Dear Instructor:

We are happy to announce the publication of the ninth edition of Retailing Management. To order your review copy of the new edition, please reach out to your McGraw-Hill Education sales representative. (Visit www.mhhe.com to use the “Find My Sales Rep” link if you do not have their contact information.)

Our primary objective in the ninth edition of Retailing Management is to inform students about the exciting new developments in the retail industry. Retailing has evolved into a high tech, global, growth industry. Retailers like Walmart, Home Depot, Amazon, Starbucks, and Kroger are some of the most admired and sophisticated businesses in the world. The developments in the industry are providing challenging and rewarding opportunities for students interested in retailing careers and companies supporting the retail industry such as IBM, Procter & Gamble, and Google.

We are pleased to announce the addition of Professor Dhruv Grewal, The Toyota Chair of Commerce and Electronic Business, and Professor of Marketing at Babson College to the Retailing Management author team. Dhruv brings years of academic experience to the project, as evidenced by dozens of retailing-related articles that he has co-authored. He also co-edited the Journal of Retailing from 2001 to 2007 with Michael Levy, a close colleague and collaborator for over 20 years.

In preparing this edition, we focused on five important developments: (1) the use of big data and analytical methods for decision making, (2) the application of social media and smart phones for communicating with customers and enhancing their shopping experience, (3) the issues involved in utilizing a mobile channel and providing a seamless multichannel experience for customers, (4) the engagement in corporate social responsibility activities - the consideration of society when making business decisions, and (5) the impact of globalization on the retail industry.

New digital components are available with this new edition in Connect Marketing, called LearnSmart and SmartBook. These new innovative study tools will help students get more out of your course by focusing on the content in each chapter that you assign. If you haven’t had a chance to view these new adaptive study tools, please ask your sales representative for a demonstration.
This newsletter provides teaching tips and summarizes article abstracts for case discussions for the following topics:

- **Retailers Find a Balance With Ship-From-Store Option**
  Will Same-Day Delivery Save the Mall?
- **Designer Labels Give Flagships a Face Lift as Growth From New Stores Slows** (Chapters 5 & 17)
- **With Tastes Growing Healthier, McDonald’s Aims to Adapt Its Menu** (Chapters 5 & 12)
- **For stores, Many Returns Aren’t So Happy** (Chapter 16)
- **Street’s Sunny Side Costs Retailers More in Rent** (Chapter 8)
- **Staples, RadioShack Yank Amazon Lockers From Stores** (Chapter 5)
- **Fashion Industry Meets Big Data** (Chapter 13)

**Retail Tidbits**

- Macy’s CEO Store Visits Gain Urgency Amid Shares Slump
- Why Does Target Love Showrooming?
- Gen Y shoppers, raised on e-commerce, still prefer in-store experience

**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/centers/retailcenter/teach/

Please consider sharing your materials with other instructors through this website by sending your course syllabi, classroom exercises, projects, teaching types, etc. to bart.weltz@warrington.ufl.edu or mlevy@babson.edu
Retailers Find a Balance With Ship-From-Store Option
Alistair Barr, USA Today, September 30, 2013

And

Will Same-Day Delivery Save the Mall?
Tom Ryan, Retail Wire, September 3, 2013

Retailers are taking drastic measures to compete with Amazon. One strategic initiative, known as Ship from Store, turns store locations into mini distribution centers. Historically, online or catalog orders would be filled through warehouses or distribution centers hundreds of miles from a consumer’s home. Now, companies like Walmart, Best Buy, Gap and Macys are routing orders through stores nearer to the ordering customer’s home. When a store receives an order, a store employee picks up the product, boxes it, and ships out via a third party logistics provider like UPS or FedEx, who then deliver the package to the customer’s home nearby. Ship from Store creates shorter delivery routes, thus yielding faster delivery speeds.

Amazon has become a behemoth in the retail marketplace because it has no stores with overhead costs, high market share, huge selection, and lower prices than many competitors. Analysts suggest that Amazon has beaten retailers on price and selection; but savvy retailers are working hard not to be beat on location. Walmart started implementing Ship from Store over two years ago and has enjoyed tremendous success in the first 35 locations. It plans to grow Ship from Store to hundreds of stores over the next few years. Currently 10% of online purchases from Walmart.com are shipped from stores, and those packages are delivered within two days. In addition, the shipping costs on those products are lower because the delivery routes are shorter.

Best Buy, recently labeled a Big Box Zombie by Bloomberg Businessweek, is hinging part of its turnaround strategy on Ship from Store. Best Buy gets over 1 billion visits a year, yet in 2-4% of those visits, customers cannot buy products online because they are out of stock. However, more often than not, those requested products are available in stores. According to Best Buy executives, shipping online orders from stores could generate over $168 million in profit in the next year.

The Gap considers its network of stores, including Gap, Banana Republic, and Old Navy to be distribution centers and says that its 2,600 distribution centers (stores) will be more nimble than Amazon’s 100 fulfillment centers. Nordstrom has been incorporating Ship from Stores since 2009 and credits the initiative with its ability to offer new fashions quicker while also maintaining higher margins.

Another benefit of Ship from Stores involves reduced markdowns. When a store has an abundance of unsold products, online orders can be transferred to those stores to reduce the inventory.

Same day delivery is also being offered through mall operators in an effort to compete with Amazon. General Growth Properties is the second largest mall operator in the United States. In order to create an omni-channel experience for customers, it will begin offering same-day delivery of both online and in-store purchases from four of its properties in San Francisco, San Jose, Los Angeles, and Chicago. Customers can purchase online from participating retailers and have the purchases delivered the same day. In addition, shoppers at the mall can purchase items from the store and then have them shipped to their homes the same day. This effort is to attract customers who take public transportation and don’t want to haul their bags home.
Amazon continues to grow though, offering free two-day delivery for Prime members and testing same-day delivery with Amazon Fresh.

**Discussion Question:**

For years, retailers have built distribution centers to fulfill catalog and online orders. Now some are starting to fill orders from stores. What are the relative advantages and disadvantages of each approach?

Some of the advantages of fulfilling orders through stores include: shorter delivery times, lower delivery charges to customers, and the ability of retailers to compete with retail giant, Amazon. A major disadvantage is that this practice takes merchandise off the sales floor that an in-store customer might want. Another disadvantage is that Ship from Stores requires in-store sales associates to leave their sales duties to fulfill orders. This might create resentment from customers and even from the sales associates. Finally, compared to distribution or fulfillment centers, filling orders from stores is inefficient, and therefore relatively more expensive.
Designer Labels Give Flagships a Face Lift as Growth From New Stores Slows


Many luxury brands are refurbishing their flagship stores to generate new excitement and give customers a reason to visit them again. Brands like Ferragamo, Louis Vuitton, and Moncler are refurbishing their existing retail space to generate fanfare and reinvigorate interest in the brands. Other stores like Pucci and Fendi are relocating stores to more prestigious addresses. Many of these brands are re-opening their new stores during Fashion Week to capitalize on the huge industry presence in Paris.

Re-tailoring existing stores is a new trend in the luxury market. For years, high-end brands like Gucci, Vuitton, and Hermes, could do no wrong and couldn’t open enough stores to satisfy demand. Dozens of stores were added in China as well as older markets in Europe. But now, these brands cover the globe, and have even reached customers as far-flung as Mongolia. However, analysts suggest that most of the luxury brands’ growth came from space and price increases rather than volume sales increases. Analysts also worry that the luxury sector can’t grow without an aggressive “shot in the arm.”

Companies like Ferragamo have said that its plans for growth involve increasing the size of stores rather than the number of stores. Ferragamo’s boutique in Milan is on one of the most prestigious shopping streets. The company took advantage of the slow shopping season this summer to renovate the store. LVMH (Moet Hennessy Louis Vuitton) has also said that it will limit the number of store openings, although it did recently open a new Vuitton store in Barcelona. Vuitton has the biggest chain of owned retail stores with nearly 500 stores. Still, not all brands are stagnant in store openings. Prada is still opening new locations at a breakneck pace, including a new boutique in Milan in the same shopping complex as an existing store.

Discussion Questions:

What is happening to same store sales for some luxury goods retailers?

Same store sales for some luxury goods retailers is either plateauing or declining. These stores were showing growth due to price increases and the addition of new stores, rather than an increase in the volume of sales.

How have they been growing sales for the past few years?

For the past few years, in order to drive sales, luxury brands have been adding new stores or increasing the prices on existing products.

What new strategy are they implementing to positively impact same store sales?

To increase same-store sales, luxury brand retailers are refurbishing or expanding their existing stores to make them more exciting and encourage customers to revisit them.

Using the growth strategies outlined in Chapter 5, which strategy are they using?

This strategy is an example of a market penetration growth opportunity directed towards existing customers using the retailer’s existing format.
With Tastes Growing Healthier, McDonald’s Aims to Adapt Its Menu

Stephanie Strom, New York Times, September 26, 2013

Use with Chapter 5, “Retail Market Strategy,” and Chapter 12, “Managing the Merchandise Planning Process”

McDonald’s, like most fast-food restaurants, is under pressure to provide healthier meals. McDonald’s recently announced that it would no longer market its less nutritional products to children, and would also offer fruits and vegetables in many of its adult menu combinations. McDonald’s plans to make these changes in its top 20 markets; these markets account for 85% of its overall sales. However, it will take three to seven years to implement these changes depending on the market. These changes are part of McDonald’s strategy to reach health-conscious customers by offering more than just burgers and fries. McDonald’s was one of the first restaurants to add calorie contents to menu boards before it was a federal requirement.

Many customers in the millennial generation have yet to become loyal McDonald’s customers, favoring Panera and Chipotle instead. Although McDonald’s added healthier options like salads, fruit, and raw vegetables to reach the Millennials and other health-conscious consumers, its sales have been flat across much of the business.

McDonald’s will use all of the tools in its marketing arsenal to roll out these new initiatives. McDonald’s has partnered with the Clinton Global Initiative on this project. According to executives at the Alliance for a Healthier Generation, an organization set up by Clinton Foundation, McDonald’s can be a game-changer for shifting young people’s beliefs about health. Mr. Clinton suggested that if other companies would follow McDonald’s lead, it could really make an impact on obesity efforts around the globe.

This new initiative will cost McDonald’s $35 million; however, the company believes it’s worth it to appeal to contemporary tastes and address health concerns about its current menu. The new menu is also aimed at competing with Subway restaurant. Burger King, another competitor of McDonald’s, recently unveiled reduced fat fries and a turkey burger to its menu.

In order to implement the new menu changes, McDonald’s will work closely with its suppliers to ensure that it can obtain enough produce to make the items on its menu. McDonald’s aims to promote fruit and vegetables in “fun” ways, especially on its Happy Meals. These messages will also include information about nutrition and well-being.

Discussion Questions:

How is McDonald’s changing its menu?

McDonald’s is changing its menu to offer healthier options like fruits and vegetables to customers, including offerings for children. McDonald’s is trying to develop “fun” ways to promote healthier options.

Why is it making these changes?

McDonald’s is making these changes in response to changes in contemporary tastes. Furthermore, Millennials are not connecting with McDonald’s and preferring Panera and Chipotle. In order to reach this audience, McDonald’s believes it has to update its current menu.

Do you eat at McDonald’s? How might these changes affect your patronage behavior?

Ask students to discuss their feelings about McDonald’s. Will the students that eat there currently continue to eat at McDonald’s after the new menu is introduced? Will the new menu encourage students who don’t eat there to give it a try?
Retailers love selling beautiful dresses and garments that cost hundreds of dollars. What is not so fun is dealing with the return of that product, especially when the product has clearly been worn. Some retailers ignore obvious signs of wear and accept the product anyway, adhering to the “customer is always right” rule. But wardrobing, the process of buying clothes and returning them after one or two uses, has increased dramatically in the past few years and is costing retailers $8.8 billion-a-year in return fraud.

In the beginning of the year, Bloomingdale’s implemented a clever strategy to combat wardrobing. It places 3-inch black plastic tags in highly visible places on a dress costing more than $150. The customer can try the clothes on at home without disturbing the plastic tag. However, if a customer wears the dress out, she will want to tear off the black tag, and that makes the dress non-returnable.

Electronics retailers are trying to crackdown on customers who purchase products for short-term use; electronics retailers experience a surge of return fraud after the Superbowl. Victoria’s Secret stores are compiling lists of customers who are serial returners. And REI just announced that it was ending its lifetime return policy as many customers took advantage of the leniency.

Implementing a stricter return policy may save retailers money, yet it might alienate honest customers who don’t like change. However, according to the National Retail Federation, 65% of retailers experience wardrobing and merchants believe that 3.3% of total returns in 2012 were fraudulent.

**Discussion Questions:**

**What is wardrobing?**

*Wardrobing is the process of buying clothes and returning them after one or two uses.*

**What are retailers doing about it?**

Retailers are implementing new techniques and stricter returns policies to combat return fraud, including wardrobing. Bloomingdale’s is tagging its dresses in such a way that a customer won’t want to wear the dress without removing the tag.

**If you were running a retail operation, what would you do about wardrobing?**

Students will not likely admit if they engage in this practice. Yet ask students what they think about wardrobing. Do they think that restricting the returns policy will alienate honest customers?

**BACK**
Street’s Sunny Side Costs Retailers More in Rent


Use with Chapter 8, “Retail Site Location”

New York is home to some of the priciest addresses and this is true even in retail. Along the famed Fifth Avenue, especially on the sunnier side of the street, retail space is the second most expense in the world, beating out the Champs-Elysees in Paris and New Bond Street in London. According to the Real Estate Board of New York, $116 is the average retail price per square foot in Manhattan.

Sun is a critical factor in the price of retail real estate as shoppers tend to spend more time on the sunnier side of the street. Transportation and pedestrian traffic are also other critical factors. Retailers are also paying to be a part of an “in crowd” and set up shop close to their competitors or other highly regarded retailers. uniqlo, for example, opened a 90,000 square foot store neighboring Zara and Hollister.

Now that the recession is over, retail rents are continuing to rise, especially in some of Manhattan’s “liveliest” retail districts.

Fifth Avenue- On the east side of 5th Avenue, between 49th and 59th streets, retail prices can be upwards of $3,500 a square foot. This stretch of retail includes Saks Fifth Avenue, St. Patrick’s Cathedral, Cartier, DeBeers, Tiffany, F.A.O. Schwarz and Apple. The west side of the street, while not as sunny, can still command over $3,000 per square foot. uniqlo, Abercrombie & Fitch, H&M have all opened flagship stores on the west side of 5th Avenue.

Madison Avenue- Although Madison Avenue has a haute-couture mentality, its rents are far lower than 5th Avenue ranging from $1,300 on the west side and $1,400 on the east side. People know to go to Madison Avenue for luxury though. Chanel, Jimmy Choo, Hermes, Prada, and Ralph Lauren are just a few of the retailers on Madison Avenue. 34th Street-This is the hub for mass-market traffic due to the tourist destinations surrounding it, including Penn Station, Madison Square Garden, and the Empire State Building. H&M is opening its biggest store, at 63,000 square feet, on the corner of 34th and Broadway. This space will rent for $1,200 a square foot. Just last year, this space would have rented for $558 per square foot.

57th Street- Between 5th Avenue and Park Avenue, the north side of 57th commands rents of $2,000 per square foot. The south side may only get half of that, but mostly because there are fewer stores. The north side, however, offers retail brands like Louis Vuitton, Chanel, Dior, Saint Laurent, and Berdorfs’. Further along the western section of 57th avenue, Nordstrom will open a 285,000 square foot store in 2018 and a string of luxury hotels will open up on this section as well.

Bleecker Street- Bleecker Street offers a unique selection of boutiques. Rents on Bleecker used to go for $75 a square foot, but are now worth over $600 per square foot. Shoppers like the European feel and smaller scale of shopping on Bleecker Street.

The Meatpacking District- The Meatpacking District was a very popular neighborhood and destination for night life activity. High-end designers like Alexander McQueen and Stella McCartney tried to locate there, but moved out after the intrigue of the district diminished. Now, stores like Ugg and Patagonia are there. These are great brands, but not different from what you would find in most malls. Rents in this district still command over $300 per square foot.
Discussion Question:

What factors make retail locations more expensive than others?

Some factors that make retail locations more expensive than others include, the neighborhood, pedestrian traffic, and surrounding stores. An interesting factor that increases price is where the sun shines. Retail prices, especially in New York City, tend to be higher on the sunnier side of the street.
Staples, RadioShack Yank Amazon Lockers From Stores

Matt Townsend and Chris Burritt, Bloomberg Business, September 18, 2013

Use with Chapter 5, “Retail Market Strategy”

Last year Staples launched a partnership with Amazon where Amazon placed lockers in selected Staples locations. This feature appealed to customers who were concerned about delivered packages being stolen. Staples initially began this partnership with the hope that when customers came to retrieve their merchandise from their locker that they would stick around and shop at Staples. However, Amazon is quickly becoming a major competitor for Staples and Staples did not achieve the sales it expected from the partnership. Staples has now decided to no longer offer the Amazon lockers through its stores.

RadioShack also had a similar partnership with Amazon, but recently announced that the program didn’t fit with RadioShack’s strategy. RadioShack announced that it would remove the Amazon lockers from its stores in order to make room for improved displays of top selling brand items like Apple and Samsung. RadioShack is feeling the pinch of online retailers like Amazon undercutting it on price and selection and has incurred a net loss of more than $200 million in that period.

Discussion Questions:

Why did Staples and RadioShack yank Amazon Lockers from its stores?
Staples and RadioShack removed the Amazon Lockers because the initiative was not generating the sales or the traffic that the companies had originally anticipated. In addition, Amazon is a major competitor for both Staples and RadioShack.

Using 20-20 hindsight, was this a good idea?
Ask students to discuss whether this initiative was worth trying. Students for the initiative might argue that driving traffic into stores is always an advantage. Students against the initiative might suggest that retailers should not partner with competition and there is no guarantee that a customer using an in-store locker is going to linger in the store to shop.
Fashion Industry Meets Big Data


Use with Chapter 13, “Buying Merchandise”

Fashion is a risky business, for both the customer and the retailer. In order to minimize risks, many fashion retailers are turning towards trend forecasting and data management sources. These services can cost anywhere from $7,000 to $15,000 annually. Forecasting companies offer insights on fashion shows, data on current market offerings and trends, as well as research and consulting services.

Fashion companies use this data to plan their next collections and to capture design trends. A forecaster in the U.K., Worth Global Style Network, says that every apparel company in the Fortune 500 uses its services. Companies like Marks & Spencer have always used forecasters, but use them more frequently now because of the ease of technology. Other retailers use forecasters to confirm and validate trends.

Forecasters tout themselves as adding value because they save their clients on travel expenses, freelancers, and time spent researching fashion trends on the Internet. Kohl’s, for example, prefers using forecasters because “they take information and package it in a way that speaks the language of retailers and manufacturers.”

Retailers also use forecasters to gather information on who is selling what and what products are “flying off the shelves” or not meeting expectations. Retailers like real-time data to help them manage inventory and also determine the best time to take markdowns to make room for new items. Some databases also monitor the comments that people are making about products online. This helps retailers respond quickly to those comments by either implementing a service recovery strategy or changing the production of the product.

Fashion moves quickly and retailers are finding that the only way to stay competitive is through real-time data. After all, customers are demanding up-to-the-minute fashion updates.

Discussion Question:

**How are fashion retailers using big data?**

*Fashion retailers are using big data to forecast and confirm trends, determine what products are selling, read online reviews, and determine the timing of markdowns.*

BACK
**Retail Tidbits**

**Macy’s CEO Store Visits Gain Urgency Amid Shares Slump**

*Cotton Timberlake, Bloomberg, September 12, 2013*

Terry Lundgren understands the importance of grass root managerial tactics and localization. The Macy’s CEO spends about 40 weeks a year visiting stores, often giving managers about 10 minutes’ notice before he conducts a surprise visit. The store visits are an important part of Lundgren’s strategy to keep in touch with the marketplace and ensure that each store is doing its best in appealing to local shoppers.

Over the past few years, customers have been spending less on clothing, apparel, cosmetics, and accessories. These products account for a large portion of Macy’s sales. In a competitive environment such as this, Macy’s believes that its localization strategy, known as My Macy’s, is a competitive tool to help capture a greater share of the customer’s wallet. Lundgren believes that My Macy’s isn’t just driven by data and technology. According to Lundgren only people (sales associates) can answer what customers want, like Western style boots for Portland, Oregon customers.

Yet, the My Macy’s program isn’t always pragmatic. Some analysts suggest that this can cause problems with inventory and markdowns as localized merchandise is not easily sold through another location. Also, there is some risk in only trusting the opinions of local management. Yet, other attribute the My Macy’s strategy for the 3.7% same store sales growth in 2012.

**Why Does Target Love Showrooming?**

*George Anderson, Retail Wire, September 11, 2013*

Target, like most retailers, is working hard to combat showrooming. In 2012, Target began negotiations with suppliers to create exclusive merchandise that could not be easily searched. In the beginning of 2013, Target also announced that it would price match against competition. Target executives see showrooming as a great opportunity for retailers as they try to integrate the omnichannel shopping experience. Target is making WiFi available in stores and has also introduced the Cartwheel savings program in order to align both the online and in-store experience.

Target recently announced its plans to launch a new concept called “Baby 360.” Baby 360 is a partnership with BabyCenter to provide BabyCenter users with product reviews and recommendations to facilitate all the research that most new moms do. Included in this initiative will be “Baby Advisor” service desks to answer guests’ questions.

**Gen Y shoppers, raised on e-commerce, still prefer in-store experience**

*Lorraine Mirabella, The Baltimore Sun, September 7, 2013*

Research suggests that the demise of the shopping mall may not happen as quickly as many retailers worry. In-store shopping is still the preferred choice of shopping for many Generation Y customers. Although many of these consumers (Millenials) were raised on e-commerce, they still do most of their shopping in stores. There are currently 80 million consumers between 18 and 35 and these consumers spend about $200 billion a year across all product categories. This
is one of the largest demographics in history, and retailers are clamoring for their attention. Baby boomers are starting to downsize while Gen Y’er are just starting to form their own households.

According to a recent survey of 1,251 Gen Y consumers, almost 50% of Millennials love to shop and are multi-channel shoppers with no preference for one type of store or shopping center of another. This survey also showed that “half of Millennials go to a discount store (91%), neighborhood shopping center (74%), malls and department stores (64%), and chain apparel stores (58%). Millennials consider shopping a form of entertainment. In order to appeal to these consumers, retailers need to change their offerings and displays more frequently. Retailers also need to make the shopping experience more exciting and rewarding for Millennials. Retailers also have to provide a more seamless experience across channels. Many retailers use data to customize marketing strategies and offer more personalized services.