail RFID Today, As Seen Through the Eyes of an Expert

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

Retail RFID Today, As Seen Through the Eyes of an Expert, David P. Schulz, *Stores*, October 2009

Radiofrequency identification (RFID) technology uses radio waves to help track goods and assets. It’s the same technology that is used for speed pass lanes on toll roads and in lift tickets in ski areas, and it’s helped retailers improve supply chain logistics for years. Recently it’s become more appealing to retailers at the item level, allowing for more visibility into what products are received and in what quantity, where the products are located within the store, and whether restocking is needed. Retailers hoping to keep their competitive edge in the marketplace need to be aware of changes in how this technology is being used.

New developments include disposable RFID tags that make the technology economically feasible for items that retail for under $5, and reports that auditors may accept RFID inventory tracking throughout the year instead of costly and time-consuming physical inventory counts. The technology can help retailers track perpetual inventory, reduce stock-outs, and even expedite checkout. But while some retailers are dragging their heels on understanding RFID, others are benefiting from inventory efficiency and supply chain visibility. CEOs postponing learning about how this technology could benefit them may be leaving themselves vulnerable to competitors.

Another trend in RFID is source tagging, or having overseas factories apply RFID tags rather than the tag they have historically used. This approach ensures tags are applied where the cost of labor is lowest, helps catch mistakes early in the supply chain, and improves supply chain control and visibility all the way up the chain.

While item-level RFID tags are proving increasingly useful in clothing and department stores, consumer electronics, bookstores, and office supply stores, the grocery industry will take longer to adopt them for two reasons. First, the average unit price in grocery is comparatively low, making the price of the tag itself more of an issue. Second, canned goods and goods with high liquid content create special challenges for solutions that rely on radio waves.

Initially consumer advocacy groups and individual consumers were concerned about personal privacy with individually tagged items because they feared the tags could be read by a third party without the individual’s knowledge. Recently, however, these issues have gone away. Signage informing customers that RFID is in use for inventory management generate no concern on the part of customers.

**Discussion Questions:**

**Why are RFID tags becoming more popular with some retailers?**

*RFID tags are becoming more popular with some retailers because they improve control and visibility throughout the supply chain. Item-level RFID tags are also appealing to retailers because the technology allows retailers to stay on top of inventory data, avoid stock-outs, and keep track of inventory as it moves throughout the store. Using the tags to track inventory throughout the year may also release retailers from having to devote time and money to audited annual inventories.*
Under what circumstances is the use of RFID tags impractical?

The use of RFID tags is currently impractical for items with low-unit cost and for canned goods and goods with high liquid content.

Why would customers be concerned about their privacy if RFID tags were placed on their purchased merchandise? Are they concerned?

Customers were concerned about their privacy since RFID tags can be read by a third party without their knowledge. However now that RFID tags are in use and customers are informed about their usage, there doesn’t seem to be any concern with this issue.
Don’t Worry, Be Happy: The Warranty Psychology

Use with Chapter 15, “Retail Pricing”


Are you happy enough to place a bet with poor odds and lose on a regular basis? Many people are, although they probably hadn’t thought of their actions in those terms.

No matter how much research shoppers have done on the price and reliability of a major purchase, many make a bad investment at the cash register: They purchase an extended warranty. These service contracts generally offer a useful service, but they are overpriced, costing an average of 20 percent of the purchase price for products that have failure rates as low as three percent over a four-year period. Additionally repairs to the few electronics that do need them generally cost about the same as the warranty. These statistics make service contracts profitable to the retailer—so profitable, in fact, that businesses that undercut the cost of retailer’s warranties have sprung up, even though they played no role in the product sale. But odds work against consumers, who have been warned by Consumer Reports that warranties for most electronics and automobiles are bad investments.

Nevertheless shoppers continue to buy extended warranties. To some extent, these warranties sell because human beings tend to be risk adverse, because sales people don’t allow time for analytical thought, and because most people can’t calculate risk and failure rates on a moment’s notice. But a recent study published in the Journal of Consumer Research shows that emotions may play as much of a role as analysis: Consumers are more likely to buy an extended warranty if the product is purchased for pleasure, like a big-screen television or game console, than they are if the purchase is a necessity like a refrigerator or dryer. Appliances, however, have a higher fail rate than electronics. Consumers are also more likely to purchase the service contract if the product cost less than they had anticipated because the unexpected savings makes them feel good, and they want to prolong that feeling of pleasure.

Discussion Question:

Should consumers buy extended warranties? Why or why not?

Consumers should avoid purchasing extended warranties since most electronics have low failure rates and the warranties are overpriced relative to the actual financial value they provide to consumers.
Shady Shoppers Beware

Use with Chapter 17, “Managing the Store”

Shady Shoppers Beware, Emily Maltby, Wall Street Journal, November 24, 2009

Retailers are using technology and modified return policies to dam the profit leak caused by shoppers who scam the system. One scheme—fraudulently disputing a credit card charge—was responsible for 35 percent of all fraud-related losses for online merchants in 2008; another, fraudulent returns, accounted for 18 percent, while ID theft accounted for 19 percent. These “friendly fraud” schemes are profitable enough, according to one risk consultant, that some people are making a living with refunds.

Chargebacks, or contested charges on a credit card, cost merchants a fine in addition to lost product and lost sale. To avoid these costly transactions, retailers are using online sites that search a database for a history of chargebacks on a shopper’s credit card. If the search shows multiple chargebacks, the merchant can refuse the card. Another solution offers software that puts items in a shopping cart on hold if the database shows a history of chargebacks. A third approach uses an IP-location tracking system that compares IP address with billing address and shipping address. This solution also helps prevent ID fraud.

Small businesses are experimenting with a new balance between stricter policies and excellent customer service to avoid losses due to customers scamming returns. These shoppers purchase merchandise, use it for up to months at a time, and then return it looking for a cash refund. For an online housewares and appliances retailer, the refined returns policy specifies that the product packaging must have the original security in tape for a full refund. For a Colorado clothing store, returns must be within two weeks of purchase, the tags must be in place, and only store credit is given.

Each of the measures is helping: Merchants are seeing a reduction in chargebacks and small business customers are adjusting to new return rules.

Discussion Questions:

What are retailers doing to reduce chargebacks?

To reduce chargebacks, retailers are using technology solutions that include searching a database for a history of chargebacks on a credit card and rejecting the card if evidence is found, putting products in an online shopping cart on hold if past chargebacks are discovered, and matching IP addresses with billing and shipping addresses.

What are retailers doing to reduce friendly fraud?

To reduce friendly fraud, retailers are tightening returns policies and using technology solutions that match IP, billing and shipping addresses.
Interactive Digital Displays Finding a Home in Retail

Use with Chapter 18, “Store Layout, Design, and Visual Merchandising”

Interactive Digital Displays Finding a Home in Retail, Deena M. Amato-McCoy, Stores October 2009

Retailers seeking to attract, inform, and entertain consumers are finding value in interactive digital signage, a new brand of electronic billboards that allows users to access content, change backgrounds, manipulate special effects, or enter a virtual world by using their hands or bodies. These digital displays are receiving tight budget dollars, according to a Maryland-based research firm, as long as they attract attention, require minimal installation and support, and ensure that shoppers see and remember the message.

GestureTek, headquartered in California, has been building and developing camera-enabled gesture-recognition technology for computer-human interaction for over two decades. Some of their products, such as interactive floors that allow customers to play games with their feet, draw shoppers into less-frequently visited departments and increase sales in those areas. Other products turn store windows into electronic billboards that can be used to advertise offers or services. These windows, or other surfaces such as cash counters, can be turned into multi-touch displays that allow multiple users to interact simultaneously with content such as product information, advertising, or games. For smaller stores, GestureTek’s “Cube” is a compact unit requiring no support and only a few minutes of set-up. This application projects a 4 foot by 5 foot image that displays games and special effects on the floor.

GestureTek’s displays work by capturing user movements on video and using gesture-recognition technology to translate movements into commands. A more recent GestureTek innovation uses 3D depth-sensing technology to track and identify people within a group from a distance. Sprint uses this technology to have an advertisement follow an individual down the length of an interactive billboard.

Discussion Questions:

How are retailers using digital signage?

Retailers are using digital signage to attract attention, provide information, pull shoppers into less-trafficked departments, drive sales, and to provide a memorable and entertaining experience that will bring customers back to the store.

Which specific digital signage applications are most appropriate for certain types of retailers?

Since the technology is relatively new and fun, all the applications have the potential to attract attention and provide shoppers with a memorable experience. However, multi-touch windows seem valuable to mall stores, where large displays that can be used simultaneously by many shoppers would be advantageous. Department stores would benefit from floor displays that provide gaming opportunities in less-shopped areas of the store. The Cube, with its compact design and easy installation, would be a good choice for smaller retailers.
Amid Price War, Three Retailers Begin Rationing Books

Use with Chapter 15, “Retail Pricing”

Amid Price War, Three Retailers Begin Rationing Books, Jeffrey A. Trachtenberg and Miguel Bustillo, Wall Street Journal, October 30, 2009

As publishers prepared to release titles by best-selling authors into the 2009 holiday shopping mix, Walmart, Amazon and Target set purchasing limits on pre-orders for the books. These books—the top 10 pre-orders of the season—are being offered at substantial savings over their list prices. The rationing strategy is designed to protect the retailers from substantial losses during their loss-leader promotion.

Prices for the books are nearly 70 percent below cover prices. Since publishers charge 50 percent of a hardcover book’s cover price, Walmart, Amazon and Target are losing money on these sales. The purpose of the pricing structure is to attract customers to the company’s online site, where they may then order additional items. The danger is that independent booksellers or eBay merchants would purchase multiple copies for resale. These dangers are real: a buyer in a Colorado independent said he had intended to purchase 70 copies of one hot title from the retail giants rather than from the book’s publisher, which would save his store more than $5 per copy. Independent booksellers, who typically cannot match prices of larger retailers or chain bookstores because they must order in lower quantities from the publisher, have no limit on the number of copies they sell.

The per-unit price differences among the big three retailers are negligible for the rationed books, so retailers are also competing with limits: Walmart.com offered the new Dean Koontz at $8.98, Target.com charged $8.99, and Amazon priced the title at $9. Target set the purchase limit at five books, while Amazon had a limit of three copies and Walmart’s maximum was two.

Discussion Questions:

Why are some retailers limiting the number of copies of certain books their customers can buy?

Some retailers are limiting customer quantities on certain books because these books are “loss leaders” for the store. The retailer is losing money on the sale, but the item is intended to attract customers who might then buy something else. They are also limiting quantities to prevent other retailers or individuals from reaping profits by pricing the books higher than the retailer’s price but lower than the cover price.

Why are some stores involved in a book price war? Do you think this is a good strategy? Why or not?

The stores involved in the book price war because they are hoping to lure customers to their online site, where they customers may then make additional purchases. This seems like a good strategy, particularly toward the end of the year, when customers are holiday shopping.