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LEVY WEITZ

Retailing Management 7e

Newsletter for Instructors

August 2010

• COMMENTS? CONTACT US

Dear Professor:

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

- **Best Buy Targets Women** (chapter 4)
- **Can Kroger Whip Walmart?** (chapters 5 & 15)
- **Costco's Challenge for CPG Vendors** (chapter 5)
- **Dispensing with Limitations** (chapter 2)
- **E-Books Rewrite Bookselling** (chapters 2 & 5)
- **Even if you Can't Afford It, You Respect It: J. Crew's Reputation for Quality** (chapters 5 & 16)
- **Muslim Liquor Store Owners Get Help With Moral Dilemma** (chapters 1 & 5)
- **New Promotion at Toys 'R' Us** (chapter 16)
- **Plus-Size Revelation: Big Women Have Cash, Too** (chapters 5, 12, & 14)
- **Rue21's Small Town Strategy** (chapters 7 & 8)
- **After Buying Its Bottlers, Pepsi Cozies Up to Stores** (chapter 14)
- **Walmart Shrinks Size of Stores** (chapter 7)

If you are interested in the text book please visit **www.mhhe.com/levy7e**. Simple registration is required to gain access to the newsletters and other instructor materials. If you would like to see this newsletter and the previous editions, go to:
http://www.warrington.ufl.edu/mkt/retailcenter/research/publications.asp

Teaching Tips

Short Videos Available on the Web

IPad in Action
Mercedes Benz is using the iPad to assist in the automobile selling and service process. Sales people can view information on a specific car that the customer is looking at instantly and review financing options. The iPad is also useful for checking-in a car for service without having the customer leave the car to go into a service rep's office.

- **http://feedroom.businessweek.com/index.jsp?auto_band=x&rf=sv&fr_story=beb4d04e9efbd20cf4e78d8479d5b1b2f0e31231** (2:53 minutes)

Pizza Hut
The CEO of YUM! Brands discusses ordering on the Internet. Customers that order on the Internet order a greater dollar amount of products than those that order on the phone because customers can study the offering available. 20 percent of their sales are from online orders.

- **http://feedroom.businessweek.com/index.jsp?auto_band=x&rf=sv&fr_story=781302b36c0d97705fd6d14fea83c5cfd1b36a30** (3:16 minutes)

Costco
Costco changed the packaging of certain products to improve efficiency in maximizing the capacity of its truck shipments.

- **http://feedroom.businessweek.com/index.jsp?auto_band=x&rf=sv&fr_story=5d7681157aafa9ed796cb26519a17eaa07311398** (1:38 minutes)

Ritz Carlton
The CEO of the Ritz Carlton discusses the current luxury market; which customer segments have cut back and which have not.

- **http://feedroom.businessweek.com/index.jsp?auto_band=x&rf=sv&fr_story=b9241ce0fc81b26dd8a5aac15b4427c8495872b9** (7:51 minutes)

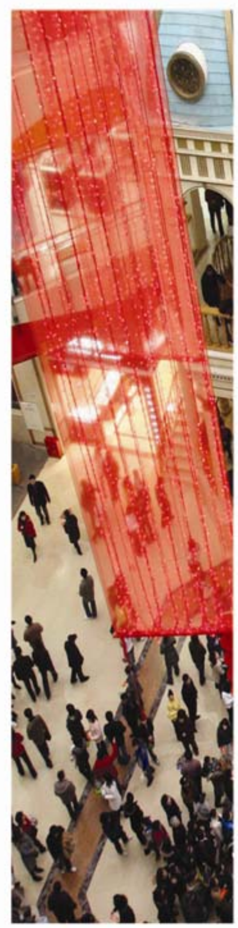
Additional Material for Teaching Retail Classes

A new website, part of the University of Florida Miller Center for Retailing Education and Research, provides materials for retail class instructors including:

- Nine syllabi from instructors
- Classroom exercises
- Team projects
- PowerPoint slides
- Copies of this newsletter and previous issues
- List of retail links, cases and videos

The website is available at
http://warrington.ufl.edu/mkt/retailcenter/teachretail/

Please consider sharing your materials with other instructors through this website by sending your course syllabi, classroom exercises, projects, teaching types, etc. to
bart.weitz@cba.ufl.edu or **mlevy@babson.edu**



Best Buy Tests New Appeals to Women

Miguel Bustillo and Mary Ellen Lloyd, Wall Street Journal, June 16, 2010

Use with Chapter 4, "Customer Buying Behavior"

Best Buy Co., the largest U.S. electronics retailer, expected a sales boost sales following its acquisition of Circuit City. Instead, sales crept from $153 million to $155 million, and stock fell six percent. Rivals Amazon.com and Walmart exert fierce competition, so Best Buy needed a new strategy to expand its weakest market: women customers.

Known originally for its sales of speakers and stereo equipment, Best Buy has always appealed to a masculine crowd. According to company statistics, only 16 percent of Best Buy customers are women and the percentage of female staff prepared to tout the value of the store's offerings from the female perspective was below a third. Yet women are a crucial market for many of the newest electronics, including smartphones and mobile devices.

In response to this gender discrepancy, Best Buy brought together groups of female customers and employees to brainstorm ways for the chain find its feminine side. Dubbed "Women's Leadership Forums," these groups met throughout the country and presented ideas that led to a new chain of mall-based gadget stores called Best Buy Mobile. The company has also redesigned the household appliance section of their big-box stores to look less industrial and more like a kitchen. Following the advice of the women's groups, Best Buy instituted a customer loyalty program that allows donation of accumulated points to local schools. The chain now hires local businesswomen to handle regional advising and even enlists the aid of teenage consultants to help improve the stores' appeal to young people. Teen ideas that implemented in the stores include placing sanitizer next to video game test consoles, and substituting iPhones, with their array of colorful cases, for Blackberries in a center display.

Recent quarterly reports show that sales of cell-phones, appliances, and laptops are up, and other surveys indicate that Best Buy's market share among women is on the rise. However it's too early to tell if women shoppers will find their way through Best Buy's doors in sufficient quantities to reverse the chain's downward sales trend.

Discussion Question:

What is Best Buy Doing to Appeal to Women?

Best Buy has created "Women's Leadership Forums," groups of female customers and employees that meet and brainstorm ways to improve the store's appeal to women. Responding to suggestions made in these groups, Best Buy has launched a new chain of mall-based stores, Best Buy Mobile. They've also redesigned the appearance of the sales floor to be more appealing to female shoppers, instituted a customer loyalty program, hired local businesswomen to serve as regional advisers, and enlisted the help of teenage consultants to expand their appeal to young people.

Can Kroger Whip Walmart?

Warren Thayer, Retail Wire,[1] *June 17, 2010*

Use with Chapter 5, "Retail Market Strategy," and Chapter 15, "Retail Pricing"

Kroger, the second largest retailer in the country, competes directly with Walmart in 1,190 markets. Remarkably, in markets where Walmart has driven other chains into the ground, Kroger has managed to hold its own. According to company officials, Kroger actually gained market share last year in 11 of the 12 districts where it faces off against Walmart. Despite Wal-Mart's enormous size advantage and "Every Day Lowest Prices," Kroger has been able to differentiate enough to stay competitive and, in many cases, has benefited from the decreased competition Walmart leaves in its wake.

Industry professionals liken the battle between Kroger and Walmart to that of David with Goliath. Walmart's monolithic size gives it considerably more sway in negotiating prices with property owners and manufacturers. But Kroger's smaller size has its advantages as well, allowing for nimble adjustments to market variations. In partnership with marketing research firm Dunnhumby, Kroger has adapted its stores to fit regional clientele, courted customer loyalties, and monitored Walmart closely to maintain competitive pricing. Kroger markets groceries more heavily and makes sure to significantly differentiate their product base, offering more upscale merchandise and products from regional producers. The company also created attractive customer loyalty incentives, including a partnership with Shell that gives loyal Kroger customers discounts at Shell station pumps. Kroger also keeps a list of 1,500 to 2,500 products which they deem to be "Very Price Sensitive", or VPR. By closely monitoring Walmart, Kroger is able to keep these goods priced within 10 to 15 cents of Walmart prices at all times.

Many industry analysts downplay Kroger's price matching as a factor in their success since Walmart will always have the lowest prices overall. However, Kroger's region-specificity, eclectic selection, and grocery emphasis strategies have been paying off. In regions where large chains such as Bi-Lo, Scotts, Buehlers, Marsh, or Ukrops have been forced into bankruptcy by Walmart, Kroger has remained, and in many cases, prospered.

Discussion Questions:

How does Kroger match up against Walmart?

Walmart is much larger which allows them to have lower prices. Kroger, on the other hand, maintains the nimbleness of limited size, which allows them to be more nimble in adapting themselves to local regions and communities.

What are the advantages and disadvantages Kroger has versus Walmart?

Kroger has enlisted the marketing research firm Dunnhumby to provide strategy for adapting to regional clientele. Kroger also offers more upscale products and goods from regional producers and aggressively courts customer loyalty. Kroger's disadvantage is that, due to the smaller size of their operation, they cannot compete with Walmart on price. Walmart's monolithic size translates into economies of scale gthat provides them with relatively lower operating costs. They can virtually guarantee the lowest prices. The most that Kroger can do is to try to remain within 10 to 15 cents of Walmart's pricing on certain key items.

[1] Through a special arrangement, from a current article from *Frozen & Dairy Buyer* magazine.

Costco's Challenge for CPG Vendors

Tom Ryan, Retail Wire, June 10, 2010

Use with Chapter 5, "Retail Marketing Strategy"

Costco represents a unique niche in the retail industry. It operates significantly differently from mass and grocery retailers, thus providing both challenges and opportunities for CPG (consumer packaged goods) companies doing business with Costco. A report from L.E.K. consulting examines these challenges, which begin with the fact that most CPG companies focus their product strategies on the major mass retailers, often treating Costco as an afterthought.

Additionally Costco is far less SKU-intensive than retailers in other channels. This difference forces CPG companies to streamline their assortments, rather than having opportunities to show the depth and breadth of their product lines. Because of the membership fees it collects, Costco is able to work on a lower margin structure than many retailers in other categories. Costco's approach constrains margins for CPG companies, which can disrupt the CPG companies' overall marketing strategy.

Another threat to CPG companies is Costco's growing private label brand, Kirkland Signature. Since its introduction in 1995, Kirkland products have grown to approximately 20 percent of total sales; the company is aiming for 37 percent. In many cases, Costco has been able to surpass the quality of CPG companies and take control of the premium pricing niches, thus forcing the CPG companies out.

Lastly, Costco promotes a regional buying strategy which requires CPG companies to work with a decentralized buying structure. This can make chain-wide efforts, such as clearance programs, difficult to manage.

According to the report, CPG companies hoping to address these issues and establish a successful relationship need to treat Costco differently from other retailers. The approach requires a unique business plan that encompasses Costco's unique margin and buying environments. One important note for CPGs is that they can also take advantage of Costco's structure to run test programs and work with the various buying teams to aid in product development. Important opportunities exist for CPG companies to work on new programs appropriate to warehouse channels and to launch them in Costco on a trial basis before jumping into mass retail.

Discussion Questions:

What makes Costco such a strong competitor?

Costco collects membership fees, which allows them to offer lower prices to their consumers than the prices at other mass retailers. They have a strong private label program that keeps more profit in-house. Lastly, their regional buying structure allows them to tailor store needs to their locale, while retaining the overall buying power of a national retailer.

What can vendors do to successfully sell to Costco?

Vendors need to understand Costco's unique structure and tailor a business plan specifically to that structure. The buying power of such a large scale operation means vendors might well need to sacrifice margin percentage in order to get the overall margin dollar benefit. The regional buying organization also offers great opportunities to test programs and to work with the retailer on product development prior to launching in other retail channels.

Dispensing with Limitations

David P. Schulz, Stores, June 2010

Use with Chapter 2, “Types of Retailers”

A new trend in retail that bears watching is the proliferation of automated retail stores, more commonly known as vending machines. The research by Global Industry Analysts in this area predicts that this industry will grow to $1.2 billion within the next five years. Automated retail stores are being placed within the confines of traditional brick-and-mortar retail stores, with an ever-widening array of products. Giant national retailers such as Macy’s, Walmart, Best Buy, and JC Penney have already reached agreements with vendors to supply automation stations within their stores.

These kiosks can serve many useful purposes for retailers. For department stores like Macy’s, they represent an opportunity to get into categories that have been challenging in the past, such as small electronics. Other companies have used automated stores to better reach their target consumers in a more direct way. For example, clothing store company Quiksilver has reached an agreement to place machines selling swimwear by the pools of the Standard Hotel locations. Makers of these machines feel that they can offer extremely high average sales per square foot.

The new vending machines wouldn’t be possible without technological advances that allow remote operation of the machines. Companies can now service machines, track sales, and gain valuable insights into consumer behavior In real time. Also, consumers have become accustomed to automated and self-service functions from long-term use at gas station pumps and ATMs. These machines allow customers to skip long lines and have privacy over their purchases, leading to greater consumer satisfaction, although they aren’t appropriate for good that consumers like to physically examine before purchase.

Discussion Questions:

What new product categories have seen success being sold in automated retails stores?

Categories that do not require the customer to touch and examine the product have had success. Examples include iPods and other small electronics, DVDs, fragrances and liquor.

What do these products have in common?

All of these products come boxed. The customer does not feel like they need to feel or examine the products closely in order to determine whether or not to purchase them. They are all relatively small so they can fit in the machines. Their size almost makes them more tempting to shoplifters, so securing them in vending machines protects them from theft.

What types of products do you believe would not be successfully sold in automated retail stores?

Apparel is the main category which might struggle in the automated store environment. Customers need to physically touch and try on clothing. The lack of ability to do so might serve as a deterrent to sales via automated kiosk.

E-Books Rewrite Bookselling

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

Use with Chapter 2, "Types of Retailers" and Chapter 5, "Retail Market Strategy"

Book superstore pioneer Barnes and Noble ruled the bookstore business for over four decades, leaving a trail of crippled or destroyed independent bookstores in its wake as it grew to 18.8 million square feet of retail space. It appeared the bookstore giant had found the magic formula for turning mysteries, cookbooks and bestsellers into a solid and lucrative business…until the digital age caught up with the printed word. Now, although electronic books only account for about five percent of the market, their threat is evident in the way Barnes and Noble and other brick-and-mortar bookstores are modifying their businesses.

Before the introduction of Nooks, Kindles, and iPads, retailers carrying physical books felt the effects of online booksellers like Amazon. The current move toward more environmentally friendly products also cast physical books in a negative light since they require paper, printing presses and ink, and delivery trucks — all of which are more harmful to the environment than a digital download. Removing the production and distribution costs of books makes purchases easier on customer wallets, drawing sales from brick-and-mortar sales. Fewer sales mean lower revenue, causing difficulties for retailers like Barnes and Noble that have extensive real estate holdings. In addition, new pricing models have drastically cut profit booksellers can expect from e-book sales, so even Barnes and Noble's Nook can't offset the profit slide.

In response, Barnes and Noble is selling a wider variety of merchandise, including games, stationery, candy, and even consumer electronics in additional to an array of digital products. The approach holds promise. While some book chains, including Borders and Waldenbooks, are closing stores and laying off employees, stores that are including more non-book items in their product mix are managing to survive. But true bibliophiles claim that bookstores will endure since they offer a place where ideas are shared. And, fortunately for Barnes and Noble, some investors agree.

Discussion Questions:

What is the primary threat to traditional bookstores?

Brick-and-mortar bookstores are threatened by online booksellers, but the greatest threat is the e-book. E-books are more environmentally friendly, lighter, and less expensive than their paper-based counterparts, making them highly attractive to consumers. Even traditional bookstores with e-readers are threatened since the profit on digital books is a fraction of that of a physical book, resulting in revenues that may be too small to support retail locations.

Do you believe that bookstores can survive this threat? How?

I think bookstores can survive the threat, although superstores will need to change their product mix so that physical books are only a small portion of their offering and gifts, electronics, and other higher-margin items occupy the majority of shelf space. Small, independent bookstores — nearly obliterated by the bookstore chains in the past 20 years — will enjoy a new popularity in communities where they actively participate in the intellectual and cultural life of the neighborhood.

Even if You Can't Afford It, You Respect It: J. Crew's Reputation for Quality"

Tina Gaudoin, "Mickey Drexler: Retail Therapist", The Wall Street Journal, June 10, 2010, and Meryl Gordon, "Mickey Drexler's Redemption, New York Magazine, May 21, 2005

Use with Chapter 5, "Retail Market Strategy," and Chapter 16, "Retail Communications Mix"

The brand has strong name recognition: Lots of shoppers have heard of J. Crew. But in the mid-2000s, many of those shoppers heard the name and thought only, "boring and preppy." When CEO Millard "Mickey" Drexler took the reins in 2003, he decided that to change J. Crew's image, he had to appeal to customers' hearts through their fingers—that is, with the feel and look of quality clothing. By providing high-quality versions of classic clothing pieces at what it considers reasonable prices, J. Crew has been able to increase its profits, lower its debt, and expand the number of stores.

For its cashmere cardigans, for example, J. Crew doesn't use just any wool supplier. It turns to the well-known brand Loro Piana to ensure the quality. And then it makes sure the name "Loro Piana" is prominent in the clothing. As the company promises on its Web site, it "partners with the finest global fabric mills and craftsmen—as well as with iconic brands such as Jack Purcell®, Timex®, Thomas Mason® and Red Wing® (to name just a few)." Customers therefore come to associate the J. Crew name with high-end suppliers. But such quality comes at a price. Customers of J. Crew pay more for the promise of higher quality.

Other mall-based retailers operate at much lower price points. No one is likely to find leather boots made by Prada at The Gap, as customers can at J. Crew. Even for seemingly similar offerings, J. Crew sets itself apart in discernible ways, such as adding hand-stitched sequins to a basic t-shirt.

Mickey Drexler also believes in allowing customers to dictate the brand image. When he received feedback indicating that women were purchasing multiple J. Crew sundresses in different colors to use as bridesmaids' gowns, he launched J. Crew bridal. The line opened its first dedicated bridal store in May 2010. When European customers complained about their inability to have J. Crew merchandise shipped overseas, he entered a partnership with an online retailer to make items available nearly worldwide.

This positioning is part of what has earned Drexler the nickname "the merchant prince." Although J. Crew holds tight to its hard-earned preppy reputation, it also has gained a position in customers' minds as a source of quality at reasonable prices. It also reveals a willingness to shift as needed to meet customers' changing and demanding expectations.

Discussion Questions:

What is J. Crew's retail mix?

J. Crew's retail mix focuses on reasonably priced classic clothing that is made using high-quality fabrics and craftsmanship. The stores are mall based and merchandise is available online throughout the United States and most of the world.

Does J. Crew have a sustainable competitive advantage? If so, what is it?

The retailer appears to have a sustainable competitive advantage since it enjoys name recognition, a loyal customer base and a customer service approach that accommodates change based on customer needs and expectations. Its partnerships with high-end suppliers support this success, as does the availability of its products through conveniently located retail locations and online. Finally J. Crew's merchandise provides a very good value since its quality-to-price ratio is high.

How has J. Crew repositioned itself in the marketplace?

Through the middle of the past decade, J. Crew clothing was considered to be preppy and uninteresting. Under the direction of Mickey Drexler, the retailer has repositioned itself to combine classic styles with quality craftsmanship and that include unique differences such as t-shirts with hand-stitched sequins.

Muslim Liquor Store Owners Get Help With Moral Dilemma

Manya A. Brachear, Hartford Courant, June 20, 2010

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

Muslims who own convenience stores face a moral dilemma. On the one hand, items such as pork skins, lottery tickets, and alcohol are the backbone of a profitable corner store business. On the other, the Quran strictly forbids gambling and the consumption of pork products or liquor. Maintaining a livelihood forces these small business owners to commit a sin.

Some store owners interpret the Quran's teachings as only prohibiting the consumption, and not the sale, of "unlawful goods". But, while most Muslims believe that profiting from the sale of lottery tickets, pork products, or alcohol is a sin, only a few have chosen not to stock these products. The situation is further complicated by the fact that these items may be contributing to obesity, alcoholism and poverty in the neighborhoods where the stores are located. Most Muslims don't judge one another Muslims for doing what they need to do to feed their families, but decisions by store owners can lead to tensions in neighborhoods. During the LA race riots in 1992, Korean liquor store owners were targeted by looters for similar reasons.

Recently Muslim organizations in the greater Chicago area have launched efforts to help convenience store owners eliminate financial dependence on "unlawful" goods. Through a series of loans and grants, groups such as The Council of Islamic Organizations of Greater Chicago and the Inner City Muslim Action Network will help local convenience store owners who want to phase out sales of pork, alcohol, and lottery tickets. As a stipulation of the grant, they must replace "unlawful" items with fresh produce and healthy foods.

Discussion Questions:

Why do some Muslim store owners have a moral dilemma?
Sales of liquor, lottery tickets, and pork products provide the monetary backbone of a profitable convenience store business. However, the Quran strictly forbids gambling and the consumption of alcohol or pork. Most Muslims view sales of these items as a sin. Store owners are therefore faced with an ethical dilemma between doing what they believe to be right and doing what they need to do to stay in business and provide for their families.

What other ethical dilemmas do other retail owners and their associates face?
An ethical dilemma would arise in any situation where a person profits from a practice which goes against their beliefs. Thus a Christian store owner might face an ethical dilemma as to whether they ought to keep their store open on Sunday. Likewise a Jewish store owner might face an ethical dilemma as to whether to sell food products which aren't Kosher. A female (or male) employee faces an ethical dilemma when reporting sexual misconduct could result in a fellow employee losing their job. The list goes on: a close friend or someone you know has grave financial problems or be pressured by management to "cook the books", a retail owner may fall in love with an employee who has punctuality issues, or an owner may be faced with a decision between promoting a better qualified employee whom they don't like versus one who is nearly as qualified by a better person.

Given your answers to question 2, what would you do if you were faced with these ethical dilemmas in your job?
Obviously there is a significant difference between facing ethical dilemmas as an employee or as a business owner. If you are instructed by your boss or other company superior to commit an act that is antithetical to your value system, you can refuse and run the risk of being fired. You can report the situation to your human resources department, if there is one, and run the risk of being stigmatized by other employees or possible future employers for not being a good "team player." Retail owners have more power over their situations, but do not enjoy complete freedom to conduct business without ethical dilemmas. Strength always exists in numbers: employees can unionize or network with co-workers to relieve ethical issues; store owners can join forces with one another and/or with religious or business organizations to find solutions and support. Bottom line, anyone in the business world must be prepared to confront ethical dilemmas. While I'm certain my responses would vary depending on my circumstances — the need to support a family is a very strong force — I would like to believe that I would know and remain committed to my own internal ethics when faced with an ethical dilemma in my job.

Toys ‘R’ Us Offers a Holiday Savers Club

Stephanie Clifford, New York Times, June 15, 2010

Use with Chapter 16, “Retail Communication Mix”

Faced with the uncertainty of this recession economy, toy store giant Toys ‘R’ Us is looking to the past for tactics to secure their future. During the Eisenhower era and throughout the 1960s, banks offered “Christmas clubs”. These programs consisted of special high-interest savings accounts to which members contributed during the year. The accounts expired at the end of each holiday season. Since credit cards had yet to be invented, Christmas clubs ensured that consumers could satisfy the wishes of everyone on their gift list.

Resurrecting these accounts, believes Toys ‘R’, may secure holiday sales long before competitors have opened their doors for Black Friday. The toy company’s Holiday Savings Club allows customers to deposit money throughout the year into a special savings account managed by Toys ‘R’ Us. On Oct. 16, the chain will give account holders three percent interest, and money becomes available for use in any Toys ‘R’ Us store starting October 31.

The savings plan is part of a more general strategy to optimize profits from holiday shopping. In both 2008 and 2009, the chain implemented an expanded layaway program that allows customers to reserve merchandise, in-store, without purchasing it. The newest measure takes the idea of assured sales a step further. Money placed in a Holiday Savings Club account can only be used at Toys ‘R’ Us or Babies ‘R’ Us stores and is non-refundable. The company views the strategy as guaranteed sales, although executives concede that it might be necessary to consider refunds in certain extenuating cases.

Industry analysts see the move as being good one for Toys ‘R’ Us but not necessarily for customers. Customers cannot easily anticipate how much they will want to spend on toys during the holiday season and could easily deposit more money into the account than they actually need, and then encounter inconvenience, or even opposition in trying to procure a refund. Three percent interest does not offset this risk and inconvenience for most consumers. Still the tactic, pulled out of history, has a new ring in today’s market: It encourages Americans, who are notoriously poor savers, to prepare in advance for known cash outlays rather than to use credit. Savvy consumers may benefit from the program along Toys ‘R’ Us.

Discussion Questions:

What is Toys ‘R’ Us doing to stimulate sales?

Toys ‘R’ Us has implemented a Holiday Savings Club which allows customers to deposit money throughout the year for use during Christmastime at any Toys ‘R’ Us or Babies ‘R’ Us store. Participants will receive three percent interest, but the account is non-refundable. Through the measure, Toys ‘R’ Us hopes to guarantee some Christmas sales before the holiday season even begins.

Do you believe this strategy will work? Why or why not?

Three percent interest is a relatively limited incentive to motivate consumers to tie up their savings in Toys ‘R’ purchases, and consumers are unlikely to know in advance with any degree of certainty how much they will want to spend on toys once the holiday season arrives. I think the plan presents too much risk to consumers and is likely to fail because it focuses too much on the needs of Toys ‘R’ Us.

Plus-Size Revelation: Big Women Have Cash, Too

Stephanie Clifford, New York Times, June 19, 2010

Use with Chapter 5, "Retail Market Strategy," Chapter 12, "Managing Merchandise Assortments," and Chapter 14, "Buying Merchandise"

Two thirds of American women are overweight or obese and, while that may be a health problem for this country, it's an opportunity for retailers — particularly in a sluggish economy in which clothing companies are searching for ways to offset falling sales. Despite a booming diet industry, the number of overweight women continues to grow, creating an expanding market of women searching for styles that go beyond the tent-like styles traditionally available in the plus category.

This segment has held little appeal in the past since larger sizes present a unique set of production and sales challenges. Larger sizes require additional fabric lengths and widths, for example, and these requirements can create a need for special machinery that increases manufacturing prices and reduces margins. More body also means more variation in build, with some plus-size women being large on top while others carry their weight through the hips and thighs, so a greater variety of styles and cuts is needed within each size category. In addition, garments using more fabric take more room to store and display and the women themselves may need larger fitting rooms or be reluctant to share space with the single-digit sized women of the world.

In the past, large women have had to shop stand-alone stores with minimal choices or to hunt online for clothing appropriate for career or leisure activities. Even companies like Old Navy and Ann Taylor, which used to offer plus sizes, removed those garments from their shelves and consigned them to online sales. But now big is beautiful: plus-size clothing is one of the few categories experiencing growth, and designers and retailers are scrambling to cash in.

Discussion Questions:

Why have some retailers ignored plus-sized women in the past?

Retailers have chosen not to meet the needs of plus-sized women because larger clothing requires increased fabric and production costs that cannot be passed on to consumers and because larger garments take up additional storage space. On the retail floor, stores have limited display space, making it difficult to stock sizes for all variations of the female body. Also, plus-sized women may need or want larger fitting rooms, resulting in another cost for retailers that would be hard to recoup. Finally, some retail managers and buyers in the fashion industry tend to think too ethnocentrically, that is, they buy what they like rather than objectively evaluate market opportunities.

Why have they discovered that plus-sized women are a good market opportunity?

As the recession gnaws at growth in women's apparel, retailers have noted that American waistlines continue to expand. Nearly two thirds of American women have the body bulk to shop sizes 14 and up, yet fashions in these sizes have been as appealing as grandmother's favorite housecoat. An underserved market segment that is increasing size represents a good market opportunity for retailers.

Rue21's Small Town Strategy

Tom Ryan, Retail News, June 1, 2010

Use with Chapter 7, "Retail Locations," and Chapter 8, "Retail Site Location"

In order to compete with leading national retailers, some chains are now looking to expand aggressively into secondary markets. The theory behind this trend is that these retailers will be able to fill needed niches in these markets without facing the intense market pressures of the larger metro areas. Operating costs for small market stores have the potential to be lower, and, without major competition, retailers can run at higher profit margins. Retailers Rue21, The Children's Place, and Maurices's are just a few of the companies planning to employ this strategy.

However, small market expansion faces some potential downsides. Often chains save considerable freight cost by delivering to many stores in a relatively condensed urban area. Secondary market stores are more likely to be isolated. Similarly, media marketing can reach more households for less cost in a concentrated metro environment. Finally, retailers in secondary markets may find themselves in competition with box-box stores, which are more likely to be found outside urban areas. Retailers must balance the benefit of limited competition with the increased shipping and marketing costs and presence of retail behemoths to strike a profitable compromise.

Discussion Questions:

What are the advantages and disadvantages of locating stores in secondary markets or rural areas such as the one employed by Rue21?

The major advantage is less competition in the market from large national retail chains. The major disadvantages are having a smaller potential customer base and increased shipping and marketing costs.

How can these stores compete with big box retailers such as Walmart or Kohl's?

Stores have the advantage of placing themselves as community-focused and locally driven merchandisers. They can bring fashion apparel to communities where that niche isn't filled by large big box retailers.

After Buying Its Bottlers, Pepsi Cozies Up to Stores

Anjali Cordeiro, Wall Street Journal, June 21, 2010

Use with Chapter 14, "Buying Merchandise"

Large food and beverage makers face increased competition in stores nationwide due to the emergence of private brand offerings and discount alternatives. Shelf space is at a premium in the grocery category, and more pressure exists than ever before to gain market share.

Vendors such as PepsiCo, Campbell Soup and Hershey have recognized that an important way to increase profits is to utilize both internal and external resources and relationships. To that end they are actively reaching out to their retail partners for consumer information and product collaboration. For example, Campbell Soup has been working with grocery chains to color code shelf labels to make the differences in presentation more readily apparent for the customer. Healthier soups would be coded in green labels to draw attention.

Hershey has engaged in expansive market research to determine the optimal locations for candy throughout stores. They identified consumer shopping patterns and are using the data gained to attempt to persuade retailers to optimize the location of their products in-store.

PepsiCo has sent key executives around the country to talk with grocery chains, both large and small, in order to better understand the business at the consumer level. They used the information from these dialogues to create and tailor cross-promotions using PepsiCo snacks and drinks. In addition to working on value-oriented promotions, PepsiCo has partnered with its retail counterparts to identify areas where regionally distinct assortments make sense. In the San Antonio market, PepsiCo is testing a larger assortment of products tailored to the Hispanic consumer base.

Discussion Questions:

How are vendors and retailers collaborating to strengthen their relationships?

Large food and beverage distributors have made increased contact with retailers a priority. They have done this both at the executive and sales representative level of contact. This contact has led to development of new promotions and testing of regionally appropriate assortments.

Why are they doing this?

Both vendors and retailers have a lot to gain from collaboration. The retailers know their customer base far better than any vendor can. That information is highly valuable to the vendors. The vendors in turn can offer promotions that cater specifically to that base, using the information provided by the retailers. When the product assortment is right for the consumer base, sales go up and both vendors and retailers increase their profits.

Walmart Gains in Its Wooing of Chicago

Stephanie Clifford, New York Times, June 24, 2010

Use with Chapter 7, "Retail Locations"

Walmart wasn't interested in cities, and cities weren't interested in Walmart…until recently. The big-box retailer grew exponentially in suburban neighborhoods and small towns, where real estate was relatively inexpensive and where customers welcomed the convenience of a store that had it all. But growth opportunities outside the city came to an end, and when Walmart turned its sights to urban locations, it discovered it wasn't welcome. Walmart stores, argued city dwellers, crippled local businesses and hurt families and communities by underplaying employees.

The recession has Chicago, at any rate, thinking differently. The Windy City recently approved plans for a South Side Walmart, a reversal of a previous decision that may signal other major cities are ready to open their doors to the giant retailer. City-sized Walmarts will differ from their country cousins in that they will be much smaller and, possibly, function primarily as grocery stores and locations where customers can order or pick up online purchases. The smaller footprint saves on real estate costs for Walmart; the urban location reduces drive time and increases convenience for Walmart shoppers.

To address complaints about the impact on local businesses, Walmart's city stores may have retail space for lease, enabling other businesses to take advantage of Walmart traffic. New stores bring with them the possibility of new jobs and improved city revenue, both important considerations during the recession. As a symbol of its commitment to being a good neighborhood and as an indicator of how important urban locations are to its growth strategy, Walmart agreed to entry-level wages that exceed Chicago's minimum wage, to use union contractors in store construction, and to contribute $20 million to neighborhood charities.

Discussion Question:

What are the advantages and disadvantages of Walmart opening stores in cities such as Chicago? Your answer should include both the perspective of Walmart and of its customers.

Walmart benefits from the opportunity to expand into big cities because it has already reached maximum capacity in suburban neighborhoods and small towns. Store openings in major cities could significantly boost Walmart's earnings. Concessions made to overcome resistance, including higher wages and charitable contributions, will also improve Walmart's corporate image. A disadvantage to Walmart might be that the company has now set a precedent for above average-wage pay scales, community support, and union use that it is expected to employ company wide. Additionally, the superstore will have to modify its business model to accommodate a smaller store size, and these changes may not fit neatly within the company's well-honed supply chain.

Customers who already shop at Walmart or who want to take advantage of the store's wide assortment and low prices will appreciate the convenience of having a Walmart close by. Walmart's online shoppers who don't want to wait for their purchase to be shipped will enjoy similar convenience. However traditional Walmart shoppers may find that the smaller-sized stores don't stock products they are used to being able to purchase.