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

- **E-Commerce Elite** (Chapters 3 and 15)
- **SocNet Crowdsourcing Has Mixed Results** (Chapters 3 and 15)
- **Reaching Out to Customers, Through Their Noses** (Chapter 17)
- **Reimagining Retail** (Chapter 3)
- **‘Flash Robs’ Vex Retailers** (Chapter 16)
- **Brandwashed at Whole Foods** (Chapters 16 and 17)
- **The Customer is Always Wrong** (Chapters 15 and 18)
- **A Genius of the Storefront, Too** (Chapter 17)
- **Are Drugstores Priced Too High to Compete in Grocery?** (Chapters 2 and 14)
- **Costco’s CEO’s legacy continues as he steps down** (Chapters 1 and 5)
- **New Tricks for Old Malls** (Chapter 7)
- **Rethinking Retail Scale** (Chapter 3)

If you are interested in the text book please visit [www.mhhe.com/levy8e](http://www.mhhe.com/levy8e). 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](http://www.warrington.ufl.edu/mkt/retailcenter/research/publications.asp)
Teaching Tips

Short Videos Available on the Web

Crowdsourcing
Quirky allows everyone to invent products and influence the final product.

- Use with Chapter 13, “Buying Merchandise” and second article in this newsletter
- 6:07 minutes

Exclusive Merchandise
Department stores are differentiating their products by having the designers change their products slightly. The resulting slightly changed product becomes an “exclusive” to the retailer.

- Use with Chapter 13, “Buying Merchandise
- 4:02 minutes

Mobile Shopping and Apps

- Use with chapters 3 and 15
- http://www.youtube.com/watch?v=W5tC0w_g3yM

Google Shopper

- http://www.youtube.com/watch?v=xjO1nuGB1vk&feature=related

QR Codes

- http://www.youtube.com/watch?v=G_ry2vNeYOw&feature=relmfu

Top Ten Retailers for Customer Service

- Use with chapter 18
- http://www.youtube.com/watch?v=cO2oBu2Oe8U

McKinsey Consumer Journey – New Take on Shopping Behavior

- Use with chapter 4
- http://www.youtube.com/watch?v=EfRrD3we0Hg
Additional Material for Teaching Retail Classes

A 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@warrington.ufl.edu or mlevy@babson.edu
STORES magazine recently conducted a survey of a few dozen retailers, vendors, analysts, and overall experts in retailing, to discuss the online retailers that are delivering the best user experiences in 10 different key areas of business. The study indicates that for e-tailers to be successful, they have to excel at integration, implementation, and execution. After in-depth conversations with these individuals, STORES magazine has compiled the following list of the 10 e-commerce elite that went above and beyond in certain key areas.

On-Site Search: Winner- bhphotovideo.com
B&H Photo and Video is an institution for selection and deals on cameras and electronics. This Manhattan based retailer is a favorite of photo professionals. Bhphotovideo.com uses a simple and intuitive search and navigation system that provides the customer with a user experience that is “immersive and relevant.”
Honorable Mention: ebags.com

Check-Out Process: Winner-Amazon.com
Amazon shoppers only have to key in payment data one time, and Amazon’s steal trap memory will retain that information for all future purchases. The payment system will store multiple addresses and payment options making checkout a cinch. Amazon.com also offers 1-Click, which allows customers to sign in to their Amazon account and check out with just the click of the button. Amazon recently announced the Amazon Prime delivery option. Members can opt-in for a $79 annual fee and receive two-day free shipping on all orders.
Honorable Mention: Gap.com

Multichannel Experience: Winner- BestBuy.com
40% of Best Buy’s online purchases are now picked up in Best Buy stores. Best Buy has perfected the art of cross-channel shopping, by providing customers the convenience of online shopping with the comfort of physically touching and reviewing the product in stores.
Honorable Mention: Moosejaw.com

Integration of Online Video: Winner-QVC.com
QVC enjoys online conversion rates of 15 to 20%. QVC attributes this success to its online videos and product reviews. These videos are excerpts of TV presentations that showcase product demonstrations and discuss key product features. Showing customers the proper way to use a product, and all of its features, reduces dissonance and post-purchase regret. For QVC, these online videos replicate a one-to-one retail shopping experience for the online customer.
Honorable Mention: WilliamsSonoma.com

Presentation of Product Information: Winner- Crutchfield.com
Crutchfield, an electronics retailer created by Bill Crutchfield 37 years ago from his mother’s basement, is a “standard of excellence” and customer service. Crutchfield uses creative ways to provide customers with as much product information and reviews as possible. If you click on any item on Crutchfield.com, the product overview immediately pops up. Also included are tabs for hands-on research, features, specifications, accessories, and reviews. Although Crutchfield has annual sales of $250 million (a relatively small retailer), it has still won 11 consecutive Circle of Excellence platinum awards for its online customer service.
Honorable Mention: burton.com
Innovation: Winner- WetSeal.com
Wet Seal has been able to lift e-commerce revenues despite the sluggish economy. In 2008, Wet Seal launched the Fashion Community on both its website and Facebook. This initiative eventually extended to its stores where Wet Seal added kiosks where shoppers could scan an item and view outfits created by other Wet Seal consumers. In 2009, Wet Seal added iRunway, which gave consumers access to a library of user-generated outfits and ratings. This library can be accessed via mobile devices. Customers can also use this app to instantly shop WetSeal.com or find store locations.
Honorable Mention: 1-800-FLOWERS.COM

Personalization: Winner- Netflix.com
Website personalization is a challenge, but Netflix has mastered the art. Since its inception, Netflix has been gathering customer information to fuel its recommendation engines. The more a shopper uses Netflix, the more Netflix is able to improve on the personalized genres it offers customers. Netflix recently introduced several new features that play an even greater emphasis on movie discovery. Customers can now set preferences on moods, storylines, and qualities. Approximately 60% of Netflix users use the recommendation service to select movies.
Honorable Mention: Dell.com

Lastmile/ Fulfillment: Winner- Zappos.com
Zappos believes in the WOW factor with its customer service. Zappos.com offers 365-day free returns, 24/7 customer service, and 110% price protection. Zappos also offers free shipping and sometimes upgrades customers to free, overnight shipping. For many customers, ordering a pair of shoes at 11:00 pm online and having them arrive at your doorstep the very next day is sometimes more convenient than going to the shoe store.
Honorable Mention: Staples.com

Mobile Site: Winner- ebay.com
Many analysts consider ebay.com to be the most aggressive m-commerce retailer-oriented site, with projected sales of $4 billion this year from mobile transactions alone. Customers are increasingly using their smartphones for purchases. Ebay.com offers customers a seamless shopping and selling experience across multiple device platforms. Ebay.com is trying to blur the boundaries between the online and offline experience for the customer.
Honorable Mention: Target.com

Social Media: Winner- CharlotteRusse.com
Very few retailers are actually integrating social media well into their e-commerce strategy. Charlotte Russe does. Charlotte Russe’s social media campaign includes Facebook, MySpace, YouTube, Twitter, and features promotions, online polls, fashion news and more. Charlotte Russe initially launched a campaign called ShopTogether to help teens in their prom dress search. Teens could use ShopTogether to browse, chat, shop and compare online via social media outlets. After the quick success of that program, Charlotte Russe developed a full scale social media program to encourage user-generated content and social engagement. One of the best components of this campaign is the retailer’s weekly trivia contest on Twitter. Customers have to visit the website to answer the question.
Honorable Mention: VictoriasSecret.com

Back
Crowdsourcing involves letting consumers take control of some (or all) of your promotional activity, primarily through the usage of social networking as a word-of-mouth catalyst. A recent study indicates that firms with an existing fan base and positive brand reputation will receive more favorable results from social media crowdsourcing versus companies that use crowdsourcing to help introduce a newer brand.

Colgate is an example of a brand that used crowdsourcing effectively to reach a new, broader audience. In the summer of 2011, Colgate launched the “Smile” campaign with a dedicated Facebook page for consumers to upload pictures of themselves smiling. Colgate then used these images to create collage posters for point-of-sale displays. A recent survey indicates that this campaign made users 2.5 times more likely to discuss purchasing toothpaste with their friends. The “Smile” campaign also had a positive impact on Colgate’s brand image.

Nando, a casual dining chain, asked customers to upload videos that included the noises they made when someone says the word “Nando.” Nando created a special webpage for the “Nando’s Noise” campaign. The webpage also included an interactive feature incorporating beat-boxer Reggie Watts; customers could add their own clips to play in conjunction with Reggie Watts’ beats. This campaign was successful with some consumers because of the humorous and interactive feel; other consumers used the campaign as an opportunity to highlight the benefits of a competing brand.

Uniqlo, a Japanese clothing retailer, has a “Worldwide fanpage” with close to 250,000 likes. The fanpage is specifically for Uniqlo fans, also known as Uniqlovers. These customers are great ambassadors for the brand. This fanpage is successful at encouraging a positive discussion of the brand and all the related Uniqlo stores and products.

Discussion Questions:

What is crowdsourcing?
Crowdsourcing involves letting your customers take control of some of your promotional activities, primarily through social networking.

How are brands using crowdsourcing?
Brands are using crowdsourcing to encourage word-of-mouth and to stimulate a conversation about their products. Many brands, like Colgate, are using crowdsourcing for a specific campaign, like the “Smile” campaign. Uniqlo, on the other hand, is using crowdsourcing to encourage consumers to act as brand ambassadors.

Do you believe that crowdsourcing can be an effective component of a retailer’s communication strategy?
Ask students to discuss the advantages and disadvantages of crowdsourcing. Advantages may include: positive word-of-mouth from a reference group member, increase brand awareness, promotion of the brand and products. Disadvantages may include: brand has less control over what is said, potentially negative feedback, or uninterested customers.
Many companies are investing in “ambient scenting.” Ambient scenting is the process of using scent distribution to give a retail space an appealing smell. Many retailers believe that scent is one of the most critical atmospheric components and that customers will remember a retailer’s scent long after they forget what music was playing. Companies like Westin hotels and Abercrombie & Fitch have been developing unique scents for years. New, and unexpected organizations, are now testing out ambient scenting as a way to retain customers.

Goodwill Industries of Southeastern Wisconsin is outfitting many of its locations with a signature fragrance of “sweet orange and honeysuckle.” Goodwill has seen an increase in traffic due to the recession and is trying to develop measures to retain these customers even after the economy picks up. Goodwill pays about $80/month for a scent-distribution unit, and each store is outfitted with multiple distribution units. Scent expenses average about $340 per month, per store. Goodwill believes that this investment will pay off in increasing customer retention. Goodwill uses Prolitec for its scenting needs. Prolitec services companies including Hilton, Harrah’s, Bellagio, and Bliss Spa.

Ambient scenting provides retailers with an opportunity to brand themselves in a unique way. This allows retailers and service providers an opportunity to showcase their creativity. These businesses want customers to associate their brand with a specific scent. In addition, research indicates that people will spend more time, and rate their experiences more favorably, in environments that smell pleasant versus environments with foul or stale smells.

**Discussion Question:**

**Why are retailers using scent in their stores?**

Scent is an important factor in creating an ambience for retailers. Some retailers view scent creation as a branding opportunity because they are creating scents that are unique to their organization. In addition, favorable scents can cause customers to spend more time in a store, which will hopefully lead to increased purchases.
The proliferation of mobile and smartphone technologies has provided retailers with a unique opportunity to connect with customers. However, a recent survey by Retrevo found that 43% of smartphone shoppers have downloaded a retailer’s app, but only 14% of customers actually use it to help them purchase an item. Many retailers are losing mobile market share to tech retail giant, Amazon.com. Amazon.com has an app that allows customers to scan an item from any retail location and purchase it directly from Amazon.com via their smartphone.

Research indicates that most retailer apps are less successful because they don’t actually “do” anything that adds value for the customer. New technologies are available that retailers can develop to completely transform the traditional shopping experience, add value for customers, and level the playing field with companies like Amazon.com.

These new technologies include:

1. Previsualizing your purchase – If a customer wants to purchase a couch, they can take a picture of the room where the couch would be placed. The picture of the room is then saved to an app that knows the furniture inventory of the retail store where the customer will shop. Once the customer picks out a couch that is the right size, shape, and fabric, the customer can swipe the phone over a sensor and an image of the couch will be uploaded to the picture of the customer’s room. This allows the customer to visualize how the couch will look in the living room.

2. The personal touch- via cell phone- When customers walk into a store, they can automatically check-in through the retailer’s app. Retailers can offer rewards points for checking-in that can be used towards later purchases. The apps can also use social trends, web trends, input from your friends and social circles, to guide you to the products in the store that best fit your needs.

3. Shelf tags that talk back- Retailers can use smart-lamp technology to communicate with customers without using a mobile app. This product senses when a customer picks up an item off a shelf. The smart-lamp technology then projects images and interactive video onto the shelf giving the customer more information about the product and its uses. Retailers can also use projection technology to guide shoppers through the store to specific items and departments.

4. No more checkout lines- Gone are the days of traditional tender types like credit cards, cash or check. Now, with technologies like Google Wallet, customers can swipe their phones over payment sensors. Eventually retailers can use mobile payment options to eliminate all queues; customers can gather products that they want and pay for them with a single swipe from a mobile device anywhere within the store.

Discussion Questions:

Are customers using retailer-provided apps?

According to Retrevo, only 14% of customers with a retailer app, actually use it. Retailers are not currently adding value with their apps.
What could retailers be doing with smartphones and other technologies to stimulate sales?
Retailers could use available technologies to make a more meaningful connection with customers and add value to the customer’s experience. For example, retailers can use mobile apps to reward customers for frequenting a store. They can also use information from customers’ social circles to alert customers to potential products they might be interested in. Retailers can also use payment applications to reduce the amount of time customers have to spend in line and to expedite the shopping process.
‘Flash Robs’ Vex Retailers

Ann Zimmerman and Miguel Bustillo, October 21, 2011, Wall Street Journal

Use with Chapter 16, “Managing the Store”

Flash mobs are the spontaneous dancing sensations that create entertaining viral videos. Flash robs, on the other hand, are far less entertaining, especially for retailers. Flash robs are created by swarms of teenagers and adults who plot via social media and text messages to arrive suddenly at retail stores and wreak havoc, usually by stealing large amounts of merchandise.

In June, a Sears in Philadelphia experienced a flash rob when about 40 boys flooded the store and stole thousands of dollars in merchandise. Chicago’s Magnificent Mile was less than magnificent when teens ran into Filene’s Basement, Armani Exchange, and The North Face stores. Teens choreographed this flash mob to occur simultaneously. They all went into stores screaming, knocking over displays and merchandise, and fleeing with expensive jeans and other merchandise. Officials in Washington D.C., Cleveland, OH, Las Vegas, NV, and St. Paul, MN have all reported incidences of crowds of young women entering convenience stores and stealing bags of snacks and drinks.

Retail theft was up 8% last year, to almost $27 billion. The flash rob is a new phenomenon that is vexing retailers because it combines the mob mentality with premeditation. It is also difficult to track and predict. The National Retail Federation (NRF) conducts annual surveys of retailer health; this year they found that 10% of the retailers surveyed had experienced a flash mob. Flash mobs are non-discriminatory and have targeted department stores, big-box stores, grocery stores, drug stores, and convenience stores. NRF is now offering advice to retailers on managing crowds and flash mobs. NRF suggests that retailers monitor social media sites for groups planning a flash rob attack. NRF also suggests that retail employees, especially in loss-prevention, alert management, or even authorities, when they see unusually large gatherings of people inside or outside a store.

Surveillance videos from previous flash mob attacks show that most of the items stolen were folded and close to the door. Retailers are now avoiding putting more valuable merchandise near the doors. The NRF suggests that as an added precaution, retailers place employees by key areas of the store near valuable merchandise.

Discussion Questions:

What are “flash robs”?
Flash robs occur when a group of people (usually young adults and teens) coordinate via social media or text message to descend on a retailer simultaneously and create chaos; flash robs usually result in a significant amount of theft and damages.

Why are retailers concerned about flash robs?
Retailers are concerned about flash robs for several reasons. First, flash robs are unpredictable, therefore making it difficult for retailers to respond to them. Second, flash robs could potentially turn violent, making them a threat for retail employees and customers. Finally, flash robs result in damages and theft for retailers, adding to operational costs.

What can they do about them?
Retailers can position valuable merchandise away from the doors of the store making it less accessible to flash robs. Retailers can also position personnel near high value merchandise. Employees can also be on the lookout for large crowds gathering inside or outside the store. Finally, retailers can frequent social networking sites to see if any upcoming flash robs are in the works.
Martin Lindstrom recently introduced a new book, *Brandwashed: Tricks Companies Use to Manipulate Our Minds and Persuade Us to Buy*. In the book, Lindstrom explores how supermarkets persuade customers to spend more on average shopping trips. Whole Foods, he claims, is the industry leader in using unconscious suggestions, or symbolism, to increase the customer’s perception of freshness at the store. Lindstrom says that retailers are the masters of seduction.

Some of the symbolic that Whole Foods uses include:

- **Fresh-cut flowers**: Whole Foods positions its flowers at the store entrance. These flowers represent freshness; Whole Foods hopes that customers carry the connection of freshness throughout their shopping experience.

- **Chalk boards**: Whole Foods uses chalk boards throughout the store to advertise prices and specials. In European marketplaces, vendors use chalk boards to show the prices of flowers, fruits, and vegetables. Whole Foods uses chalk boards to simulate the local market experience.

- **Pictures of fruit**: Grocers use pictures of fresh fruit on their juice containers with hopes that customers will think of the juice as fresh off the vine rather than from concentrate.

- **Cardboard boxes**: Rather than placing produce in traditional produce bins, Whole Foods uses cardboard boxes for that fresh-off-the-farm appeal.

- **Ice/mistiness**: Whole Foods covers certain foods in chipped ice to convey freshness and purity. Other grocers also sprinkle some vegetables with water to create the same effect.

**Discussion Questions:**

**What merchandising “tricks” does Whole Foods employ to get people to buy more?**

*Whole Foods uses chalk boards, pictures of fruit, and cardboard boxes to simulate that fresh from the farm feeling. Whole Foods also puts fresh cut flowers in the front of the store so that customers will carry the “fresh” image with them through their shopping experience.*

**Which do you believe are most effective?**

*Ask students which of these methods they think is the most effective, if any? Do they shop at Whole Foods and what are their experiences there?*

**What merchandising techniques do other stores employ to encourage add-on sales?**

*Apparel retailers, for example, use lifestyle merchandising so that consumers will attribute apparel to certain lifestyles. Other grocery retailers put certain items near the cash register to stimulate impulse purchases. Ask students to discuss other techniques retailers might use.*
The Customer is Always Wrong

Tom Ryan, October 7, 2011, Retail Wire
Use with Chapter 15, “Retail Communications Mix,” and Chapter 18, “Customer Service”

For Gasp, a high-end Australian fashion boutique, the customer is not always right. In September, a bride-to-be was shopping with her friends when the sales associate “Chris” insulted her weight (a U.S. size 8) and pressured her into buying a dress. The sales associate went further by insulting the customer’s friends when they challenged him on his attitude. The irate customer wrote a letter to Gasp, stating, “I dread to think how many customers he has not only offended, but how many customers have left your store due to the pressure placed on getting the sale.”

Most retailers would immediately respond with a formal apology and some type of service recovery offering. Gasp, however, did the opposite. The area manager defended “Chris” by stating that he is a “qualified stylist whom has a sixth sense of fashion.” The area manager also claimed that Chris probably knew that the customer was not going to “buy anything before she even left her house.” The manager further explained that stylish celebrities like Kim Kardashian and Katy Perry shop at Gasp and that customers who are “acclimated to buying from ‘clothing for the masses’ type retailers” are frightened by Gasp.

The snarky reply from the area manager went viral creating a firestorm of negative comments across social media outlets including: Twitter, Facebook, and various consumer blogs. Eventually the retailer deleted its own Facebook page. However, this deletion was not an admission of guilt, as the retailer continued to remain unapologetic. In a newspaper interview, the area manager actually thanked the customer for the publicity stating that it caused an “unprecedented” increase in sales.

However, most retail analysts agree that the immediate sales that Gasp experienced are not sustainable. If Gasp wishes to experience continued success, they should perhaps learn to respond to customer complaints with a softer touch.

Discussion Questions:

If you were a salesperson in Gasp, how would you have handled the customer?
Ask students if they agree or disagree with “Chris’s” behavior. Would they want to work in a store that pressures and sometimes insults customers? Ask them if they would want to shop in a store like this.

What lessons can be learned from this story about the power of social media and how not to treat customers?
Word-of-mouth is one of the most powerful forms of promotion, yet retailers have little control over what customers are saying about them via social media. Customers can use social media to promote businesses, or to launch public campaigns against retailers.

The situation can also be reversed. Consider the recent incident where a customer left a $0 tip for a server and wrote, “you could stand to lose a few pounds” on the receipt. The server posted the receipt, with the customer’s name, on Facebook. The customer’s Facebook page received thousands of posts criticizing his behavior.

Back
A Genius of the Storefront, Too

James B. Stewart, October 15, 2011, New York Times

Use with Chapter 17, “Store Layout, Design, and Visual Merchandising”

Steve Jobs had tremendous vision, and he worked with great minds like Peter Bohlin to help him achieve those visions. Peter Bohlin, a celebrated architect, collaborated with Jobs to build Pixar’s headquarters and more than 30 Apple Stores. Retail development usually consists of large concrete structures with very little outside aesthetical appeal. Bohlin and Jobs pushed the traditional retail store boundaries and left their stamp on innovative retail architecture.

What makes Apple stores unique is that they channel the Apple products into the architecture. Jobs and Bohlin consider Apple stores to be an extension of Apple packaging. Apple stores are “sleek, transparent, inviting, technologically advanced, and expensive” compared to traditional retail outlets.

Many Apple stores use glass in their structures; the use of glass has become somewhat of a trademark for Apple. Glass first appeared in the SoHo store. The SoHo store is a 2-story space, and Bohlin and Jobs were studying creative ways to get customers to go up or down. The solution was an “ethereal” glass staircase. The Fifth Avenue Apple store, opened in 2006, is a glass cube and staircase flooded with natural light. This inviting façade beckons people to enter the store and proceed to the underground location. At its opening, customers began lining up 42 hours in advance to be the first customers in the store. Even though Apple has enjoyed great success with the glass cube, it is not repeating the glass cube for all new stores. In Shanghai, the new store is a glass cylinder leading to an underground space.

Although Steve Jobs was obsessed with architecture, he lived in a modest Tudor-style house in Palo Alto. He and Bohlin had been at work on a house for years.

Discussion Questions:

Do you believe that the store design for Apple stores is consistent with the company’s image and its products? Why or why not?

Ask students if they believe that Apple stores are a reflection of Apple’s style and packaging.

What do you think of Apple’s store design?
Ask students their thoughts on Apple’s store design. Pull up images of the Fifth Avenue Apple store for students to view if they haven’t seen it. Ask students if they think that Apple’s stores are welcoming or intimidating.

Back
Are Drugstores Priced Too High to Compete in Grocery?

George Anderson, October 7, 2011, Retail Wire
Use with Chapter 2, “Types of Retailers” and “Chapter 14, “Retail Pricing Strategy”

Drugstore chains have weathered the economic recession better than many retailers. Drugstore chains like Walgreens, CVS, and Rite-Aid have been aggressively pushing into the grocery business. These drugstores are trying to provide a convenient solution for customers by addressing the food dessert problems in the United States.

Many drugstores have locational excellence because of their numerous and convenient locations. The location and the smaller size create a competitive advantage for these drugstore chains. Offering groceries to customers is just an added convenience. However, this convenience comes at a price for customers.

A market based survey bought 25 of the same grocery items; the price was $102.94 at the drugstore and $75.60 at the supermarket. According to Consumer World, “drugstores are not doing any favors by carrying groceries at convenience store prices.” But the mom on-the-go who needs milk and a prescription filled at the same time might disagree.

Discussion Questions:

Why are drugstore chains carrying grocery items?
Drugstore chains are trying to capitalize on their convenient locations by making it easy for customers to buy grocery items along with their other purchases. Drugstore chains are trying to take away business from grocery chains and become a one-stop shop and destination store for consumers.

What is this activity called?
This activity is called scrambled merchandising. Scrambled merchandising occurs when a retailer adds products or services that are unrelated to the firm’s original business. For drugstore chains, grocery items are unrelated to the drugstore’s original product assortment.

What are the advantages and disadvantages of pricing a market basket for grocery items significantly higher at drug stores than at grocery store chains?
Grocery items typically have lower margins; the advantage of drugstore chains pricing these items higher is that drugstores will make more money off of these items. They can use that money to reinvest in more inventory and the upkeep of the drugstore. A disadvantage is that the higher prices might alienate price-conscious consumers. These consumers might also assume that if grocery items are priced higher, then the drugstore might price all their items higher.
Costco’s CEO’s legacy continues as he steps down

Jessica Wohl, September 1, 2011, Reuters

Use with Chapter 1, “Introduction to the World of Retailing,” and Chapter 5, “Retail Market Strategy”

Jim Sinegal, Costco’s 76 year old CEO, announced that he is retiring in January and will be replaced with Costco President and longtime employee, Craig Jelinek. Analysts hope that Jelinek will continue with the legacies, traditions, and corporate culture that Sinegal created.

Sinegal’s motto has always been not to overcharge the customer for anything. For example, Costco offers customers a $1.50 hot dog and fountain drink combo; the price tag has remained constant for over 25 years. This combo is one of the most representative symbols of Costco’s value proposition.

Costco does not sell anything in its warehouse stores with a margin that is higher than 14%, except for its private label products, Kirkland Signature. Kirkland Signature products may have margins that reach 15%.

Costco has maintained the same membership fees for most of its 600 locations for the past 5 years. With commodity prices rising, Costco could raise prices, but tries not to. When the cost of bananas increased in early 2011, Costco raised the per-bunch price by 4 to 5 cents, but reduced the price once the cost of bananas fell.

This frugality and cost saving mindset is engrained in the Costco culture. Most Costco executives answer their own phones. Costco has no public relations staff and a very small investor relations staff, especially compared to other retailers of the same size. Costco’s board has suggested that Costco executives are underpaid; for example, Sinegal has earned $350,000 per year since 1999.

Sinegal is recognized as a pioneer in retailing and as one of the great retail leaders for developing corporate culture. Considering that Costco’s shares have risen nearly 40% in the past year, compared with Walmart’s 6%, Sinegal is also recognized for his success. For the continued growth of Costco, Jelinek should continue the strong culture and cost saving traditions of his predecessor.

Discussion Questions:

What is Costco’s retail mix?

One of the main components of Costco’s retail mix is its pricing strategy. Costco offers bulk products to consumers at lower prices than grocery stores or discount retailers. Costco’s retail mix also focuses on bare minimum design and atmospheric components, choosing instead to pass those savings on to the customers. It has minimal promotions and operates in huge warehouse-like stores in relatively inexpensive locations.

What are Costco’s bases for sustainable competitive advantage?

With the economic downturn, many retailers were scrambling to find ways to cut costs and lower prices for consumers. Costco’s business model was already centered on providing customers products at the lowest prices. Costco has a business model that will allow them to continue to provide lower priced offerings to customers.

Back
New Tricks for Old Malls

Kris Hudson and Miguel Bustillo, October 26, 2011, Wall Street Journal
Use with Chapter 7, “Retail Locations”

With many retailers vacating mall and big-box locations, property managers are looking for new tenants to fill space and help pay the bills. Landlords are actively welcoming nonretail tenants as a way to draw more customers to shopping centers. For nonretail tenants, this open arms reaction is a positive thing. Many nonretail facilities have avoided seeking locations in malls, strip centers, and power centers because of the high rent costs. However, with rent costs decreasing, these locations are becoming more and more attractive to nonretail facilities as a way to expand business and attract new customers.

Some examples of nonretail businesses occupying traditional retail locations include:

- Grapevine Mills mall near Dallas, Texas opened an aquarium in its mall in July.
- In Florida’s Tallahassee Mall, a fencing academy opened in a former Old Navy location.
- Aqua Tots, a company that teaches young children to swim, opened 14 locations in Arizona, Texas and Georgia. The majority of which are in former retail shops.
- Jumpstreet, an indoor trampoline facility is actively buying (or leasing) former grocery stores to fill them with wall-to-all trampolines to attract youngsters and adults seeking exercise.
- William James’s Arms Room opened a gun shop and shooting range in a former Circuit City location outside of Houston, TX.

Property management companies have to make sure that these companies are complementary to the retailers in the malls and will attract new customers. Some property management firms have been shying away from converting retail space to classrooms or worship facilities because of a potential backlash from existing tenants.

Discussion Question:

What are mall developers doing to fill empty store spaces?

Mall developers are appealing to nonretail businesses to fill traditional retail space. Mall developers are seeking businesses that are complementary to the existing retail stores and that will also attract new customers to the facilities. Examples include aquariums, fencing academies, trampoline facilities, and even a shooting range.
Rethinking Retail Scale
Carol Spieckerman, October 25, 2011, Retail Wire
Use with Chapter 3, “Multichannel Retailing”

The Internet revolutionized the way that consumers shop and search for information. However, many retailers have found it challenging to integrate their online business with their brick and mortar business. Many retailers operated online and in store as separate business functions that sometimes competed with each other. Retailers are now recognizing the importance of integrating these two functions to provide a seamless shopping experience for the consumer. Retailers are no longer focusing separately on their virtual shopping carts and in-store traffic. Rather, they are identifying opportunities for linking sites to their stores.

Many retailers are implementing technologies that allow customers to order products online and pick up in stores. Walmart’s new Express concept is a smaller format store designed to target new markets traditionally served by dollar stores. Walmart Express, however, will also serve as pick-up locations for the over 40,000 items that Walmart sells from its online site. This site-to-store functionality will be an added competitive advantage for Walmart as dollar stores and other retailers don’t have that capability.

Target, perhaps in an effort to compete with Walmart, announced that it will bring its online operations in-house as well. Target is also opening up smaller format stores, called City Targets. These City Targets, along with traditional Targets, will soon also have site-to-store integration capabilities.

Even e-tailers, like the behemoth Amazon, are trying to develop site-to-store options. Currently, Amazon is beta-testing a site-to-store integration with 7-11 stores. A 7-11 location in Seattle holds a stack of lockers in it that belong to Amazon. Customers who choose an in-site pick up of their online Amazon purchases will receive an email when their purchases are delivered to the 7-11. This email will give them a bar code that when scanned reveals a PIN number to open the lockers. Customers can then quickly retrieve their purchases. If this initiative is successful, it might be ready for rollout to other 7-11 stores by summer 2012.

Discussion Question:

What are retailers doing to provide a seamless experience for customers across channels?
Traditionally, retailers treated their online and in-store business as separate businesses. Now, many retailers like Walmart and Target, are offering customers the option of purchasing items online and then picking them up in stores. This integrates the online shopping experience with the in-store shopping experience and allows consumers to connect with retailers at multiple touch points.