Dear Professor:

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

- China: The Wild West with Razor-Thin Margins (Chapter 5)
- E-Books Rewrite Bookselling (Chapter 2)
- Can Shopping be Fun Again?” and “In-Store Events Gone Wild! (Chapters 4, 5)
- Department Stores Lure Shoppers with Exclusive Product Lines (Chapter 14)
- Retailers Reach Out on Cell Phones (Chapters 15, 16)
- Fast Fashion Retailer H&M is a Bit Frosty Toward Warm Climates (Chapters 10, 13, 14)
- Build it and They Will Do It? Retailers’ India Dilemma (Chapter 5)
- Guess What? Men Shop, Too (Chapter 4)
- Mobiles Deployed to Entice Shoppers and Stores Tap into Shoppers as Mobiles Ring the Changes (Chapter 16)
- Sam’s Club Personalizes Discounts for Buyers (Chapter 11, 15, 16)
- In Rush to Outlets, Retailers Tread Fine Line (Chapter 7)
- Sizing Up Properties, Mall Stores Try to Shrink (Chapter 18)
- With Student Help, L.L. Bean Tries Younger Look (Chapter 5)
- Retailers Tap Stores to Speed Online Orders (Chapter 10)
- Why Walmart Wants to Take the Driver’s Seat (Chapter 10)

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.warrington.ufl.edu/mkt/retailcenter/research/publications.asp
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
China: The Wild West with Razor-Thin Margins

Jamil Anderlini, Financial Times, April 20, 2010

Use with Chapter 5, “Retail Market Strategy”

With the world’s largest population, China is widely viewed as the most promising new market. Yet retailers in the country face challenges that make shoot-outs on the American frontier look tame. From intense, unregulated competition to complicated political relationships to cultural clashes, retailers in China play a high-stakes game that could result in profit and power...or in bankruptcy and prison.

One case in point is Huang Guangyu, who grew the electronic retail company Gome through a series of mergers and acquisitions that resulted in Gome being the largest retailer in China and Huang being China’s richest man. Huang’s actions went unchecked by the state, which plays a strong role in the regulation of high-profit industries such as telecom. But somewhere along the line, Huang ran afoul of powerful people, who put him behind bars. From his prison cell, he has watched his company lag behind rival Suning.

Huang’s growth strategy consolidated a market glutted with private and foreign companies and state-owned retail stores, each struggling for prime locations and services. Consolidating helped strengthen profits, since even retailers who find a foothold must contend with miniscule margins, a steady influx of competition from home and abroad, and the threat of a hostile take-over. As Huang and competitors are realizing, cost-controlling strategies, such as eliminating sales staff, backfire as Chinese consumers recognize the value of western-style salespeople who can provide service and information on a variety of products.

To find secure footing, some retailers, including Gome’s competitor Suning, head further into the frontier. This strategy capitalizes on an increase in retail sales in China’s rural areas that is more than twice the growth in urban retail sales during the same time period. The growth, triggered by government subsidies to help rural dwellers purchase electrical appliances, is likely temporary, so Suning is constructing simple stores that can be efficiently dismantled if needed. With luck, a business strategy consistent with Beijing’s economic stimulus policies will prove more successful for Suning’s leader than Huang’s attempts at consolidation.

Discussion Questions:

What are the opportunities and threats of opening a retail operation in China?

China has the world’s largest population, and the retail market there is growing rapidly. Certainly those factors are attractive to retail companies. However the retail market is fragmented, over populated, unregulated, and has extremely thin profit margins. Opportunities currently seem greater in rural areas, where government subsidies have given money to people who are historically quite poor.

If you were CEO of an American-based retailer, would you start operations in China? Why or why not?

I would be tempted to start operations in China because of the size of the market and because the country appears to be growing as an economic and political force in the world. Having a presence there would provide the possibility of continued growth despite the worldwide economic slump and also signal to consumers and shareholders that my company is forward-thinking and part of a global community. However before committing, I would want a full feasibility report that outlines challenges and opportunities and that details strategies most likely to lead to success.
E-Books Rewrite Bookselling

Jeffrey A. Trachtenberg, Wall Street Journal, May 21, 2010

Use with Chapter 2, “Types of Retailers”

E-books are less expensive than their physical counterparts and easier on the environment. But if readers turn in increasing numbers to electronic reading, what is the future of bookstores?

The industry has already endured significant shakeups, including the growth of the discount superstores, which crushed most independent booksellers; the gradual winnowing of mall bookstores, which were closed in favor of behemoths that offered breadth and depth in all genres; and the constant gnawing on market share by online booksellers like Amazon. Now stores face the e-book which, if the lesson of digital music is applicable to its literary counterpart, spells the end of the brick-and-mortar bookstore. But extinction isn’t acceptable at Barnes & Noble, where executives scramble to overcome past mistakes and position themselves for the future.

Today electronic books comprise only about three percent to five percent of the market, although analysts expect that market share to increase rapidly. For Barnes & Noble, which reached supremacy based on a business model that accommodates over 150,000 titles under one roof and includes 18.8 million square feet of retail space, the decline in demand for physical books raises some significant challenges. With fewer books, consumers have fewer reasons to visit the store, and Barnes & Noble faces difficulties filling its shelves. The economics are equally daunting: For a full-priced book selling for $25, Barnes & Noble earns $12.50. Because digital books are less expensive to produce and don’t involve shipping costs, the same title as an e-book may retail for $12.99. Under a new agreement for e-book pricing, publishers receive 70 percent of this amount, while booksellers retain 30 percent. For Barnes & Noble, in other words, a title that used to bring in $12.50 now adds $3.90 to the store’s till.

Barnes & Noble and other booksellers have adopted a solution of selling more non-book items to replace lost profits. The chain’s store on the upper East Side of Manhattan carries baby blankets, Art Deco flight clocks, puzzles and games as well as showcasing digital products. The idea is to use the stores to provide services and content not available online — a strategy that turns a potential liability into an asset that online-only competitors Amazon and Google can’t match. Inside the stores, customers can experiment with Barnes & Noble’s e-reader, take advantage of free offers, and enjoy the coffee shop/bookstore ambiance and free Wi-Fi service popular among many readers. Canada’s largest bookseller, Indigo Books & Music, Inc., is following suit with an array of non-book items intended to transform its holdings into “cultural department stores.”

Despite having yielded a competitive advantage in e-books to Amazon when it walked away from investments in digital reading technology 2003, Barnes & Noble now has over 1.2 million titles in its e-bookstore and is widely available on hundreds of devices. As a result of a recent deal with Best Buy Co., Barnes & Noble’s Nook will be available in more than 100 Best Buy stores.

Nevertheless, brick and mortar booksellers face an uphill battle. The bookstore giant’s closest competitor, Borders Group, Inc., faces declining sales, store closures, and staff layoffs. Barnes & Noble is witnessing drops in both sales and earnings, and another threat has entered the landscape: Apple’s iPad, predicted to sell 5.5 million units in 2010, outstrips Barnes & Noble’s projected annual sales of 1 million Nooks. The once-invincible bookstore chain may fade from the landscape just as the small independent booksellers once gave way to its giant footsteps.

Discussion Questions:

What changes are impacting the retail market for books?

Over the past twenty years, the retail market for books was changed significantly by megastores like Barnes & Noble and Borders. More recently, online bookstores such as Amazon have pulled sales from brick-and-mortar stores as well as commanded a significant
percentage of internet-based book sales. Now digital reading is transforming the market again, forcing changes that impact authors, agents, publishers, booksellers and readers.

Do you believe bricks and mortar bookstores can survive the changes?

Brick-and-mortar bookstores will need to instigate a viable new business model quickly to survive the changes. This model will need to address the needs of the segment of readers who want physical books and who want to expose their children to the tactile experience of holding a book. The model will need flexibility to accommodate enhancements in e-readers, such as improved graphics capabilities (particularly for children’s picture books), interactive and search features, and special services such as virtual reader groups.

If you owned a bookstore or worked for a chain like Barnes & Noble, what would you do?

As a bookstore owner, I would capitalize on the idea of bookstores being a community gathering place for the exchange of art and ideas by holding forums, debates, readings, shows and displays that build traffic and that are tied to books for sale on the shelves. I would partner with a coffee shop and provide limited, but comfortable, space for reading and study. Additionally I would insist on highly personalized service by sales people who are passionate readers capable of making recommendations that match titles to readers. I would combine these two approaches by hosting special events during which well-informed staff members would preview and review books for occasions such as Christmas, Mother’s Day, summer reading, etc. Since I believe independent booksellers will remain the bastions for traditional readers and book lovers, I would refrain from offering e-readers or other technology.

If I worked for Barnes & Noble, I would consider the viability of separating digital media and physical media onto separate floors and offering additional related services that establish the store as an important community member and contributor in both mediums. This might include, for example, storytelling, supervised reading, writers’ workshops, or reading instruction (all paid services) on the book floor and a kiosk for recording family history or anecdotes on the digital media floor. I would also focus attention on the children’s section since parents frequently want to build an interest in reading in their offspring. This attention might include puppet-making workshops or improvisational children’s theater to bring favorite stories to life or to use the imagination to further the adventures of favorite characters.
Can Shopping be Fun Again?

Cathy Yan, Wall Street Journal, May 4, 2010

In-store Events Gone Wild!

Tom Ryan, Retail Wire, May 11, 2010

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

Shopping has changed. Consumers watch their spending carefully, and many turn to ecommerce for their purchases rather than traveling to malls or boutiques. This trend could be a death knell for brick-and-mortar retailers...or it could be an opportunity to transform the industry.

Stores like New York’s Dressing Room and Elsa and the British-based company Top Shop have chosen the latter, adding bars, movies, free food, free rock concerts, fashion shows, DJs, and even roller skating and photo booths that automatically upload pictures to the store’s Facebook page to traditional shopping activities of browsing and buying. Saks Fifth Avenue adopted the strategy to fit its brand and now offers in-store events such as designer meet and greets and fund-raising events for local charities. To further build traffic, some Saks stores make rooms available for private parties and book clubs at no charge. The trend extends to international brands beyond England: Agnés b.’s new Hong Kong store features a florist, restaurant and chocolate counter in addition to fashions. It extends beyond clothing as well, with one New York tailor shop becoming a bar at sundown and a surf shop doubling as a coffee shop and beer hall.

Key to each approach is the store’s desire to differentiate itself from competitors while creating a sense of community and destination. Rather than ordering out and sitting in front of a computer screen to participate in a virtual community, the reasoning goes, why not go out and enjoy yourself in the company of real people? Not coincidentally, from the retailer’s perspective, this evening out translates to increased traffic and more time in the store for shoppers. Visits must then be parlayed into sales and return customers.

For some stores, the strategy appears to be working: The Dressing Room, which combines boutique, vintage-clothing exchange and bar, brings in forty percent of its revenue through drink sales. Top Shop reports that transaction sales are higher during events than during non-event shopping hours. John Varvatos, a menswear designer who operates from the space once occupied by trendy New York nightclub CBGB, and who hosts a monthly soiree complete with free concert and beer, points to a 30 percent increase in first-quarter sales as evidence the evening gatherings are a success.

But retailers doing double duty to offset effects of the recession and ecommerce still face challenges. If competitors adopt the same strategy, for example, the uniqueness is lost. Additionally events must be tied to both product and to brand. While a book group may be happy to have a free space other than someone’s living room in which to meet, these groups may not be Saks’ target audience and have no interaction with sales staff during their evening. As a result, Saks loses an opportunity to make a sale. A roller-skating party may be fun and build traffic, but does it improve the bottom line for Top Stop?

Discussion Questions:

What are the three best strategies described in this article for increasing retail sales and profits? Justify your answer.

The tailor shop that turns into a bar at night seems like a good idea because tailor shops tend to be low profile: You don’t notice them until you need one. Having the same location serve as an evening destination draws attention to the day-time business, yet the fact that the businesses operate during separate hours avoids confusion about branding.
Meeting and talking with designers at Saks gives customers an opportunity to learn more about the design and construction of Saks merchandise. These conversations will help increase understanding of the value of Saks products. Customers may also feel subtle pressure to purchase something rather than “insult” the designer by going home empty handed.

Top Shop’s approach seems well tied to its target audience of cheap-chic teens. Providing roller-skating parties, DJ sets, free food and a place to hang out with friends is highly likely to build traffic and customer loyalty and to extend the length of store visits. These visitors are likely to browse and shop during breaks in the action. They are also highly likely to buy during the store’s fashion shows.

Is the rash of in-store bashes a clever differentiator/traffic-driving strategy or a bit far-fetched? What are the pros and cons of such in-store events?

Hosting in-store events capitalizes on the one feature e-commerce can’t offer: face-to-face interaction and community. It also offers an alternative to discounting, which has a natural limit as a marketing strategy, and helps build customer loyalty. For these reasons, it works as a differentiator, although stores must continually innovate to retain customer interest and to remain ahead of competition. Any innovation must be evaluated to ensure events are tied to brand and products, attracting the target audience, and resulting in increased sales and return customers.
Department Stores Lure Shoppers with Exclusive Product Lines

Maria Halkias, The Dallas Morning News, April 29, 2010

Use with Chapter 14, “Buying Merchandise”

“Get it here and only here,” is the new message for department store chains, which are leaving behind the cookie-cutter approach in favor of exclusive brand offerings designed to distinguish them from competitors. These new store/brand relationships, which allow individual chains to attract, retain, and nourish specific segments of the market, also make good sense for brands, which can streamline operations to concentrate on pleasing one customer rather than balancing interests across a group of competing chains. They may also work well for shoppers, who will only need to visit one store to find their favorite brands.

A decade ago, department stores like Kohl’s, J.C. Penney’s and Macy’s were virtually identical in terms of the brands they carried. This similarity forced chains to compete on price as each sought to increase market share. Entering into exclusive relationships, such as Macy’s agreement with Tommy Hilfiger and Ellen Tracy or Kohl’s agreement with Dana Buchman, gives chains unique merchandise and creates partnerships that both stores and brands hope will increase profits. The new strategy means that, instead of trying to be everything to everybody, stores are focusing on smaller, more defined audiences and trying to meet their needs more effectively. For brands, the approach means smaller, more targeted organizations. It also means better communications between stores and brands about hot fashion trends that can more quickly be translated into merchandise available on the racks.

The new strategy makes good business sense. Private-label and exclusive apparel brands continue to suck market share from national brands and designer labels, currently accounting for 41 percent of all apparel sales. Using existing private-label brands is more cost-effective and safer than launching a new brand. But the approach isn’t without challenges: Brand names may have a loyal following, but what consumers care about is getting quality, fashion and fit at the right price. If the product doesn’t meet these needs, the brand doesn’t matter.

Kohl’s believes the strategy is working, and other department chain stores are hopping on the bandwagon. But a chief industry analyst cautions, “It’s too soon to tell.”

Discussion Questions:

What are exclusive private labels?

Exclusive private labels are products that are only offered at certain stores where the product’s manufacturer has negotiated a partnership.

What are the advantages and disadvantages of using exclusive private labels?

The strategy of using exclusive private labels capitalizes on the popularity of private label and exclusive apparel brands without retailers having to make a significant investment in developing and launching their own private label. The strategy also helps distinguish department stores within individual categories and develop loyal customers while simultaneously giving stores a competitive advantage based on something other than discounting.

However, the strategy will decrease the overall number of shoppers visiting a store as consumers head directly to the retailer with their favorite brand. Furthermore retailers will be tied into relationships with particular brands that may pass from favor, suffer from quality issues, or no longer be appropriately priced.
What stores are using what labels?

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Retailers Reach Out on Cellphones

Geoffrey A. Fowler, Wall Street Journal, April 21, 2010

Use with Chapter 15, “Retail Pricing,” and Chapter 16, “Retail Communications Mix”

Brick retailers are fighting back against click retailers using smart phones. New apps, which take advantage of geographic location functionality on the phones, offer marketing incentives to customers in or near stores. Best Buy Co and Macy’s Inc., for example, have signed on with start-up company Shopkick Inc. to send coupons to smart phone users in the vicinity of stores. Shopkick hopes its app makes shopping more fun in addition to increasing traffic. Loopt Inc. offers a similar service that also includes a loyalty program. FourSquare Labs Inc., which boasts nearly one million users and approximately 2000 business clients, rewards users with discounts or special offers for “check-ins” at participating merchants. The app is intended to reproduce the feel of participating in a game to help put the fun back in shopping. FourSquare collects user data that can help retailers better understand their customers. To remain ahead of competitors, FourSquare is adding a new function to its app that will allow retailers to enter specials as opposed to contacting FourSquare for updates.

The approach isn’t without precedent: An app released by ShopKick’s CEO distributes “Karma Points” for virtual check-ins; karma points can be converted to charitable donations. The app, called CauseWorld, was downloaded 500,000 times in the first four months of availability and offers of double points resulted in check-ins of four times the normal rate for a participating retailer. The app also takes advantage of smart phones’ camera feature by granting extra points for scanned bar codes of particular products. While data on the promotion are not yet available, the approach literally puts marketing opportunities in the hands of the consumer at the point of purchase. To further test the app’s viability as a marketing device, CauseWorld rewarded check-ins with discount coupons at Best Buy. Although fewer than 10 percent of check-ins resulted in a purchase using the coupon, the experiment clearly tied the use of smart phones as marketing vehicles to sales.

Armed with proof that the approach works, companies marketing smart phone apps for retail shopping now face another major obstacle: Privacy concerns about revealing user’s location. This information could be used by burglars looking for empty houses or by other criminals targeting unaccompanied children or teens.

Discussion Questions:

What new mobile marketing applications are retailers using to get the attention of their customers?

Retailers are using smart phone apps that track customer location via geographic location technology already available on the phones and then sending discounts and promotions to customers who are in the store or nearby. The apps vary in format, with some being more imitative of games, others offering charitable contributions rather than discounts, and still others simply delivering coupons, but all are designed to make shopping in brick-and-mortar shopping more interactive and fun and to help build traffic and sales in specific locations.

Which application do you think is the best for consumers? Retailers? Why?

FourSquare seems good for both consumers and retailers. For consumers, it offers a game-like feel that makes shopping entertaining. For retailers, it offers the opportunity to self-enter specials, which seems like a significant advantage over competing apps.
Would you or do you use any of these applications? Why or why not?

I would use apps that provided discounts or coupons to stores I frequent as long as there was an opportunity to create a “favorites” list and a “no thanks” list so that I didn’t receive offers from stores that I’d never visit or for products that I never use. I would also want an easy way to opt out and in so that I could use my smart phone for navigation while traveling without letting third parties know that I was away from home.
How H&M Keeps Its Cool

Elizabeth Holmes, Wall Street Journal, May 10, 2010


H&M is opening soon in your town...unless you live in Florida, or Texas, or Alabama or, for that matter, Mexico, South America, or Australia. Shoppers in those temperate areas clamor for H&M’s low-cost designer fashions, but the Swedish-owned chain has yet to figure out the right way to meet that demand. H&M-deprived consumers can’t even rely on e-commerce since the company only sells online to a few European countries.

The problem stems from parent company H&M Hennes & Mauritz AB, which has its finger on the pulse of shoppers in areas of the world with four seasons but little familiarity with selling clothing in locations that are warm year round. H&M’s formula for success, which has made it the world’s number three fashion retailer, involves systems designed to quickly move the same merchandise into every H&M store in the world. Customizing assortments for different climates will mean modifying buying strategies and distribution systems.

The company also faces a bit of a “chicken-and-hen” situation: Most of its revenues are generated in cooler climates, but is that because so few H&M stores are located in warm areas, because the product mix hasn’t been appropriate for those environments, or because consumers in chillier cities aren’t interested in cheap chic? H&M is betting it will get its usual warm reception, even in cities that never see frost, and is already investing in supply chain changes that will help deliver seasonally appropriate merchandise as it expands into new markets.

Discussion Question:

Why is H&M being so cautious about expanding into warmer U.S. climates?

H&M has been slow to move into warmer U.S. climates because it has concentrated growth on the formula that has shown success. The company’s business model has involved selling the same merchandise in all of its stores world-wide. This model is based on the Swedish-owned company’s comfort with selling merchandise appropriate for markets with four distinct seasons. Prior to expanding to climates that have little or no winter, H&M is investing in technology and infrastructure that will help it customize assortments and move product efficiently through its supply chain as well as insuring it understands how to sell clothing in warm cities.
Build it and They Will Do It? Retailers’ India Dilemma

Rina Chandran, Reuters, May 21, 2010

Use with Chapter 5, “Retail Market Strategy”

Building a grocery store in India isn’t hard for foreign retailers and, with the country’s dense population and a forecast for 17 percent annual growth in the grocery retail market over the next five years, it may seem like a really good idea. But keeping shelves stocked is problematic, even for companies with the experience and resources of Walmart, Tesco and Carrefour.

The challenges begin in the countryside, where farmers on small plots grow produce using methods that leave crops vulnerable to pests and contaminants and that result in low yields. Inefficiencies in harvest, storage and transportation take a toll, costing India nearly 40 percent of its total harvest output. Walmart and other companies invest resources throughout the supply chain—educating farmer about improved practices, sending trucks to the farms daily to pack and transport fruits and vegetables, and leasing a processing center where laborers ready produce for rapid distribution to supermarkets and wholesale facilities. The approach is labor-intensive: Walmart estimates about 40 percent of its produce in India is sourced from 130 small farms. And the problems don’t stop there. Supply chains are further encumbered by layers of middlemen whose livelihood depends on traditional business practices, but whose involvement costs time and money. Challenges extend to the front end, where foreign firms face restrictions limiting them to cash-and-carry wholesale facilities or partnerships with Indian companies. For many companies, this limitation on the possibility of front-end profit decreases interest in back end investments.

Despite the challenges, however, the big retailers see an opportunity for growth in India at a time when expansion on home turf seems unlikely. In the end, foreign retailers must decide for themselves whether the possibility of long-term gain is worth the short-term challenges.

Discussion Questions:

Why is it so difficult for large retailers to operate India?

Retailers have a difficult time operating in India because of antiquated processes at the source, particularly in relation to farming, and because of inefficiencies in the supply chain, including multiple middle men and poor storage. In addition, the Indian government restricts commerce, forcing foreign companies to confine themselves to cash-and-carry wholesale operations or partnerships with local companies to handle the front-end.

Is it worth it?

The market and the growth potential in India are huge, but the difficulties remain daunting. Retailers entering the market now can begin attracting market share before competition expands, and this growth opportunity can help offset stagnating growth and recessionary economies in most other markets. However retailers hoping to prosper in India will need substantial resources, patience and commitment. Even then, new government restrictions could further complicate the picture. Ultimately whether operating in India is worth it is a judgment call by the company.
Guess What? Men Shop, Too!

Susan Reda, Stores, April 2010

Use with Chapter 4, “Customer Buyer Behavior”

Think that women are the only ones who shop for personal care and beauty products? Think again! Historically, apparel and grooming products have been marketed predominantly to women, but recent findings suggest that the market among men for these products is steadily gaining steam. According to research conducted by the NPD group, the number of men who shop for themselves has risen by nearly 25 percent over the last fifteen years. Male grooming products have morphed from an afterthought in the grocery aisles, to a $19.7 billion global industry, and growth is projected to continue by another 40 percent in the next five years.

Advertising trends underscore this trend. Increasingly, television ads target men with designer clothing, fragrances, and toiletries. Gone is the gender-bending “metrosexual” image which frightened men out of department stores in the 90s. The new marketing portrays a man who is unabashedly masculine, yet also concerned with his grooming, hygiene, and fashion sense. Recent TV ads for Dockers call on all men “to wear the pants,” while commercials for Dove Soap suggest that, “Now that you are comfortable with who you are, isn’t it time for comfortable skin?” A “Men’s Zone” aisle recently debuted in the San Antonio based supermarket H-E-B. Decorated with flat-screen TVs and blue floor lights, it features a full selection of male toiletries and grooming supplies.

What reasons exist for the emergence of this market? Some research suggests it responds to the needs of today’s male shoppers. As society becomes increasingly consumer-oriented, young people shop more frequently than their parents did and are perhaps more favorably disposed toward shopping for themselves than their parents’ generation was. Another possible explanation is that the new markets are an offshoot of increased competition in the job sector. In a downsizing economy that is becoming increasingly tech savvy, being fashionable and well-groomed may help a man’s confidence on the job and make him appear more competent to potential employers.

Discussion Question

Why are men becoming a more interesting target customer for retailers?

The number of men who shop for themselves has increased dramatically in the last fifteen years, and a new market has emerged for male apparel and grooming products. While the female market for these products is oversaturated, the male market remains relatively untapped. Less competition means greater profits, and shrewd retailers are realizing success in this new niche.
Mobiles Deployed to Entice Shoppers,” and “Stores Tap into Shoppers as Mobiles Ring the Changes


Use with Chapter 16, “Retail Communication Mix”

In the last year, the percentage of all mobile phones sold that were smartphones rose by ten percent in the United States. Smartphones, which allow their owners full access to a web browser wherever they may be, are transforming the way people organize their lives. Most notable to marketing executives, smartphones are changing the way consumers make purchasing decisions in stores. According to a recent study done by TNS Complete, a full two thirds of smartphone users look up information about stores on their phones, half of them use it to access product reviews, and a third of them use it in-store to compare prices at rival retailers. The trend is growing: Last Black Friday, 200,000 people used their phone in-store to check prices online, a colossal jump from the 5,000 people who did it the year before.

In order to gain insight into this fad, analysts are looking to Japan, where cell phone commerce has been going strong for almost a decade. Seventy-six percent of Japanese consumers use their phones in-store, especially to access online offers and discounts. Many mobile phones in Japan are now equipped with payment chips, which enable their owners to use the cell as a method of payment by tapping the phone to a reader at checkout. Charges are added to either the customer’s phone bill or to their credit card. Similar technology is under consideration for rollout in the U.S.

This “mobile connectivity” is changing the way sellers interact with buyers. Today’s consumer has access to much more information before making a purchase than ever before, creating a desire for product information, testimonials and price comparisons as well as the technology to answer these questions. Retail giants such as Gap, Sears, and Wal-Mart have all responded, creating mobile versions of their Web sites, complete with coupons which can be scanned from smartphones at the check-out. Target plans to launch an online superstore to rival Amazon, and Walmart’s version is in the works as well. JC Penny, despite scaling back expenses during the recession, has invested heavily in digital initiatives. The company is currently looking for a way to use Facebook and other social media to deliver marketing messages and special promotions to potential customers.

Discussion Question:

How is m-commerce changing the way retailers interact with their consumers?

Smartphones put store and product information at consumers’ fingertips, making consumers hungry for product details and testimonials and allowing for price comparisons without travel to other stores. To remain at the cutting edge of the competition, retailers are responding with increased online presence. Many of them now offer web content, coupons and promotions that are specifically designed for the needs of this audience and that are appropriate for the smaller format of hand-held devices.
Sam’s Club Personalizes Discounts for Buyers


For use with Chapter 11, “Customer Relationship Management,” Chapter 15, “Retail Pricing,” and Chapter 16, “Retail Communications Mix”

Tailoring discounts to individual shoppers based on their buying history promises to maximize marketing budgets, build customer loyalty, and increase sales. However sorting through mountains of customer data to mine relevant information is no small task, and the difficulty of these mining efforts has slowed retailers’ move from traditional discounting practices such as broad price reductions to more individualized pricing. The task is particularly challenging for large retailers who have high traffic and extensive inventories. But now Sam’s Club is giving the approach a try with its eValues card.

The card is available to “Plus” members who pay more for their membership than regular members. These consumers can print out discounts received by e-mail, downloaded from the Sam’s Club Web site, or accessed at kiosks located within the store. Customers find the discounts are highly relevant to their needs—a testament to Sam’s Club commitment to the program since the number of combinations of customer, product, location and discount information exceeds one trillion. As with traditional discounts, these e-offerings can trigger needs customers didn’t know they had. One shopper, for example, came into Sam’s Club to buy food and left with two televisions because he couldn’t resist the $300 discount on a $1200 set.

Using past data to predict future behaviors and tastes already helps Netflix members find movies they might like and helps eHarmony members find compatible mates. The approach, known as predictive analytics, differs from loyalty program or the membership cards traditionally used by Sam’s Club and Costco because of the extent to which data is mined and used to provide personalized service to customers. Information is so detailed that Sam’s Club can refer to products being organic or environmentally friendly if the individual has shown interest in those attributes in the past. Savvy retailers also use the data to determine product mix and store layout.

Coupon response rate at Sam’s Club has risen from less than two percent to as much as 30 percent for eligible customers, but personalized promotions still face challenges at Sam’s Club and other retailers. Sam’s Club shoppers at one store bypassed the eValues kiosk without a glance, and some who used it experienced difficulty getting the scanner to read their membership card. More significantly, consumer protection groups believe data collection on this scale threatens customer privacy.

Discussion Questions:

How is Sam’s Club practicing one-to-one marketing?

Sam’s Club is offering personalized discounts to Plus members. Discount coupons can be printed from the member’s email, the Sam’s Club Web site, or from a kiosk located in the store. Using historical data on the shopper and predictive analytics, Sam’s Club is offering these customers discounts on the products or product types they generally purchase and even tailoring messaging to include product attributes known to be of interest to the individual consumer.

How effective is one-to-one marketing in developing loyal customers?

Sam’s Club sees enough benefit in this approach that they have overcome the logistical challenges of mining huge amounts of data. They can point to almost 30 percent response from eligible customers as well as individual customer success such as a customer who came in to buy food and left with two televisions. However, in-store observation showed that most customers paid no attention to the eValues kiosk and that the kiosk wasn’t functioning properly. One-to-one marketing must also address privacy concerns before it can be more broadly implemented.
In Rush to Outlets, Retailers Tread Fine Line

Martinne Geller and Phil Wahba, Stock Market News, May 23, 2010

Use with Chapter 7, “Retail Locations”

Traditionally outlet stores helped retailers cut losses by liquidating their unsold merchandise. Located in out-of-the-way places, outlets offer customers price markdowns in exchange for a drive and keep overhead low with less desirable real estate. But now some corporations view outlet stores as growth opportunities, and some are making products specifically for their outlets. Prolific clothing giant Nike boasts 472 factory outlet stores worldwide, with more in the planning stage. Clothing retailer Saks plans to open five new Off 5th outlet stores each year for the next several years, and Nordstrom expects to add 17 new Rack outlet stores this year, bringing their total to 89. One of the new Nordstrom outlets sits in Manhattan’s Union Square, which can hardly be considered off the beaten path.

The founding principle of outlets is that low prices create high sales volume. Thus outlets outperform department stores in the amount of product they move. Outlets keep their overheads low through location, warehouse-type buildings, and small staff. Combining low overhead and high volume, retailers notice, can lead to profit margins in their outlets that exceed those in their department stores. These factors plus the sluggish economy tempt more retailers to include outlets in their growth strategy.

Industry analysts warn, however, that the increased sales volume in outlets creates the risk of over distribution. Much as with paper money, which loses value as more is printed, the wholesale liquidation of luxury product lines may cause them to lose their allure, drawing shoppers away from department stores and negatively affecting brand image. Analysts predict that the most successful retailers will be the ones who offer different products in their department stores and their outlets, as well as maintaining geographic distance between the two so that each caters to a different clientele.

Discussion Question:

What are the advantages and disadvantages of opening outlet stores in relatively close proximity to a chain’s regular-priced stores?

Outlets offer the advantage of outperforming full price stores in both volume of sales and profit margin. Their disadvantage is that in moving such a large amount of product, the brand may become over distributed and lose value in the market. If outlet and department stores are opened in close proximity to one another and have no product differentiation, people may stop going to the department store, and the brand may lose its sheen.
Sizing Up Property, Mall Stores Try to Shrink


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

In the past ten years, retailers have increased the size of their stores, but sales have not followed suit. For example, The Gap has lost 40 percent of its average sales per square foot over the period from 1999 to 2009, even as square footage grew 62 percent. Ann Taylor’s square footage grew even more—135 percent—over the past 20 years, and yet sales per square foot have dropped 33 percent since 1999.

Apparently, retailers were just plain wrong when they decided that a bigger store would mean more room for more merchandise and more sales. Larger stores are harder to fill because the merchandise is no longer tailored to the customers. The Gap for example expanded its merchandise selection in its massive stores, which reached up to 18,000 square feet, so much that customers were unsure what the brand image was anymore.

Today The Gap plans to reduce its largest outlets to an optimum size of 8,000 to 12,000 square feet. It also plans to consolidate its various brands, such that GapKids and Gap Body would appear in the same space as the main Gap store.

It can make such radical changes because The Gap remains an attractive draw in a mall—nearly as important as an anchor tenant or department store. Mall owners sign leases with other tenants that contain a contingency for a Gap located in that mall. Therefore, malls are mindful of The Gap’s requests to downsize its retail space. As frustrating as it may be to rent a smaller space to The Gap, it is better than having the retailer depart from the mall altogether. Not only would the mall operator lose a popular tenant, but it would risk the exodus of other mall tenants as well.

In contrast, Aeropostale, with its smaller stores, has enjoyed great success, even during the recession. Some stores earn up to $800 in sales per square foot, compared with The Gap’s average of $401 and Ann Taylor’s $337 sales per square foot. This chain therefore is looking to expand some of its most productive locations, moving in exactly the opposite direction of The Gap.

Discussion Questions:

Why might retailers downsize their store space?

Retailers realize that the added square footage is not gaining them extra sales but rather costing them a lot of rent and decreasing their productivity on a sales-per-square-foot metric.

What are the logistics associated with downsizing retail space?

A small retail space means that the inventory storage space in the back is smaller. Retailers therefore must be more efficient about their use of space, as well as plan more frequent deliveries from their suppliers.
With Student Help, L.L. Bean Tries Younger Look

Jenn Abelson, Boston Globe, March 15, 2010

Use with Chapter 5, “Retail Market Strategy”

Talk about an offer they couldn’t refuse. L.L. Bean needed some way to communicate that it was expanding beyond the outdoorsy image it had cultivated for so long. So when a college student volunteered to promote the new Signature collection at a local coffee shop, the company jumped at the chance. The success of the promotion then encouraged the college student and the company to recruit others who would continue to host impromptu events.

The original volunteer freely admitted that his offer began as a tactic to get free clothes. But he also appreciated the move by L.L. Bean to design items of more interest to younger clients. The new Signature collection competes directly with popular, preppy retailers such as J. Crew and Ralph Lauren. It also means a move away from its primary market of 50-year-old buyers; the last time L.L. Bean attempted a new product line though, it was a dismal failure. Often when retailers try to shift their images, such as by “going younger” or trying to be more fashionable, they fail.

In this case, L.L. Bean had a unique opportunity to recruit college students who already had expressed interest. These brand ambassadors now have input on design and Web site decisions. In exchange for free clothes (which cost the company virtually nothing), they talk up the new collection to campuses throughout the northeast United States while creating additional promotional networks on those campuses. The ambassadors also use Facebook and word of mouth to generate crowds at their gatherings, where they showcase samples from the collection and raffle off L.L. Bean gift cards and clothes.

Discussion Questions:

How can L.L. Bean take this grassroots promotion to a larger audience?

The idea of brand ambassadors should be a starting point for the company. Using the Internet and Web site, L.L. Bean could contact college students throughout the country and offer them the same deal: If they host brand events to hype the collection, they can earn free clothing.

Do you think L.L. Bean will be able to buck the trend of failure when retailers try to change their image?

Although L.L. Bean still faces a significant challenge, because its image is so well established, its recent marketing efforts seem to have put it in a relatively good position to appeal to a broader audience and perhaps make its Signature line a success. It must tread lightly, however, because some hard core Bean customers might be turned off by the relative fashionableness of the new line.
Retailers Tap Stores to Speed Online Orders


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

Using a “back to the future” strategy to compete with online retailers, some merchants are recruiting their stores to speed delivery of merchandise ordered online. The approach, reminiscent of fulfillment practices used by retailers before they transitioned to large distribution centers, helps minimize the time between purchase and possession that affects consumer satisfaction with online shopping. When coupled with inventory management software and existing distribution centers that handle deliveries outside the immediate area, this strategy gives customers living near brick-and-mortar stores the convenience of online shopping, and the benefit of same-day or next-day delivery while helping stores reduce excess inventory.

Among the retailers using stores to ship online orders are Nordstrom Inc. and Jones Apparel Group Inc. As a sign this trend will continue, the company managing Web sites for Aeropostale Inc. and about 100 other bands recently purchased a company that develops Web-based supply chain management software solutions, including tools that help brick-and-mortar stores increase their online sales by fulfilling online orders.

Discussion Question:

What are the advantages and disadvantages of shipping Internet orders from stores?

Shipping Internet orders from stores helps get the merchandise into the customer’s hands faster, overcoming one of the important challenges to online shopping. When combined with software tools that manage inventory, the strategy also helps the stores reduce their excess inventory. Other than the fact that this is an untried approach that lacks evidence of previous success (or failure), the approach adds a new burden to stores, which must ramp up their wrapping and shipping services and devote staff to these services. It also runs the possibility of affecting one of brick-and-mortar store’s primary advantages, which is attention to the customer who is physically present. Finally, the approach demands supply chain investments and inventory management to ensure proper inventories levels and systems to determine whether to ship to stores, and if so which one.
Why Wal-Mart Wants to Take the Driver’s Seat

*Chris Burritt, Carol Wolf, and Matthew Boyle, Business Week, May 28, 2010*

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

Netting $408 billion in sales last year, Walmart is the world’s largest retailer. Recently however, sales in its U.S. stores have been falling, and the company is looking to recoup losses by taking over transportation duties from its manufacturers. In the past, Walmart paid manufacturers to deliver merchandise to a central processing location. Under the new initiative, Walmart trucks will pick up goods directly from suppliers. Company executives say that this move will reinvigorate sales in stores by enabling them to lower prices across the board on everyday household items.

The new move is an offshoot of Walmart’s business philosophy, something the company refers to as its “productivity loop.” By analyzing the entire operation in all its minutiae, Walmart executives can progressively eliminate even minimal inefficiencies. Because of Walmart’s sheer size, such small changes often amount to gargantuan gains. Last year alone, altering packing and shipping on company trucks saved the retail giant $200 million. Now Walmart hopes for additional savings, although the supply chain change requires an expansion of the existing fleet of 6,500 trucks and 55,000 trailers. The company also plans to increase its reliance on outside contractors.

One aspect of Walmart’s market strategy involves using its immense market share to wield leverage over suppliers. In the past, the company has used its size to force suppliers to accept changes such as environmentally friendly packaging, exclusive product sizes, and participation in joint advertising promotions. Now Walmart is requesting that suppliers lower their prices by six percent to compensate for their reduced trucking costs. Suppliers have responded that three percent seems fair given they will lose money on idle transportation fleets. Unfortunately for manufacturers, Walmart’s size gives them the bargaining advantage since losing Walmart as a customer would be far more damaging that a loss of three percent of profits.

But suppliers may suffer in the deal. Losing Walmart’s trucking business will require a downsizing in transportation infrastructure, and many of Walmart’s suppliers are only able to operate transportation profitably by maintaining an economy of scale. Some suppliers may be forced to disband their fleets and outsource their transportation needs in the future.

**Discussion Question:**

**Why is Walmart taking over the transportation function from manufacturers to DCs?**

*Because of Walmart’s sheer size, small changes in the way they function can save the company millions of dollars. By assuming transportation duties, executives believe that the company can operate more efficiently overall. As a part of the move, Walmart is asking suppliers to lower prices by six percent, a move they claim will lower prices in U.S. stores and reinvigorate sales growth.*