Dear Professor:

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

**Bringing Bouquets and Gift Baskets Together** (Chapter 5)

**Direct Selling Flourishes in China** (Chapter 2)

**What's Out: The Fashion Trend** (Chapter 4)

**Firms Hold Fast to Snail Mail Marketing** (Chapter 2 and 16)

**Home Depot Invests $60 Million in Handheld Devices** (Chapter 19)

**The Cult of J.Crew** (Chapter 5)

**Shoplifters? Studies Say Keep an Eye on Workers** (Chapter 17)

**Stage Stores Maintains Its Focus on Under-Served Communities** (Chapter 5)

**Stores within Bigger Stores Seem to Pump Up Sales** (Chapter 7)

**Sears Scrambles Online** (Chapter 5)

**Predictive Modeling Helping Stein Mart Connect with Customer** (Chapter 11)

**Killer Tech for Phones** (Chapter 16)

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Customer Satisfaction with Retailers – Use with Chapter 19

The results from the latest American Customer Satisfaction Index (ACSI) survey are available at http://www.theacsi.org/index.php?Itemid=26&id=12&option=com_content&task=view

Nordstrom and Target still top the list for providing great service, but online retailers continue to gain. The ACSI, founded at the University of Michigan, measures satisfaction on a scale of one to one hundred. The latest results show a one-point gain for both online and brick-and-mortar retailers, but online customer satisfaction outstrips brick and mortar by seven points. Overall, consumer satisfaction remains relatively strong despite the weak economy, and ACSI reports it "remains much higher than it was prior to the recession and also slightly higher than this time one year ago."

Online Retailers

Netflix jumped two points to 87, besting Amazon and Newegg, which each fell by a point. The Internet auction site eBay remained steady at 79.

"Overall, online shopping continues to grow and provide higher levels of customer satisfaction," says Professor Claes Fornell, head of the ACSI. "Free shipping promotions, competitive pricing, and the ability to browse and research an ever-wider selection of merchandise from the comfort of one's home have made online retailing a very attractive and powerful alternative to traditional stores."

Brick-and-Mortar Scores

Nordstrom, with a score of 83, continues to outperform its department-store competition, including Kohl's (79), JCPenney (79), Dillard's (78), and Sears (74). While others gained ground, Macy's, which eliminated more than 7,000 jobs last year, declined to 71 points. Of the discounters, Target—with an 82—soared above Wal-Mart Stores which earned a well-below-average score of 71.

Barnes & Noble, with an 84, outpaced Borders by three points, while Costco, with 81, outperformed Wal-Mart's Sam's Club's 79. Publix continues to lead among supermarkets. Office stores gained overall, with OfficeMax climbing four points to tie Staples at 77. And while Home Depot gained three points to 72, it continues to lag behind Lowe's, which climbed to 79.
Supply Chain Management Efficiency – Use with Chapter 10

The downturn in the global economy and the emphasis on lowering costs and increasing efficiency have thrust supply chain management into the retail spotlight. Jon Gold, National Retail Federation’s (NRF) vice president of supply chain and customs policy, foresees ongoing hurdles for retailers as the global economy continues to recover. These challenges, he says, include “continued pressure to drive costs out of the supply chain, partnering with transportation providers to achieve success, and dealing with new government compliance requirements on everything from the environment to security to product safety.”

In an effort to assist retailers tackling supply chain objectives, NRF recently announced plans to debut a Global Supply Chain Summit. The event is scheduled to be held April 10-12, 2011 in Columbus, Ohio. London-based IGD Consulting Ltd. recently conducted an extensive Supply Chain Leaders’ survey, resulting in the assessment that the most significant challenges facing supply chains include:

- Improving the responsiveness of the supply chain
- Continued pressure to reduce costs
- Managing demand volatility and variability

<table>
<thead>
<tr>
<th>TOP 50 SUPPLY CHAIN LEADERS – 2009</th>
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<tbody>
<tr>
<td>1. Apple</td>
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<tr>
<td>2. Dell</td>
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<td>4. IBM</td>
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<tr>
<td>6. Nokia</td>
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<td>8. Samsung Electronics</td>
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<td>9. PepsiCo</td>
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<td>10. Toyota Motor</td>
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<td>11. Schlumberger</td>
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<td>12. Johnson &amp; Johnson</td>
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<td>14. Nike</td>
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<td>15. Tesco</td>
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<td>16. Walt Disney</td>
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<td>17. Hewlett-Packard</td>
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<td>18. Texas Instruments</td>
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<td>19. Lockheed Martin</td>
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<td>20. Colgate-Palmolive</td>
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<td>22. Unilever</td>
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<tr>
<td>23. Publix Super Markets</td>
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<td>24. Sony Ericsson</td>
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<td>25. Intel</td>
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</tbody>
</table>

While Wal-Mart is frequently cited as the model for an efficient and less costly supply chain, Marshall Fisher, UPS professor of operations and information management at The Wharton School, notes that companies like Gap, Limited Brands and Nike tend to favor cost minimization over speed and flexibility
when it comes to supply chain strategy. More often than not, cost savings have translated into inventory reduction. “This (paradigm) is now seen as an important part of managing working capital and building a lean value chain with improved forecasting and promotional activity,” Fisher says. But is it better to reduce inventory and run the risk of losing sales, or to chance having a surplus of unsold inventory to liquidate?

Fisher’s reply: “It’s a trade-off. Most companies are just moving along with reduced inventory. They are downsizing to meet less demand and accepting higher stockouts.”

Fisher believes retailers can be divided into three levels of supply chain management effectiveness. The “C” retailers are those that look solely at manufacturing costs without factoring in other costs associated with the point of origin, like tariffs. “A good retailer is a ‘B’ or a ‘B+,’” he says. “They are the ones doing a snapshot analysis of all production costs. They give consideration to factors like inventory costs on the water from places like China.”

An “A” retailer is one that may be looking five or 10 years down the road and considering a range of factors including political risks, inflation rates and alternative sources of supply. Fashion retailer Zara “would be an ‘A’ retailer,” Fisher says. “They segment their sourcing. Basic products come from China where they get the same . . . four- to six-month lead time as everyone else, but the fashion-forward stuff is sourced from near headquarters in A Coruña, Spain, where they have a two-week lead time. And they are also willing to pay for air transport in order to get things to their far-flung store base.”

### 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/](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
Bringing Bouquets and Gift Baskets Together

Douglass Quenquad, New York Times, December 23, 2009

Use with Chapter 5, “Retail Market Strategy”

In 2009 1-800-Flowers experienced its first year-over-year revenue decline, from $739 million sales in the 2008 fiscal year to $714 million in 2009. The recession certainly contributed to this drop, but the decline had a silver lining: It stimulated the company to reevaluate its retail strategy and place more emphasis on its gift basket product line.

Flower sales are associated with holidays, like Mother’s Day or Valentine’s Day, and recipients are typically women. By placing more emphasis on gifts, the firm hopes to have stronger year-round sales and tap the men’s gift market. In November 2009, 1-800-Flowers launched 1-800-Baskets.com. The company’s television commercials urge customers to send gift baskets without mentioning flowers. Their website YourDancingChocolate.com recently launched a promotion, centered on the company’s Fannie May brand chocolates, that allows customers to create and customize videos of dancing chocolates to send to friends. In addition to strengthening year-round sales, the company foresees gift baskets as an effective addition to their offerings because gift baskets are less prone to quality problems and can be sold at lower prices than flowers, making them popular in a down economy.

A negative side to the new strategy is that gift baskets and flowers require different fulfillment systems. 1-800-Flowers.com can guarantee same-day delivery for most of its flowers because it relies on a network of local florists for fulfillment and delivery. The system works because florists generally stock flowers needed to recreate the 1-800-Flowers.com products.

Gift baskets, however, require items that local florists are unlikely to stock. As a result, 1-800-Flowers.com cannot guarantee same-day delivery on most gift baskets. The company is working on a program through which retailers nationwide would be sent the raw materials for baskets in advance and would only have to provide “fresh” elements like fruits and flowers.

Discussion questions:

What growth strategy is 1-800-Flowers.com pursuing?

The strategy could be considered either market penetration or related diversification. Gift baskets could be viewed as a new format due to new fulfillment processes, but the market penetration argument is reflected in the fact that the company is pursuing a new market — gifts for men. However the differences between the present market and new market are small, and the differences between the new format and present format are likewise minimal.

Do you think this is a good idea? Why or Why not?

<table>
<thead>
<tr>
<th>Good idea</th>
<th>Poor idea</th>
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<tbody>
<tr>
<td>• Company has the resources to be successful – similar market and format</td>
<td>• Requires different fulfillment</td>
</tr>
<tr>
<td>• Levels out demand</td>
<td>• Inability to guarantee same-day delivery</td>
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Direct Selling Flourishes in China

David Barboza, New York Times, December 26, 2009

Use with Chapter 2, Types of Retailers

As China’s economic boom unfolds, direct selling is sweeping the country and creating hundreds of thousands of jobs. Avon China, for example, currently has one million agents and recruits about 50,000 women a month.

The concept of direct selling is changing the dynamics of the work force in China by providing those who are disadvantaged or poorly educated the chance to obtain a job. It is allowing women an independent future in running their own business and giving unemployed women whose husbands are working hard during the day something constructive to do with their time.

Direct selling was banned in China from 1988 until 2006. The ban was a response to accusations that direct sellers in China were using sophisticated pyramid schemes to defraud people and included American and other foreign companies. Heavy lobbying by direct sellers, who claimed regulators misunderstood their business model, resulted in the ban being lifted.

Since then, direct selling has grown to an $8 billion dollar industry that embraces health supplements, cosmetics, toothpaste and dishwashing liquid as well as makeup and skin products. Analysts attribute success to the same sales techniques used by retailers in the past, including recruiting young women and motivating them to sell aggressively to friends and family and a multilevel marketing approach that rewards agents for recruiting new sales people.

Mary Kay has been immensely successful because it empowers women, providing them an opportunity to make money with flexible scheduling and by interacting with other women. The company encourages sales agents to create communities of women committed to their brand who attend seminars and classes in make-up application in addition to using products. These activities help create a sense of a Mary Kay community that connects the brand to the human relationships and that can attract additional women. For women who previously faced isolating, depersonalizing, or low-paying jobs, the Mary Kay philosophy and business model provides an appealing way for women to enjoy themselves while earning an income.

Discussion Question

Why is the direct selling channel so appealing in China compared to the U.S.?

Women in China have traditionally faced menial, low-paying, or isolating employment options and have had little control over their hours. Direct selling allows Chinese women to control their schedules, interact with their friends and families, deal with products that are appealing to women, and make money. Direct selling tends to work better economically in countries with less-developed infrastructures because customers end up paying no more for products than they would in a store. In many cases, direct sales agents deliver products to their customers, which would also be appealing in countries where travel is constrained by heavy traffic or poor road conditions.

Why was direct selling illegal in China until recently?

Some direct selling retailers were accused of using a pyramid scheme that defrauded sales agents, so the country banned the practice.
What's Out: the Fashion Trend

Christina Binkley, Wall Street Journal, January 21, 2010

Use with Chapter 4, Buying Behavior, Appendix

As New York’s 2010 Fashion Week approached, observers speculated that fashion trends were obsolete and that the new movement was for people to embrace their personal style, choosing looks that complement their figure and fit their lifestyle rather than chasing the latest fashion. Apparel now relays a message about individuality rather than fashion consciousness or conformity.

At one time, fashion industry retail leaders like Neiman Marcus or Bergdorf Goodman dictated the fashion and the “must-have” items for the season. Women who wanted to be fashionable bought whatever was “in” whether or not they wanted to wear miniskirt or looked good in one. But those days appear gone. Factors influencing this fashion trend splintering include people wanting to dress like their “tribe” so that an individual’s wardrobe mirrors that of their peers, the shift to a more casual workforce, and young celebrities initiating a mix and match aesthetic. Moreover, nowadays runway looks have become more accessible to the general public, which reduces their life span.

"Fast fashion" retailers like Zara, H&M and Forever 21 have contributed to the diversity of fashionable looks and the demise of the must-have new item. In January 2010, H&M sale racks in New York displayed blurry-print floral blouses based on designer looks shown on runways in September. When those designers’ own clothes arrive in stores in March, H&M customers may well view the originals as old news.

Predicting trends has increased in difficulty every year. With fewer “must-have” items, retailers and designers have to try harder to develop widely popular trends.

Discussion Questions:

Do you agree with the premise that the days of “must-have” fashions are over? Why or why not?

<table>
<thead>
<tr>
<th>Agree</th>
<th>Don’t agree</th>
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<tbody>
<tr>
<td>Consumers in general are more knowledgeable, have more information,</td>
<td>Consumers will always need the social recognition achieved by wearing apparel and</td>
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<tr>
<td>and don’t want to be told what is fashionable</td>
<td>accessories that are considered fashionable.</td>
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<tr>
<td>The influence of stars is inspiring women to find their own look</td>
<td>Human beings are tribal at heart. The only question will be whether they will identify new</td>
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<td>rather than adopting a prescribed fashionable image</td>
<td>tribes, such as co-workers, or return to identification with the “in tribe” of fashion-</td>
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<tr>
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<td>conscious individuals.</td>
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Do you think that the fashion of non-fashions is a long-term fashion?

I suspect that some individuals and age, economic, or ethnic groups have always defined fashion for themselves. Fashion trends and must-have items have been of primary importance to the affluent who could afford those items.
the midst of an economic downtown, these individuals (including movie stars) may feel compelled to combine Wal-mart with Neiman Marcus or shop second hand and Bergdorf-Goodman, but I think the trend will change as the economy improves. It’s also possible that woman are influenced by Michelle Obama, who chooses clothing that looks good on her rather than pricier designer fashions. This influence could diminish with a new First Lady.

3. What are the implications if this is a trend?

Even as a short-term trend, this individualization of fashion makes it difficult for apparel retailers to forecast fashion. Their attempts will cause initial prices to go up and will result in more markdowns to liquidate unfashionable merchandise.
Firms Hold Fast to Snail Mail Marketing

Teri Evans, Wall Street Journal, January 12, 2010

Use with Chapter 2, Types of Retailers, and Chapter 16, Retail Communication

Looking to cut costs amid the recession, Alicia Settle, the owner of Per Annum, decided to eliminate her company's annual direct mailing. In the past, she had spent about $20,000 on personally signed letters that offered customers a discount on early orders for the city diaries, albums, and planners offered by the company. When she replaced her traditional snail mail letters with emails, early orders dropped 25 percent compared with the same period the previous year.

The low cost of email marketing, the explosion of social media, and the desire to cut costs has prompted many small companies to reduce traditional direct-mail budgets. These retailers are discovering that purchased mailing lists and mass mailings of fliers or coupons are not cost-effective, so they are cutting back their efforts. In the third quarter of 2009, for example, postal customers in the United State received 27 percent less direct mail than in the same quarter of the prior year.

Despite the temptation to cut direct mail costs, some retailers are going the other direction, using personalized direct mailings containing special offers or other valuable information to target a hand-picked list of current and prospective customers. This personalization creates a communication that stands out of the junk mail and email clutter. In addition, retailers are examining strategies to integrate Web marketing, like email campaigns, banner ads and social-networking sites, with their direct mail. These combined communications should complement one another to create a stronger message.

Discussion Questions:

Are firms using more or less direct mail promotions than in the past?

Most are using fewer pieces of direct mail than in the past and targeting the promotions they do run toward more selected audiences.

Why is there a usage change?

Usage is changing because retailers have discovered that purchased mass mailing lists no longer provide significant return on investment. Electronic communications are economical and more environmentally friendly.

What will be the future of direct mail?

While it’s hard to predict accurately, it seems possible that personalized direct mail to hand-selected lists will be an effective part of a communications strategy, particularly as the overall volume of postal mail an individual receives decreases and the volume of electronic messaging increases.
Home Depot Invests $60 Million in Handheld Devices

Rom Ryan, Bloomberg News, January 21, 2010

Use with Chapter 19, “Customer Service”

Home Depot Inc. plans to introduce over 10,000 portable devices in its stores this year to assist store employees in stocking shelves, tracking inventory, making and answering telephone calls among employees, and even performing checkout for customers throughout the store. Investment in this new technology will cost about $60 million dollars, making it Home Depot’s biggest capital expenditure of 2010.

In the past Home Depot used computers on carts that were powered by motorboat batteries to monitor inventory. The new devices will reduce time spent locating products in stock or checking availability at other stores. Employees and customers can click on an icon to access product information, availability, and replenishment dates. Employees can also check product availability at other locations and call the store with the product in stock to ask that it be held for the customer.

Discussion Questions:

What features on handheld devices will do the most to improve the customer experience?

This new technology promises a number of improvements to customer experience, including the ability to check out at locations other than front registers, determine when an out-of-stock item will be available, and request that an item be held at another location for pick up.

How will the handheld devices improve Home Depot’s performance?

From the company’s perspective, these devices will save time locating stock, facilitate inventory, reduce stockouts, and improve customer service.

What other retail channels outside DIY could benefit most from such devices and in what ways?

Almost any retail channel could benefit from these devices since they facilitate inventory processes and improve customer satisfaction by providing quick, accurate information on merchandise availability.
Despite the economy, J.Crew is flourishing. It doesn't hurt that Michelle, Malia and Sasha Obama have been televised wearing J.Crew fashions, but the deeper answer lies in J.Crew's creative director, Jenna Lyons, having a knack for knowing what women want.

Founded in 1983 by Arthur Cinader, J.Crew targeted yuppies who were looking to build their wardrobes below the costs of name-brand designers. The initial rollout used images that reflected fashion magazines, drawing attention to the new retailer. Following over a decade of success, the company saw sales drop in the late 1990s but was rescued by Texas Pacific and the leadership of former Gap CEO, Millard “Mickey” Drexler.

The new management focused on a younger target market—shoppers looking for fashionable, quality apparel at reasonable prices—and the produce mix extends from casual wear to wedding gowns. Floor displays show customers how one item can be paired with different tops or accessories to work for evening or office. The company's reliable sizes allow customers to shop online and know the apparel will fit. As Eric Beder, a retail analyst for Brean Murray Carret & Co., says, "J. Crew has become an expert in recasting timeless classics into current fashion must-haves."

Although J.Crew has not been a trailblazer in the use of social media, its customers are blogging and Twittering for them. One J.Crew fan started a blog, Jcrewaholics, last year. The blog is all about J.Crew's latest offerings, sales and hard to find items, and the blogger has a Twitter following and Facebook fan page. Fans of the brand also post photos of themselves wearing J.Crew fashions.

Discussion Questions:

Why has J.Crew been so successful?

This retailer has been successful at choosing and marketing fashions that appeal to their target audience. In addition, they were flexible enough to re-trench, with the aid of a new stakeholder and CEO, and target a new audience.

What do you think of J.Crew? Do you shop there? Why or why not?

J.Crew has everything: cute casual clothes, classic career looks, swimsuits, accessories, shoes, bags, bridesmaids' dresses, and even an in-house stylist, Jack Knows Best, to help guys get dressed. Why wouldn't you shop there?
Shoplifters? Studies Say Keep an Eye on Workers

Steven Greenhouse, New York Times, December 30, 2009

Use with chapter 17, “Managing the Store”

According to a leading national study, employee theft and shoplifting is now estimated at $36 billion a year in the retail industry, or 1.51 percent of retail sales. The study, based on information obtained from 106 retail chains, found that employees were responsible for 43 percent of the stores’ inventory shrinkage, compared to 36 percent from shoplifting. On average, apprehended employees steal $1,890, while shoplifters make off with $438. The weak economy may account for this increase in employee theft, but some store processes are contributing to the problem as well.

Gift cards are a popular choice for dishonest employees, who complete fake refunds for merchandise and refund the amount to a gift card they keep for themselves. Other variations include ringing up a gift card for a customer but then giving that customer a blank card and pocketing the card with value. Another form of employee theft, “sweethearting” occurs when cashiers let friends or relatives take a product without scanning it or charging for it. Sweethearting is the most common type of employee theft. While theft from a dishonest employee can cost retailers thousands of dollars, even more is at risk when an employee affiliated with organized crime works with others to siphon off gift cards or provide information that can lead to significant loss.

New ways of selling stolen merchandise have made theft lucrative. In the past, goods sold on the street or at a pawn shop netted about 30 cents on the dollar. Hot merchandise sold on the Internet, however, yields about two and a half times that much, which makes it a popular way to fence stolen merchandise. Some Internet retailers have taken steps to discourage this practice. For example, when eBay realized dozens of stolen gift cards were being auctioned on their site, they limited the number of gift cards that could be sold each week in an effort to discourage crime.

Retailers are relying on technology to fight back against employee theft. Using data mining programs, companies can detect whether a particular cashier is refunding far more items than other cashiers, a behavior that can indicate fraudulent gift cards. If suspicious of an employee’s behavior, store officials can review videos taken by overhead cameras to monitor cashier transactions, including whether the cashier is frequently processing refunds with the same friend or relative.

Discussion Questions:

How are employees stealing from retailers?

The most popular form of employee theft is “sweethearting”, which involves allowing friends or relatives to take merchandise that hasn’t been scanned or paid for. Employees are also taking advantage of the growing popularity of gift cards to fake refunds and direct money to cards that they pocket or performing a gift card transaction for a customer and giving the customer a worthless card while pocketing one with value.

What are retailers doing about it?

Retailers are using data mining to look for cashiers with abnormally high refund or gift card transactions and monitoring cashier behaviors using overhead video cameras. Online retailers such as eBay are limiting the number of gift cards that can be sold each week.
Stage Stores Maintains Its Focus on Under-Served Communities

Ed McKinley, Stores, January 2010

Use with Chapter 5, “Retail Market Strategy”

Stage Stores targets the small-town customers that other department stores tend to ignore. Its stores are located in towns intimate enough that sales staff call their customers by their first names, and in geographic locations where no cities of any significant size are close by. The chain’s over 750 stores maintain a small footprint—only 15,000 to 17,000 square feet—by stocking moderately priced national apparel brands and avoiding space-consuming hard goods like furniture and small appliances.

The chain dates back nearly a hundred years, but it entered the modern era in the late 80s when Palais Royal management and several venture capital firms acquired two family-owned chains on top of additional stores. In 1996, the company went public and grew to nearly 700 stores within three years, only to be faced by financial setbacks in 1999 and 2000. After filing for Chapter 11 and reorganizing, the chain was down to half its earlier size.

The company may have been down, but it wasn’t out. In 2003, Stage sold its private-label credit card portfolio and used the proceeds to acquire Peebles, which operated 136 stores in 17 states. In 2006 Stage added B.C. Moore & Sons to its portfolio and converted 69 locations to the Peebles name and format. Meanwhile, competition in the small-down department store sector was evaporating. Family-operated Dawahares, closed its 22 stores and liquidated its assets in 2008, and Goody’s Department Stores went out of business last year. Stage Stores bought the name at a bankruptcy auction.

Local competition from other stores is also slim. Many towns that Stage Store serves share commerce with a Walmart, a gas station, and nothing more. The presence of Wal-Mart helps Stage Stores, bringing customers to the area to buy groceries, medications, or hard goods. These customers then shop Stage Stores for apparel.

Stage Stores maintains a private label, which accounts for about 15 percent of its product mix. This merchandise is targeted at customers caught between discount store shopping and national brand prices. The chain also strives to provide big-city service while maintaining a small-town feel. In addition to knowing their customers by name, sales staff can see when someone needs assistance, and they care about their community.

Discussion Question:

What is Stage Stores’ strategy? (follow definition in chapter 5)

Stage Store’s retail market strategy involves targeting small towns and using a retail format that mimics a department store, but that lacks furniture, small appliances, or linens and towels. The chain maintains a sustainable competitive advantage by combining apparel that appeals to the conservative fashion sense of their customers with great personalized service, and by operating in areas that have proven unsuccessful for other small department store chains.
Stores within Bigger Stores Seem to Pump Up Up Sales

M.S. Enkoji, Sacramento Bee, January 17, 2010

Use with Chapter 7, “Retail Locations”

The more brands, the more satisfaction and the more customers attracted to stores—or at least that’s the philosophy behind the new trend of creating mini stores within department stores. Retailers using this model include JCPenney’s, which contains Sephora stores within its retail stores, and Macy’s, which houses Starbucks, Lush and Sunglass Hut.

These collaborations, retail analysts predict, will continue to grow. Already JCPenney’s is preparing to launch Mango mini stores, which will carry a line of popular European women’s apparel. These mini stores diversify product offerings, attract new customers, help distinguish the brand, and provide opportunities for advertising and publicity. Sephora, for example, draws customers who would normally bypass Penney’s, and customers who come in for mascara or foundation may find themselves purchasing some Penney’s offerings as well.

The financial benefits to the department stores, however, depend on contractual arrangements. Lush, which sells natural cosmetics and hand-made soaps, leases floor space; employs the sales staff; and buys, owns, and manages its own inventory. Despite the relatively independent nature of Lush and Macy’s, few customers notice the difference. Sephora’s, on the other hand, employs JCPenney’s staff, and Penney’s owns the merchandise. Peet’s Coffee has 100 licensed locations in a variety of venues, including grocery stores that sell shelves of coffee beans. Their mini store licensing agreements specify that the grocery store builds and operates the kiosks, owns the inventory, and employ the staff, but employees are trained to Peet’s specifications and Peet’s performs periodic quality checks.

Discussion Questions:

What are some examples of store within a store?

In addition to Peet’s coffee within grocery stores and other venues, Sophora within JCPenney’s and Lush within Macy’s, Dunkin’ Donuts mini stores exist within Home Depot, Office Depot mini stores operate within Stop & Shop supermarkets, Kabloom Ltd. (a flower chain) is nestled in Au Bon Pain and BJ’s Wholesale Club, Staples has a presence within FleetBoston Financial Corp., Hammett’s Learning World and Heaven & Earth (a Christian bookstore) are located within select Wal-Mart stores, Cocoa Moka Cafe mini stores are available at Macy’s, and Toys “R” Us outlets are in Albertsons’ Jewel-Osco stores throughout the Midwest. One popular Sacramento sandwich shop has a mini Lemon Grass within its walls.

2. What are the advantages and disadvantages of store within a store from the perspectives of the host retailer and the “guest” retailer?

<table>
<thead>
<tr>
<th>Advantage to host retailer</th>
<th>Disadvantage to host retailer</th>
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<tbody>
<tr>
<td>Improves productivity of space</td>
<td>Lack of control over space</td>
</tr>
<tr>
<td>More/different choices in product offering</td>
<td>Potentially creates inconsistent image of host and services offered by host</td>
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<tr>
<td>Specialty merchandising</td>
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<td>Enhanced employee understanding of products</td>
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<tr>
<td>Mini store brand image improves the image of host</td>
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<tr>
<td>Income from lease</td>
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</tbody>
</table>
Sears Scrambles Online

*Miguel Bustillo & Geoffrey Fowler, Wall Street Journal, January 15, 2010*

Use with Chapter 5, “Retail Market Strategy”

Most retailers have evolved into multichannel retailers interacting with customers through store and Internet channels. M-commerce, interacting with customers accessing the Internet through mobile devices, is growing rapidly because it offers customers the opportunity to shop anytime, anyplace. Increasingly, m-commerce is allowing customers to buy *anything*, including lawn tractors, as well.

The newest M-commerce applications tap into smart-phone global-positioning systems and offer customers merchandise based on their location. This exciting new sales opportunity may prove to be a saving grace for Sears, the 124-year old iconic retailer that has been struggling to stem its steady decline.

Under a strategy called “Shop Your Way,” Sears is attempting to capitalize on e-commerce and m-commerce, launching sites that combine the ease of Internet shopping with expedited pickup and delivery. Merchandise ordered online, for example, can be picked up at a converted retail outlet, which features a drive through window for faster service. This service, known as MyGofer, makes use of old retail square footage by turning it into warehouse space and adds a convenience for shoppers. Other initiatives to build business include implementing a successful online layaway program during the 2009 holiday season, and a foray into social-networking to improve sales and customer loyalty. Combined, the two year-old sites, MySears.com and MyKmart.com, boast 400,000 registered users. Monitoring these sites allows the company to track and rectify complaints about products or customer service.

Last July, Sears initiated the Sears Marketplace, which lists items for sale by other retailers in return for a commission of seven percent to 20 percent on sales. Additionally, Sears launched a new iPhone app, Sears Personal Shopper, that allows customers to photograph an item of interest and email it to a Sears staffer, who can then find the item for sale. Individually or together, these efforts provide an opportunity for re-branding, perhaps changing the company’s image from a bedrock of a bygone era to a viable retailer of the new century.

The investment in e-commerce and m-commerce is offset by a corresponding reduction in financing for the Sears brick and mortar stores. The risk is high, since no one can accurately predict the future of retail in stores or in cyberspace, and most of Sears’ efforts aren’t new to retailing. Efforts like Sears Marketplace increase the company’s online assortment substantially, but elevate the risk of diluting the retailer’s own direct channel sales. The company remains saddled with as many as 400 money-losing stores that it can’t afford to close, and the image makeover has not yet been successful: A 21-year old student, when asked if she was tempted by the new Sears, replied, “I don’t really shop at those stores.”
Discussion Questions

What do you see as the benefits of each of Sears’ new initiatives?

MySears.com and MyKmart.com seem to be successfully appealing to the “cyber generation” and social networking has been used by other retailers to build loyalty.

Sears Marketplace shifts Sears from being a retailer to being a virtual mall operator and provides additional service to customers. The Photo iPhone app seems as though it would be useful to a relatively small number of customers and is probably very costly. MyGofer is an interesting use of excess space, allowing the company to generate income without the overhead of a retail location. MyGofer is also an improvement on the old Sears model, which involved shopping in the store and then waiting in the pick-up area for merchandise to be brought from the warehouse.

Taking all these initiatives as a whole, do you think Sears will survive?

Despite these efforts, I don’t think Sears will survive. The company’s image remains old fashioned, its initiatives are more imitation than innovation, it is losing market share to competitors, revenues are failing, and it cannot afford to sell money-losing properties because short-term losses would outstrip long-term gains.
Predictive Modeling Helping Stein Mart Connect with Customer

Fiona Soltes, Stores, January 2010

Use with Chapter 11, “Customer Relationship Management”

Sophisticated technology has enabled retailers to gather mountains of data. But this data hasn’t necessarily resulted in a better understanding of customers or an increase in sales. For most, in fact, it’s left them feeling Data Rich and Information Poor – a syndrome known as DRIP.

Stein Mart, an upscale, off-price retail chain, is a case in point. The retailer had extensive information on its shoppers but no way of effectively using these data to increase sales other than to increase mailing to the highest-spending customers. With the help of Integrative Logic, a data-driven marketing group, Stein Mart segmented its customers into “elite” and “near-elite”, which allowed the company to focus special promotions on its second-tier customers. The goal, says Stein Mart’s senior vice president of marketing and advertising, was to encourage these customers to move up to elite status as quickly as possible so they could take advantage of additional offers. The promotion included a special loyalty card that enabled employees at different Stein Mart locations to identify customers loyal to the brand and give them the extra attention they deserved.

Stein Mart’s customer relationship management program also tracks customer buying behavior over time, which allows for special marketing efforts directed at customers whose Stein Mart shopping has decreased. The company also uses data to make decisions about product mix and store locations. The strategy, says the Stein Mart VP, is helping increase customer loyalty and the company’s bottom line.

“The more information we have about how customers respond,” she says, “the better we know how to balance our mix and balance our margins. Across the board, there are some customers you need to discount more deeply in order to get them to act. Others don’t need a discount, they just want information about what’s new in the store or what the fashion tends are. Knowing that, we can manage the markdown scenario more closely.”

Discussion Questions:

How is Stein Mart using the Customer Pyramid concept to fine tune its CRM program?

Stein Mart is currently using a three-tier pyramid instead of the traditional four tiers in the customer pyramid. Rather than targeting the platinum level, who are the most loyal customers who aren’t overly concerned about price, the company is targeting the gold level with the intent of moving them to the platinum level. The company is impacting the more cost-conscious attitudes of this segment by targeting them with special offers and a special card that identifies them as a loyal customer. This special card alerts staff to customers needing additional attention, even if the customer shops at more than one Stein Mart location. The iron and lead levels of the pyramid are combined in Stein Mart’s pyramid, and little effort is being made to entice these shoppers.

Is there more that they can do?

Stein Mart is already tracking customer buying practices so they can target customers whose store visits have fallen off. However, data mining offers endless opportunities for understanding the lifestyles and preferences and customers. Using data from prior purchases, for example, Stein Mart could proactively contact customers with personalized information on new season fashions, notify them of accessories that would match previously purchased outfits, or offer personal shopping sessions for recurring events, such as holiday parties.
**Killer Tech for Phones**

*David Dorf, Retail Wire, January 26, 2010*

**Use with Chapter 16, “Retail Communication Mix”**

The introduction of the iPhone and similar web-enabled mobile devices has dramatically expanded the potential for M-commerce. This potential is based on three important technologies that have helped make web-enabled mobile devices indispensable to their fans and that provide new opportunities for retailers to connect with customers. These technologies include:

1. **Location-based Services**
   Tying GPS to iPhones allows customers to find their way around and locate nearby services and retailers. This feature, combined with other capabilities, means the device is frequently consulted, and provides opportunities for apps like Yowza! that use location to supply coupons from nearby retailers.

2. **Computer Vision**
   Computer vision is recent technology that allows customers to take a picture of a product and get more information. The technology can benefit retailers by, for example, by providing a portal for additional product information, including reviews, prices, promotions, and convenient locations with the product in stock. Walmart’s app allows customers to photograph their living rooms and then determines the best size television for the space.

3. **Augmented Reality**
   Augmented Reality allows customers to access information in a “real” context. Phones equipped with GPS, video camera, and a compass allow customers to scan storefronts to see promotions, hours, or restaurant and store reviews. This technology will, no doubt, evolve in the near future, enabling features such as scanning a product to access information on manufacturing, reviews, or accessories, access to coupons, or even availability and prices for the same item at other nearby locations.

**Discussion Questions:**

What is the next step for mobile retailing?
One possible next step for mobile retailing involves determining which apps are of most interest and use to customers and focusing on those to build sales. If the economy remains unstable and unemployment remains high, for example, the most useful apps would be those that deliver coupons for items submitted through augmented reality, particularly if these coupons could be generated in dressing rooms. If, however, consumer awareness of the need for green practices increases or customer priorities shift to quality over price, apps that provide information on country of origin, manufacturing, craftsmanship, etc. would be more valuable.

What are your favorite mobile apps available today?

What advances do you see occurring over the next few years?
*Over time, I would expect to see all the capabilities of a traditional computer on a hand-held device. These might include Skype, accounting functionality (so that, for example, a customer could anticipate how a purchase would affect her monthly budget), or targeted podcasts delivered directly to an iPhone. It’s not out of the question that health maintenance apps will be added to help track exercise, calories, blood pressure, heart rate, etc.*