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

- **Predictions 2012** (Chapter 1 and 5)
- **Tweeting Without Fear** (Chapter 15)
- **The Purchasing Power of Om** (Chapter 5 and 17)
- **Retailers Woo the “Mission Shoppers”** (Chapter 4 and 18)
- **Grocery delivery services draw new interest by online shoppers** (Chapter 2 and 3)
- **The Future of Retail? Look to Its Past** (Chapter 18)
- **Too Many Unhappy Returns** (Chapter 10)
- **The Retailers You Want to Work For** (Chapter 1)
- **The Coffee Wars Get Recaffeinated** (Chapter 5)
- **How Cinnamon Smells Will Save Holiday Sales** (Chapter 17)
- **A Food Fight in the Produce Aisle** (Chapter 17)
- **Amazon ‘Primes’ Pump for Loyalty** (Chapter 11)

If you are interested in the textbook 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

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
Predictions 2012

Susan Reda, Stores Magazine, December 2011

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

It was hard for Stores Magazine to make predictions for 2012 when game changers, like Apple’s EasyPay system, Walmart’s Black Friday Facebook promotion, and Apple’s Siri are being introduced almost weekly. With so many retail and technology innovations, Stores Magazine had to make multiple predictions; the main one is that “2012 is going to be a heck of a ride!”

Here are some of Stores Magazine’s predictions for 2012:

• Digital voice technology will be a major disruptor in the retail industry. Chatter will increase between not only the customer and the retailer, but also the retailer and company data.
• 2012 will be marked by a tremendous amount of innovation, particularly within the mobile and social realms. Companies like Apple, Google, Facebook and Amazon are changing the way consumers interact with retailers.
• In 2012, we will see more partnerships between retailers and vendors and retailers and competitors.

MOBILE
• By 2015, there are expected to be more mobile Internet users than PC users.
• Mobile will unify all channels of retail and will be a predictor of tomorrow’s winners in retail.
• For retailers, the risk of not developing a mobile channel is greater than the risk of not getting it right the first time. Retailers have to embrace this new channel.

ANALYTICS
• A recent survey of retailers by Accenture found that 72% of respondents plan to invest more money in analytics. Data is coming in faster and more focused than ever. Many retailers are struggling to find employees who can analyze all this data.
• The biggest chunk of retailers’ IT budgets will go towards investments in intelligence and analytical tools.
• Retailers will focus on engineered systems where software and hardware work together to realize analytics as they happen.

IT
• More retailers will follow in Bloomingdale’s and JC Penney’s footsteps and adopt RFID technology.
• Cloud computing will continue to grow. Many retailers are expecting inventory management to “live” in the cloud.
• Intelligent virtual agents for online customer service will become more common. Retailers will adopt this knowledge for future customer interactions.
• Video analytics will be used in-stores to study workforce management, customer engagement, out-of-stocks, and customer shopping patterns.
SOCIAL

- According to EMarketer, Facebook will become the top seller of display advertising in the United States.
- Retailers need to be a part of the social media and online conversations.
- Companies should embrace analytics that help them understand and capture the customer emotions expressed via social media.

CUSTOMERS

- Operations need to become more customer-centered.
- Retailers should do more than just listen to the conversation; they should react and develop a co-creative culture with customers.
- Retailers need to find more creative ways to reward loyalty.

STORES

- Retailers will continue to struggle with managing which is more important: the brands in the store or the brand on the door?
- Retailers need to control the shopping experience and engage the 21st century shopper.
- Labor issues will continue to be important to retailers as task management becomes more of a focus in 2012.

The bottom line is that 2012 will be challenging for retailers. The U.S. economy is fragile, the political system is fractured, there is political unrest abroad, and consumer sentiment is mediocre and often distracted or disinterested. Stores suggests that the most important thing a retailer can do is to stay the course in 2012 and focus on customers and merchandise planning.

Discussion Question:

What are the most important trends in retailing for 2012?

The most dominant, overarching trend for 2012 is that it is going to be a year of change for retailers. Retailers will see changes in the way consumers interact with them, changes in inventory and personnel management, and changes in the way they collect customer information. Ask students to discuss which retail trends discussed in the article will impact them the most. Ask them to discuss retailers they think are at the forefront of some of these trends.

Back
Tweeting Without Fear

Elizabeth Holmes, Wall Street Journal, December 9, 2011

Use with Chapter 15, “Retail Communication Strategy”

Even companies who once resisted social media are now realizing that Twitter is an important marketing channel, especially for reaching younger consumers and building a brand image.

However, as much as Twitter can help build a firm’s brand image, it can also tarnish it instantly. Firms have to watch out for hacked Twitter accounts or ill-considered Tweets. Additionally, Twitter can also act as an international complaint forum.

Some ill-considered Tweets include the agency that handled Chrysler Group LLP’s tweeting “I find it ironic that Detroit is known as the #motorcity and yet no one here knows how to f-------- drive.” Kenneth Cole Productions Inc, poorly timed Tweet of “Millions are in uproar in #Cairo. Rumor is they heard our new spring collection is available online” caused an online uproar for its insensitivity.

Twitter can also be a forum for online complaining. High profile passenger, Alec Baldwin, tweeted “Flight attendant on American reamed me out 4 playing Words with Friends.” However, Twitter can also be used to respond to these complaints. American quickly replied via Twitter an “Update: Facts about yesterday’s removed passenger,” along with a link giving a less than flattering account of Baldwin’s airplane shenanigans.

Another problem for companies using Twitter is who owns the Twitter handle and who is responsible for all of the outgoing Twitter communication. If you assign Twitter control to a lot of people, the message can be muddled. However, if you leave one or two people in charge of Twitter, responding to all incoming Tweets might become overwhelming. Here is how three different companies manage their Twitter strategies.

Southwest Airlines: When Southwest first started its Twitter account in 2007, it was primarily handled by one PR social-media specialist. She instantly found herself fielding questions on flight delays and lost luggage. Now, Southwest’s communication department and customer-relations department have teamed up to recruit and train employees to monitor Twitter from 5:00 am to 11:00 pm every day.

Whole Foods: Whole Foods’ Twitter tries to develop broader engagement with customers by interacting with Whole Foods’ 2.1 million followers. It has also instituted a weekly Twitter chat, for an hour every Thursday, where Whole Foods can discuss topics such as holiday menu planning and healthy eating with its customers. Many of Whole Foods local stores have their own Twitter accounts to answer questions directly related to their stores.

Best Buy: Best Buy has an army of specialists managing its Twitter accounts. Best Buy has its main account @Best Buy, but also has @BestBuy_Deals, @GeekSquad, and @BestBuyNews. Best Buy’s help desk also has a group of specialists that answer questions through Twitter, known as @Twelpforce. If you Tweet the help desk, you will receive an almost instant response from one of Best Buy’s 3,000 employees who have signed up for the task force. Best Buy thinks that having a wide range of employees participate in the company’s Twitter messages allows Best Buy to showcase its spectrum of expertise. Even the CEO gets in on the conversation. For example, a customer recently Tweeted Brian
Dunn (CEO), about poor customer service at a Best Buy store. Mr. Dunn replied the same day with his personal email address asking for the Tweeter to send him his contact information.

**Discussion Questions:**

**What are the advantages and disadvantages of Twitter in the new world of retailing?**

The advantages of Twitter are that: it allows retailers to establish a one-on-one relationship and communication channel with customers, retailers can instantly promote products or promotions, and retailers can instantly respond to customer comments and complaints. The disadvantages are that: some retailers have multiple people managing Twitter communication and that can be confusing for customers and customers can go to Twitter to quickly broadcast complaints and service issues with a retailer.

**What are retailers Tweeting?**

Retailers Tweet a variety of things including promotional information, product information, special employee recognitions, updates in policies, etc. Ask students if they are on Twitter and if they follow any retailers. Ask students which retailers provide the best information and what they like to see on Twitter.
The Purchasing Power of Om

Tom Ryan, Retail Wire, November 7, 2011

Use with Chapter 5, “Customer Buying Behavior” and Chapter 17, “Store Layout, Design, and Visual Merchandising”

Recent studies published in INC Magazine, Journal of Marketing Research, and The Wall Street Journal, indicate that relaxation inspires abstract thinking in customers; customers focus more on the general benefits of a product rather than the specific features. In turn, relaxed customers often view products more favorably and being worth more than we they are non-relaxed.

Many retailers are now clamoring to develop more relaxing atmospheres to encourage customers to spend more and think more favorably about their shopping experience. Here are some examples:

- Tommy Bahama is now greeting shoppers with complementary mimosas and snacks when they enter the store.
- Many department stores are adding in-store cafes and creating smaller, more intimate, lounge-like settings.
- Malls are adding nicer seating areas with couches and Wi-Fi hotspots for customers to take a shopping break.
- Nordstrom hosts more evening shopping parties for its best shoppers.
- Weatherproof, in its Manhattan flagship store offers free espresso (and sometimes cocktails) to its customers. This store also has a no-smartphones policy so customers can engage more in the shopping experience. Weatherproof’s store is built to look more like a hip Manhattan apartment to drive customers to converse with each other.

Discussion Questions:

Why are retailers creating a more relaxed buying environment?

Retailers are creating a more relaxed buying environment because several studies have shown that a relaxed environment leads to more positive product attributions and more positive perceptions of the shopping experience.

What are retailers doing to make their customers more relaxed?

Retailers are doing a variety of things to make their customers more relaxed. Some retailers are offering more lounge areas where customers can take a break from shopping, while others are offering complementary beverages and snacks.

At what stage of the consumer decision making process is creating a relaxed buying environment important?

Creating a relaxed buying environment is important in both the evaluation of alternatives stage of the buying process, as well as the purchasing stage of the buying process. When customers are more relaxed, they will evaluate a product, service, or retailer more favorably. In addition, when customers are more relaxed, they may be more inclined to make a purchase.

Back
Retailers Woo the “Mission Shoppers”

Matt Townsend, Bloomberg Business Week, November 10, 2011

Use with Chapter 4, “Customer Buying Behavior” and Chapter 18, “Customer Service”

Today’s consumer is going to the mall less often. First, consumers research products on the Internet. Then they go to stores armed with this information in search of the exact product that they are looking for. Customers no longer stick around stores and browse. These savvy customers are called “mission shoppers” because their shopping trips are focused and defined; they are on a mission. These customers visit fewer stores per trip; it was five before the recession and now it is down to three. This means that retailers have to make the most out of every customer who comes into the store.

Over the past three years, retailers have focused on improving e-commerce and mobile applications, but have neglected the store, often cutting staff to a bare minimum. Now, retailers are trying to figure how to better manage the in-store customer experience.

Gap’s Old Navy brand is adding more greeters to its stores. In addition, it has remodeled 1,000 of its locations to have a racetrack format that encourages customers to circumnavigate the store and view more merchandise. Old Navy also added more items at the checkout, including Mad Libs and Superhero lunchboxes, to promote impulse purchases. Lowe’s is giving its floorwalkers iPhones that they can use to check inventory for customers. Foot Locker is retraining its employees on how to engage customers in a conversation about shoes.

Other stores like Body Central, a Jacksonville based apparel chain, groups its clothes into categories like “club wear” and “casual wear” to make shopping easier for the customer. Pacific Sunwear gives its salespeople iPads so that they can create virtual outfits for customers. Brookstone added Wi-Fi and iPads to its stores to demonstrate how many of its products can be operated with a mobile app.

Discussion Questions:

Why are customers spending less time in stores?

Customers are researching product information on line and deciding which products to buy before they go to a store. So, they are shopping less at stores and spending more time shopping online.

What are retailers doing to stem the tide?

Retailers are trying to invest more in the in-store experience for customers by making it more enjoyable and easier to shop.

Back
Grocery delivery services draw new interest by online shoppers

Kavita Kumar, St. Louis Post Dispatch, November 6, 2011

Use with Chapter 2, “Types of Retailers” and Chapter 3, “Multichannel Retailing”

Grocery delivery services, once considered logistical nightmares, are making a slow comeback. Younger shoppers, accustomed to buying most of their purchases online, view the Web as their primary method of shopping, even for groceries. Walmart, for example, is testing a delivery service in northern California, called Walmart to Go. AmazonFresh, a unit of Amazon, for the past few years has delivered produce in the Seattle area.

Many grocers are struggling with whether or not to compete in this area, and if it logistically possible to be successful. Most grocers feel that customers want the opportunity to preview their produce and meats in the store, but don’t want to alienate the core group of customers that would prefer to shop online.

With grocery items already at low margins, many grocers are concerned with adding fuel costs. In addition, some grocers are only able to offer a 4 hour window for grocery delivery, which eliminates the convenience factor for many customers. Furthermore, in most communities, customers only have to travel ten minutes or so to get to a grocery store.

For right now, grocery delivery services might only appeal to people younger customers on the go, or consumers who are homebound. But other grocers are viewing online grocery delivery services as an opportunity for growth and expansion in the next decade.

Discussion Questions:

Do you think that online grocery services will grow?

Ask students if they think that online grocery services are viable for many current grocery stores? What do grocery stores need to do to adapt if they choose to offer this option?

Do you use online delivery services? Why or why not?

Ask students to discuss whether or not they use online grocery delivery services. If so, ask students why this method preferable to shopping in the grocery store.

Back
The Future of Retail? Look to Its Past

Peter Merholz, December 12, 2011, HBR Blog

Use with Chapter 18, “Customer Service”

Retailers need to find a way to reconnect with customers. Between 1994 and 2011, the number of farmer’s markets in the United States grew from less than 2,000 to over 7,000. In the past five years, the food truck movement has become a national phenomenon. These new “pop-up” vendor experiences are indicative of a growing trend in shopping. Customers want a low-key, face-to-face interaction with sellers. Customers want to get to know the vendor and want retail experiences that have more of a human factor.

It’s not just pop-up stores that are bridging the gap between the buyer and the seller; customer service savvy retailers are also making the checkout experience more personal for customers as well. Retailers like Apple, have removed the barrier between the retailer and the buyer at the checkout; now checkouts can occur remotely from anywhere in the store, eliminating the distance between buyer and seller. Other technologies like Square, enable any iPhone or iPad to accept credit card payments. This mobile technology for transactions is especially beneficial for the farmer’s market and food truck vendors.

Self-service technologies, once the “future” of retailing, are now declining with many grocers removing them. The technologies that are most successful don’t replace people or make them more efficient. Today’s technologies encourage the conversational interaction between people at the checkout, appealing, once again to our desire for the human connection.

Discussion Questions:

How is technology being used to strengthen the customer experience?

Technology is improving the customer experience in two ways. First, technology is making the checkout process more interactive between the retailer and the consumer. Secondly, technology is allowing pop-up vendors like farmer’s markets and food trucks to take credit card payments from remote locations.

Do you expect this trend to continue?

Ask students if they think this trend will continue. It is interesting that self-service technologies are declining. Technology will probably continue to be used to improve the retail experience, but will focus more on enhancing the shopping experience than always improving efficiency.
Too Many Unhappy Returns

Tom Ryan, December 16, 2011, Retail Wire

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

The 2011 holiday seasons showed more buyers’ remorse and more returns than ever before. Liquidation.com, an online retailer that buys returned merchandise from traditional retailers, said that return rates were 12-15% during the holiday season; this was 2 percentage points higher than the previous year. According to the NRF’s Return Fraud Survey, 9.94% of holiday items are expected to be returned this year on average for the entire season. This is up from 9.8% in 2010 and 8.7% in 2007.

For retailers, returns are a costly business. Costs to the retailer include: receiving, assessing, repairing, re-packaging, restocking, and reselling returned products. For those products that are returned after the holiday season, many retailers have to markdown products, thus incurring additional costs.

Experts say that returns are high because customers are “bingeing” on big discounts in the excitement of the retail deals. But, when they get home, and assess the budgets or the bills start to come in, buyer’s remorse sets in. Also, retailers may be doing themselves a disservice by offering friendlier and more lenient return policies.

Consulting firm, Accenture, suggests that retailers make sure that customers are happy with purchases before leaving the store, as a way to reduce returns. Only 5% of returns are related to product defects, whereas 27% of returns are related to buyer’s remorse. Retailers should try to reduce the possibility of buyer’s remorse before the consumer leaves the store.

Discussion Questions:

Why do customers return merchandise?

Customers return merchandise because they experience buyer’s remorse. Many customers get caught up with the excitement of a sale or an event, and then get home and reconsider if they really “need” that purchase.

Why is returned merchandise a problem for retailers?

Returned merchandise is very costly for retailers. There are costs associated with receiving, assessing, repairing, re-packaging, restocking, and reselling returned merchandise.

What can retailers do to reduce the amount of returned merchandise?

Retailers should reduce dissonance before the customer leaves the store. Retailers should make sure that the customer is truly happy with the product, before letting them walk out with it.
The Retailers You Want to Work For

_Damian Ghigliotty, November 23, 2011, Wall Street Journal_

Use with Chapter 1, “The World of Retailing”

Glassdoor.com produces an annual retail report card. This site collects salary and company data, as well as information from anonymous workers and employee ratings. According to Glassdoor.com, the biggest factors in the scores on the retail report card include senior leadership, career opportunities, and quality of training.

According to Glassdoor.com’s 2011 ranking, the top retailer to work for is Recreational Equipment, Inc. This Washington state based retailer sells sporting and outdoor equipment. REI’s focus on work-life balance, extensive benefits package, and high employee engagement helped the retailer earn an average score of 4 out of 5.

Other top retailers to work for include:

- J.Crew, a New York City-based apparel chain, with a score of 3.9
- Wayfair, a Boston-based home furnishings chain, with a score of 3.8.
- Costco, an Issaquah, Washington-based membership warehouse chain, with a score of 3.8.

Other retailers in the top ten, include: Lakeshore Learning Materials, Sleepy’s, Nordstrom, Williams-Sonoma, IKEA, and The Buckle.

Retailers that scored lowest on the survey include:

- Hastings Entertainment, an Amarillo, Texas-based used books, video games, music and movies chain, with a score of 1.8.
- Century 21, a New York-based department store chain, with a score of 2.
- Jos.A. Bank Clothiers, a Maryland-based men’s apparel chain, with a score of 2.

Companies that did not score well on the survey blame the tough economy, a lack of financial resources, and problems with recruiting.

**Discussion Question:**

What characteristics do you think make a retailer a great company to work for?

Ask students what characteristics a retailer should have to become a great company to work for. What traits are most important? Benefits, flexibility, upper management, promotion potential, etc?

Back
The Coffee Wars Get Recaffeinated

Kay Hymowoitz, CMO Blog, October 26, 2011

Use with Chapter 5, “Retail Market Strategy”

In the past couple of years, Starbucks may have primarily focused its competitive woes on the increased expansion of Dunkin’ Donuts. However, the past year has seen many new competitors forging their own paths in the coffee category.

American’s coffee palate has changed; we are pursuing new coffee delights like Kenyan Peaberry, Serra Negra, and Grand Cru. Artisan coffee shops around the country are offering thicker, chewier, and more robust lattes. These shops snub Starbucks for not being able to provide the same quality coffee.

This year’s United States Barista Champion is not a Starbucks employee; Pete Licata works for Honolulu Coffee, Co. out of Hawaii. The owner of Honolulu Coffee, Co. claims that his store is better equipped to offer a boutique coffee experience compared to a coffee behemoth with 13,000 doors. While many customers are still content to go to Starbucks, a growing number of customers are becoming champions of the taste experience over the convenience. Companies like Honolulu Coffee Co. and Blue Bottle Coffee hope that customers understand that their processes for drink preparation are more involved and complicated, but provide a purer coffee experience.

Starbucks is also facing stiff competition from Nestle’s Nespresso sold in ornately designed boutiques for as much as $400. Nespresso is positioned as the “ultimate coffee experience.” This experience extends to the consumer home, upscale restaurants, hotels, luxury outlets, offices, and Nespresso boutiques.

With Starbucks facing competition from multiple angles, it will have to continue to innovate to provide the experience customers want. Customers are turning towards flavor and away from convenience.

Discussion Questions:

What is the latest competitive bump for Starbucks?

Starbucks faces competition on several fronts. First, Dunkin’ Donuts is challenging Starbucks by offering more convenient locations. Secondly, more boutique coffee shops that focus on the flavor and purity of the coffee experience are attracting consumers who consider themselves coffee connoisseurs.

Do you believe these upscale upstarts will put a dent in Starbucks’ quest for world coffee domination?

Ask students if they think that Starbucks should feel threatened by these upscale boutique coffee shops. Do they think that these smaller operations will slowly erode Starbucks’ market share?

Back
Atmospherics, also known as the study of physical retail spaces, are becoming increasingly important to retailers as they try to perfect their customers’ “retail experiences.”

The way a retail store smells really matters to customers. Ambient scent creates a favorable perception of a retail environment for customers and is also directly linked to perceptions of product and retailer quality. Ambient odors impact consumers’ emotion, cognition, and spending. Scents, when perceived favorably, can also lead to more time spent in the store and higher sales for the retailer. In addition, savory or sweet smells might also make shoppers hungrier.

Music is also a powerful marketing tool. The music choices of a retailer reflect the retailer’s brand image. The volume and tempo of the music also impacts the consumer experience. The slower the tempo, the slower people walk through the store, and the more merchandise they put in their baskets. A retailer’s music selection should also coincide with the other senses. For example, a store that plays Christmas music but smells like summer gardens could create cognitive dissonance for the customer.

The physical “touch” part of the store matters as well. Customers don’t want to be confined to spaces where they have to push against other shoppers. Personal space is very important to customers. Customers do, however, want to be able to touch products. When customers can physically touch the products in the store, they are more likely to rate those products favorably.

Color influences the customer’s sight sense. Certain colors inspire certain emotions in consumers. Reds and oranges make customers feel more excited, while greens and blues are calming. Color experts have yet to define the color palate that actually makes customers buy though.

**Discussion Question:**

**How can retail atmospherics influence purchase decisions?**

Retail atmospherics like smells, sounds, colors, and being able to touch the product can create a more favorable experience for customers, encouraging them to spend more time in a store, shop more, spend more, and have an overall favorable impression of the shopping experience. Disconnects in atmospherics, however, can cause cognitive dissonance or cause the customer to feel negatively about the shopping experience.

*Back*
Customers often associate the produce section of the grocery store with “freshness;” the quality of a store’s produce section can impact the customer’s overall perception of a grocer. Many packaged food companies, like Kraft, are trying to encourage grocery stores to place their products near the produce section to capitalize on the “healthy” and “fresh” image. Grocery stores are finding that consumers consider foods placed near the produce section as fresher, even the packaged foods; this phenomenon is called the “halo effect.”

Many grocers are pushing back though, wanting to keep their packaged goods out of the produce section to keep the perception of freshness that distinguishes grocery stores from warehouse clubs and convenience stores. For 92% of shoppers, the produce section is the #1 factor in choosing a grocery store (according to a survey done by Supervalue, Inc).

Kraft wants to shake up the shopping experience by moving the dairy case to the front of stores, near the produce, meat and seafood. At the front of the store, it’s easy to encourage impulse purchases. At the back of the store, customers have already been shopping for a while and it’s harder to encourage impulse purchases.

While overcoming retailer concerns is a major hurdle for packaged goods manufacturers, some grocers are making their own changes. Winn-Dixie Stores Inc. is opening stores with a new layout that highlights the fresh produce, meats, and prepared foods. The new stores devote an average of 30% more floor space to fresh produce versus previous layouts. Winn-Dixie feels that these are important factors in influencing customer loyalty. Kroger Co. is also moving fresh produce to the entrance, using shorter shelving, and taking down signs that block consumers’ lines of sight.

Discussion Questions:

Why is the front of the store such a desirable location?

The front of the store sets the tone for the customer’s shopping experience. Many retailers place produce at the front of the store to convey freshness, health, and quality to the customer.

Should grocery retailers allow non-produce items to be mingled with produce at the front of the store? Why or why not?

Ask students why or why not non-produce items should be mingled with produce at the front of the store. Some advantages are that retailers can sell higher margin items and drive impulse purchases. Some disadvantages might include confusion for the customer or customers may perceive a lack of freshness and quality.
Amazon ‘Primes’ Pump for Loyalty

Stu Woo, Wall Street Journal, November 14, 2011

Use with Chapter 11, ”Customer Relationship Management”

Amazon is investing heavily in its Amazon Prime customer loyalty program. Prime is so important to Amazon that Amazon is willing to lose significant amounts of money to develop the program. When Prime was first introduced, Amazon charged $79.00 for the service that only included quick shipping. However, Amazon has added many new features to Prime, but kept the cost the same. Prime is one of Amazon’s biggest investments as it transitions to an Internet megamall.

One of Amazon’s top-selling products is the Kindle Fire. Amazon is offering a book-lending service for Prime customers who also own the Kindle Fire. However, some publishers require Amazon to pay for the digital copy every time a customer borrows a book. For example, the “Hunger Games” books have a wholesale price of about $8.00. Amazon will buy those titles for Prime customers to borrow. Some analysts estimate that several million Prime customers own a Kindle Fire, meaning that the lending service could potentially cost Amazon tens of millions of dollars annually. Amazon also recently added a digital voice service for Prime customers. It cost Amazon $350 million to strike deals with studios to offer this extensive video catalog.

Analysts believe that Amazon spends about $90 annually on Prime customers, losing about $11 per customer. Such spending has put a damper on Amazon’s profit as operating expenses rose to 48% last year. Still, some analysts believe that Amazon can offset those losses by getting fees from other merchants who sell through Amazon’s website. Furthermore, Amazon stands behind its investment with Prime customers because of the loyalty the program creates to the company.

Discussion Questions:

How is Amazon enhancing the attractiveness of Amazon Prime?

For a fee of $79.00, Amazon Prime customers receive quick shipping, book lending on Kindle Fire, and free access to a large library of movies and television shows.

What are the advantages and disadvantages of investing in Amazon Prime?

Amazon believes that the investment in Amazon Prime customers will pay off because of the long-term customer loyalty that will be developed. However, the primary disadvantage is the cost to Amazon. Amazon is losing $11.00 per Amazon Prime customer. With diminishing margins, it is going to be difficult to regain that income.