Dear Professor:

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

- **At Zappos, Culture Pays** (Chapter 9)
- **Why Bricks and Clicks Don’t Always Mix** (Chapter 3)
- **Stores Scramble to Accommodate Budget Shoppers** (Chapters 2 and 15)
- **Debating the Meaning of ‘Farmers’ Market’** (Chapter 16)
- **Department Stores: Mad Rush for Market Share” and “Estée Lauder’s Counter Makeover** (Chapters 2, 4 and 5)
- **Toys ‘R’ Us Overhauling F.A.O. Schwarz Brand** (Chapters 5 and 14)
- **Malls Make Way for Grocers** (Chapter 7)
- **IKEA Seeks an India Opening** (Chapter 5)
- **Kroger: No Fears on Price** (Chapter 15)
- **Lululemon Grows Fast on a Slim Budget** (Chapter 5)
- **Outdoor Recreation Chain Will Open Store in SoHo** (Chapter 7)
- **Restricting Returns, Satisfying Shoppers** (Chapter 17)
- **Sears Seeks Trendier ‘Vibe’ With Forever 21** (Chapters 7 and 14)

If you are interested in the text book please visit [www.mhhe.com/levy7e](http://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](http://www.warrington.ufl.edu/mkt/retailcenter/research/publications.asp)
Teaching Tips

Short Videos Available on the Web

Comparison Shopping
Google is improving its product searches. At the top of the Google browser includes a “Shopping” link. Consumers can search for products and ensure that only retailers or websites that lead customers to retailers will show up.
- 2:00 minutes
- http://online.wsj.com/video/digits-google-queues-up-comparison-shopping/D5342148-7B3C-41B7-B218-BA30912C8D98.html

Foursquare
Arby’s and other retailers are using Foursquare to increase customer traffic by offering promotions and rewards.
- 3:17 minutes
- http://online.wsj.com/video/digits-become-mayor-without-an-election/2F1C970F-9569-4108-BF7F-967538638CF0.html

Spanx
The founder of Spanx explains her inspiration for this product.
- 2:59 minutes
- http://online.wsj.com/video/how-i-built-it-spanx/D1B6CA1F-819E-4FFB-BCE1-7E437BB951E.html

Flat-Screen TV Prices
The prices of flat-screen TVs are decreasing to prevent retailers from getting stuck with these products.
- 3:29 minutes

Q&A Webinar with DSW’s Vice Chairman and Chief Merchandising Officer Deborah Ferrée

Friday, November 19, 2010 2:00 PM - 3:00 PM EST

The University of Florida’s David F. Miller Center for Retailing Education and Research and the Florida Retail Foundation Pathways Webinar Series provides a forum for people to engage with and learn from C-level retail executives. It is an opportunity for retail executives to share their knowledge and expertise with young professionals, college students, and others in the retail field to better understand how to be successful in a retail career. Please pass along this notice to your students.

Retailing in China Study Tour for students and retail instructors

The Chinese retail market is one of the most vibrant and robust global economies, and the Miller Center is offering an opportunity to study that market first-hand. The study tour will visit retailers, government officials, and vendors in Beijing, Yingkou, Chengdu, Shanghai, Shenzhen, & Hong Kong give instructors and students opportunities to learn and experience China business practices and the global constraints within which businesses must operate. You will learn about the Chinese consumer markets, the dynamics of retailing, manufacturing and supply chains and the buying habits of its 1.4 billion consumers. For more information go to:  http://warrington.ufl.edu/mkt/retailcenter/students/china.asp

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
At Zappos, Culture Pays

Dick Richards, Strategy + Business, August 24, 2010

Use with Chapter 9, “Human Resource Management”

Does weird work in the business world? The answer is yes if you ask Tony Hsieh, CEO of online shoe retailer Zappos and devotee of the “science of happiness.”

Hsieh comes from a background of corporate back-stabbing and unmitigated greed, work culture characteristics that made his business life unpleasant and possibly contributed to the demise of some of the start-up companies where he worked. As Zappos’s leader, Hsieh decided to change business as usual, focusing on creating a work environment where relationships are valued, compatibility with the corporate culture is weighed as heavily as job skills during the hiring process, and monthly happiness surveys monitor employee feelings of fulfillment and appreciation. At the core of the culture is a list of ten values, including “be humble” by focusing on “we” and not “I”, “deliver WOW through service,” and “pursue growth and learning.” These values are incorporated into the culture through team events, a company library, heavy reliance on social media to connect employees to one another and to customers, and an in-house life coach. Values and the activities designed to ensure they are incorporated into daily work life will create the right culture, Hsieh believes, and this culture will lead to the best organizational performance.

While it’s hard to connect corporate culture directly to business results, something is definitely going right at Zappos. A decade after launch, the company passed $1 billion in sales, was designated a Business Week Customer Service Champ, made Fortune’s list of the 100 Best Companies to Work For, and received an A+ rating from the Better Business Bureau. That same year, 1999, Amazon purchased Zappos for 10 million shares, which translated into nearly $928 million. More recently, the company’s culture motivated a happy customer to write of the rapid delivery of her order, “I wish Zappos would share with the rest of the world.”

Discussion Questions:

What is Zappos’ corporate culture?

Zappos’ corporate culture is unique and even, by some measures, weird. It stresses relationships and employee satisfaction and happiness, backing up these values with social events, life coaching, and social networking to keep all stakeholders in communication.

Does this culture contribute to or detract from its ability to be successful? Support your answer.

This culture appears to contribute to the company’s ability to be successful since Zappos is profitable, has won awards for its service and attractiveness as a work place, and was purchased by Amazon for a substantial sum of money.
Adding an online store to a bricks and mortar retail operation seems like a recipe for increased profits. After all, shouldn’t two revenue streams be better than one? But the experience of Blockbuster, Barnes and Noble, and other retailers who have ventured into the bricks and clicks business model without sufficient preparation indicate that success is more difficult than it appears.

Five years ago, Blockbuster controlled the movie rental market and business analysts predicted doom for Netflix because it offered customers only one option for rentals: by mail. But Netflix was able to focus exclusively on honing one business approach, while Blockbuster had to run two intersecting businesses, each of which required time, technology, and expertise. Netflix invested in technology to speed delivery times and keep costs down. In contrast, Blockbuster was slow to launch a mail delivery business and slow to integrate online and in-store shopping. While Blockbuster’s costs skyrocketed and their best customers dropped subscriptions in the face of rising fees, Netflix expanded its delivery options to include streaming. Today, Blockbuster is talking of possible bankruptcy protection; Netflix is enjoying a market capitalization of $7.35 billion.

Industry experts likewise predicted a crushing defeat for Amazon when Barnes and Noble added an online store to its giant brick and mortar holdings. But the bookselling behemoth, like Blockbuster, had to juggle two businesses while Amazon executives could focus on one. As a result, Amazon could more easily refine the shopping experience, offering features like customer reviews to attract and retain customers. Barnes and Noble hasn’t fallen as far as Blockbuster, but catching Amazon is proving to be harder than analysts expected.

Discussion Question:

Many traditional retailers have become multichannel retailers by offering an Internet option. Is multichannel retailing always the best option? Why or why not?

Multichannel retailing is not always the best option because it forces retailers to run two different types of businesses simultaneously, with each channel requiring its own investment and expertise. Competitors operating only one channel can focus their resources, therefore increasing their chances of dominating that channel.
Stores Scramble to Accommodate Budget Shoppers

Stephanie Clifford, New York Times, September 21, 2010

Use with Chapter 2, “Types of Retailers,” and Chapter 15, “Retail Pricing”

In the last year, dollar stores have outpaced regular stores in customer visits. The trend comes as a surprise to WalMart and other retailers selling basic consumer goods that have, in the past, done little to attract these low-end shoppers. The recession appears to be at the root of this change.

As consumer spending decreased, WalMart squared off against competitor Target by pulling inexpensive products to make the sales floor appear less cluttered, and by decreasing unit costs on necessities like milk. Dollar chains such as Dollar General, Family Dollar, and Dollar Tree took a different approach, lobbying manufacturers to offer more merchandise in small units and replacing non-necessary items with family staples such as detergent, diapers and food. Their efforts extended to manufacturers traditionally aimed at the middle class market, like Quaker Oats and Hanes, so that these stores were able to attract new customers from higher-income families who are also hoping to stretch paychecks. While dollar shoppers end up with fewer rolls of toilet papers or fewer tablets of pain relievers, they also end up with a smaller cash outlay—a necessary tradeoff when trying to feed a family on a desiccated budget.

The results speak for themselves. Traffic at dollar stores increased last year, while traffic at mega-retailers like Walmart dropped 7 percent. Revenue at dollar stores has risen consistently for the last two and a half years, while same-store sales at Walmart have declined. As a result, Walmart is jumping on the bandwagon in an attempt to lure back these low-end shoppers. Stores will reintroduce one dollar items and, in areas with high unemployment, items costing a dollar or less will be grouped into their own section.

Discussion Questions:

What are extreme value retailers and discount stores doing to provide better value to customers?

Discount stores and extreme value retailers are expanding their selection, in many cases working directly with manufacturers to get products in smaller, cheaper packages. Also, these retailers are pulling non-essential merchandise from their assortment, focusing instead on providing a wide range of essentials such as diapers, food, and detergent at discount prices.
Debating the Meaning of ‘Farmers’ Market’

Tom Ryan, retail wire, September 27, 2010

Use with Chapter 16, “Retail Communication Strategy”

Traditionally a farmer’s market was a gathering of local farmers selling their produce directly to consumers. In some towns, market wares expanded to include baked goods, organic meats and poultry, fresh kettle corn, crafts and gourmet coffee. Markets became community gatherings, complete with tables touting politicians and political causes, music, and even chair massages. As consumers became more aware of the importance of farmers in the economy and food supply—as well as of the freshness and savings available through this approach—shopping the local farmer’s market grew in appeal. Now supermarkets like Safeway and Albertsons have jumped on the bandwagon, displaying produce in front of their stores and advertising these displays as farmer’s markets.

The practice has angered farmers’ market advocates, who believe the term should be reserved for farmers selling their own produce directly to the public. Safeway stores in Seattle capitulated, changing the descriptor for outdoor fruits and vegetable sales to “outdoor market”. Albertsons, however, has chosen to keep the wording in stores in Washington, Oregon and Idaho, arguing that the produce in their farmers’ market comes from local farmers.

The practice of selling local produce in chain grocery stores benefits everyone by reducing shipping and storage costs, delivering fresher produce, and supporting local agriculture. But farmers stand to lose profits if supermarkets co-opt farmers’ markets.

Discussion Questions:

Do you think it’s okay for grocers to use the words “farmers’ markets”?

I don’t think grocers should use the words “farmer’s markets” since the phrase refers to a group of farmers selling their wares directly to the public. Co-opting this phrase for supermarket use can be misleading since the produce displayed isn’t always local. In addition, the practice threatens to deprive communities of a casual, local gathering and to undermine the profits of business people who are important to our food supplies.

In what ways should supermarkets be looking to capitalize on the popularity of farmers’ markets?

Since many shoppers are drawn to the ideas of locally produced fruits and vegetables, supermarkets should carry local produce and indicate which produce is locally sourced. To help improve relationships between supermarkets, farmers, and consumers, grocers could indicate the farm and/or farmer where the produce originated. In larger farmers’ markets, where appropriate, grocers could sponsor a table offering coupons for local produce purchased in the store between farmers’ markets. They could also help underwrite the costs for a farmers’ market in return for prominent advertising at the event.
A new generation of shoppers, raised on the Internet and hungry for fashion that expresses their individuality, and a sluggish economy have forced department stores to rethink everything from store design to marketing. Today’s young shoppers are used to customizing their purchases. They select their own ringtones, design their own T-shirts and sneakers, and mix and match fashions and cosmetics to achieve a unique look. In contrast, department stores have changed little over the years, allowing discounters, off-price chains and online retailers to eat away at their market share and profits. Department stores’ biggest income producer, the cosmetics section, has been in a nose dive as young shoppers, in particular, gravitate to stores like Sephora where they can touch and test products.

Department stores are now scrambling to lure these customers back through their doors. Bon-Ton Stores Inc. convened an online advisory panel of teens to provide insight into the needs, desires, and habits of young shoppers. Retailers like Sears and Macy’s are adding fast-fashion and in-store shops featuring trendy, exclusive clothing. As part of an industry-wide trend, Macy’s is revamping its beauty sections, allowing customers shopping options: Women who already know what they want can make an express purchase without hearing about other products. Those who prefer to browse on their own can examine products and learn prices without having to ask for help from an employee; shoppers wanting a full consultation can still receive one. Department stores are also making use of social media, communicating with teens and young adults via smart phone apps and Facebook.

Discussion Questions:

Why don’t younger customers flock to department stores?

Younger customers seem to view department stores as “so yesterday.” These shoppers are seeking trendy fashions at an affordable price and want to decide for themselves whether they want to grab and go, browse, or receive advice and information from an employee. With their multiple separate departments and cosmetics under glass or behind the counter, department stores are not viewed by teens and twenty somethings as being the best shopping destination.

What can department stores do to get and keep younger customers?

Department stores are making an effort to attract and retain these customers by bringing in fast-fashion lines and introducing self-serve cosmetics counters. They are also communicating with young shoppers via smart phones and social networking sites, both of which are more effective for this market segment than traditional marketing approaches such as newspaper advertising or direct mail.
Toys ‘R’ Us Overhauling F.A.O. Schwarz Brand

Stephanie Clifford, New York Times, October 1, 2010

Use with Chapter 5, “Retail Market Strategy,” and Chapter 14, “Buying Merchandise”

Exclusive toy retailer F.A.O. Schwarz was known for over a century for its exclusive, high-end toys. Stuffed giraffes stood tall enough to graze the ceilings of affluent children’s bedrooms or, more recently, wealthy girls had play dates around their $25,000 Barbie foosball table. But big box retailer Toys ‘R’ Us brought F.A.O. to its knees. Now, as the victor of that competition struggles to hold on to market share in the face of competition from Target and Walmart, Toys ‘R’ Us has purchased the F.A.O. brand and is revamping the brand in attempt to bolster its own sales.

The brand refresh includes a new logo, price tags more in keeping with Toys ‘R’ Us shoppers, and hangtags detailing F.A.O.’s history. Toys ‘R’ Us will keep the flagship F.A.O. store in Manhattan open. In time for the holiday season, it will incorporate F.A.O. sections into all Toys ‘R’ Us outlets nationwide and open ten temporary holiday locations. In the midst of action figures, video games, and Hello Kitty cosmetic sets, teddy bears and jump ropes with wooden handles may seem quaint and nostalgic, but Toys ‘R’ Us executives are betting the new brand will bolster sales and help keep the F.A.O. brand alive. Beginning this November, F.A.O. branded baby products such as dishes, rattles, and bedding will be sold in Babies ‘R’ Us stores.

Predictions about the success of this venture are mixed. Updating and incorporation of a premium brand may increase holiday sales for Toys ‘R’ Us. But F.A.O. Schwarz has struggled for years under a variety of owners, the range of products may be too limited to save the F.A.O. brand, and differences between the two brands may be too significant to make for a successful union.

Discussion Questions:

What is Toys ‘R’ Us doing with the F.A.O. Schwarz brand?

Toys “R” Us is modifying the logo and opening a section containing F.A.O. Schwarz branded products in all of its stores. These products will be some of the more nostalgic toys associated with the brand, such as tin spinning tops, teddy bears, and jump ropes with wooden handles. The big box retailer is retaining the F.A.O. Schwarz flagship store in Manhattan and opening temporary stores for the holidays, as well as introducing F.A.O. branded merchandise into Babies ‘R’ Us stores.

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

I don’t think the strategy will work. The F.A.O. Schwarz brand is associated with affluence and exclusivity, neither of which will help promote it in a recession. The toys themselves are unlikely to appeal to children, who are surrounded by advertising for character-themed toys. The main audience for this merchandise seems to be grandparents, who are the ones most likely to read the hangtags and appreciate the history. Yet even grandparents are unlikely to consistently choose a nostalgic toy over one that has been requested by their grandchild or suggested by the grandchild’s parents. Changing the logo may actually work against the brand, since shoppers drawn by the nostalgia factor may be confused by the unfamiliar logo.
Malls Make Way for Grocers

Sandra M. Jones, *Chicago Tribune*, September 26, 2010

Use with Chapter 7, “Retail Locations”

In the 1950s and 60s, when malls first emerged, developers relied on department stores to attract shoppers. The mall’s reputation as a center of fashion was its biggest draw. Smaller stores in the mall depended upon the department store crowd for their business. Now, with many department stores closing their doors, mall owners find themselves needing a new anchor to draw customers. Grocery stores appear to be the right choice.

Vacancies at regional and super-regional malls hit an all time high of nine percent during the second quarter of 2010. With mall owners scrambling to fill their spaces, such unconventional offerings as drug stores, day care centers, vocational schools, post offices, and public libraries have begun to appear in malls. These businesses operate alongside Walmart, Target, Lowes, Best Buy and Costco, retailers that have opened in locations that once belonged to Mervyn’s or Sears. In some markets, these stores are shoulder to shoulder with more upscale retailers like Saks Fifth Avenue.

Recognizing the success of these non-traditional mall stores, mall owners are courting grocery stores, which draw weekly visits rather than the monthly visits common at malls. The move makes sense as malls become the new downtown: Why shouldn’t there be grocery stores from Whole Foods to Big Lots if you can also mail a package and pick up a prescription at the mall? The trend also appears to reflect consumer desires: Thirty-one percent of respondents to a recent survey indicated they would like a grocery store at their local mall. Many of the new stores will abut the mall proper, with indoor access points to encourage cross-shopping.

Discussion Question:

In the past, department stores drew customers to malls. Who is replacing them and why?

For almost a decade, big box stores such as Walmart, Target, Best Buy, and Costco, have been filling the spaces left behind by defunct department stores. In many cases the stores abut the mall with interior entrances. Big box stores are important to the mall as a whole because they draw the large crowds that are essential to the success of the smaller stores. More recently, malls have begun introducing grocery stores. This addition is important to the ongoing success of malls because customers visit grocery stores weekly, as opposed to an average of once a month for mall visits. Both additions make sense because younger consumers are gravitating away from department store shopping for clothing, and because the ability to complete all errands in a single location saves time and increases convenience.
IKEA Seeks an India Opening

Amol Sharma, Wall Street Journal, September 20, 2010

Use with Chapter 5, “Retail Market Strategy”

Like many retailers, IKEA would like to move into India. The country, with its near 9 percent growth rate, represents a huge opportunity for retailers struggling for growth in a global recession. For IKEA, the move makes additional sense since the Swedish furniture giant is already sourcing cotton textiles, rugs and plastics in India and plans to increase its purchasing in the country. The rapid pace of urbanization also spells profits for IKEA as this population trend increases the number of shoppers seeking low-cost home furnishings.

But IKEA, like other companies, has been stymied by India’s regulations, which require foreign businesses to have an Indian business partner and limit the foreign company’s stake to 51 percent. These restrictions, say IKEA executives, won’t work for their business model. In addition, they argue, IKEA’s presence will be good for the country’s economy: The stores would create jobs and the company, intent on proving its commitment to partnership, has committed millions of dollars to social and environmental causes.

The country’s government has indicated a willingness to loosen restrictions on foreign investments but even if IKEA clears this hurdle, others remain. India’s infrastructure, including power supply and roads, is unreliable. Policies and practices beyond official regulations that also affect foreign businesses are, at best, confusing. At worst, they can burden or destroy foreign companies seeking a toehold in a disorganized market that is currently controlled by small mom-and-pop operations.

Discussion Questions:

Which of the four growth strategies described in Chapter 5 is IKEA using if they are able to open a store in India?

This is an example of a market expansion growth opportunity since it involves using IKEA’s existing retail format in new market segments.

Why is IKEA having trouble opening a store in India?

IKEA must overcome India’s restrictions on foreign businesses. These regulations require foreign businesses to have a local business partner and limit the foreign company’s stake to 51 percent. Even if IKEA is able to overcome this impediment, they will still face challenges from policies and business processes designed for small family-owned businesses and from an underdeveloped and unreliable infrastructure.

Is India a good growth opportunity for IKEA?

India is a very good growth opportunity for IKEA because of the economic growth in the country—which makes it attractive for many foreign businesses—and because of the pace of urbanization. This trend is new to the country and creates a substantial market for low-cost home furnishings.
Kroger: No Fears on Price

Timothy W. Martin, Wall Street Journal, September 30, 2010

Use with Chapter 15, “Retail Pricing”

Rising costs for commodities like wheat are forcing national brand manufacturers to raise their prices and to threaten more sweeping price hikes in the near future. But these price increases have boosted profit margins for the brands while many consumers, strapped by unemployment and anxious about the economy, have become increasingly cost conscious. Grocery stores thus face a dilemma: Do they absorb the increase at the expense of their own profit margins—a strategy that helps them retain customers—or do they pass the hikes along to consumers?

For grocery store chain Kroger, increasing commodity costs are the food manufacturer’s problem, not the stores’ or the consumers’. Kroger passes the higher prices along to consumers, believing that their customers will turn to the stores’ private-label goods or lower-priced national products rather than spend more for familiar or name-brand products. Investors have expressed frustration at this approach, pressing for profit. But Kroger stands by its strategy, insisting that customers will remain loyal and sales will rise even if the gross margins remain steady.

Discussion Questions:

What is Kroger doing when national brand manufacturers raise their prices to them? Why?

Kroger passes the increased prices along to consumers, believing that customers will remain loyal to the store but spend their money on private-label or lower-cost brands rather than pay the price hikes. This approach is designed to retain customer loyalty in the store at the expense of loyalty to the national brand products.

Who are the winners and losers?

While national brand manufacturers may feel like the winners now since they are able to post wider profit margins at a time when Kroger can’t, Kroger is likely to win in the long run since its shoppers are comfortable turning to lower-cost private-label products. Customers win by discovering new products at lower prices. Kroger wins by retaining shoppers. The national brands, however, lose unit sales and loyal customers.
Lululemon Grows Fast on a Slim Budget

Kevin Helliker, Wall Street Journal, September 13, 2010

Over the past ten years, women’s athletic apparel retailer Lululemon has grown from a single store in Vancouver to 120 stores in North America and an additional 10 in Australia. While other sportswear stores struggle with intense competition and the economic downturn, Lululemon’s sales per square foot leave most other fitness apparel retailers in the dust.

Integral to the company’s success is a commitment to providing workout wear especially designed for women, a $15 million market niche also occupied by Title Nine and VF Corp.’s Lucy brand. Lululemon focuses on outfits for yoga and Pilates, two types of exercise that are extremely popular among women. However, as women’s fitness interests have grown, Lululemon apparel has begun showing up on women involved in kick-boxing, weight-training, road running, and even at social events. Recently the company has added a menswear line that appears destined for success.

Unlike Nike, which spends millions of dollars for celebrity endorsements, Lululemon relies on the influence of unpaid “ambassadors” — local fitness instructors who wear the apparel in their regular classes or during free classes held in Lululemon stores. These ambassadors also provide valuable feedback to Lululemon on new fitness fashions. Ambassadors receive up to $1000 of free clothing for modeling the Lululemon apparel and gain clients for regular classes in return for the store sessions. These promotional efforts are bolstered by minimal print advertising in yoga and running magazines.

While Lululemon is one of the few retailers currently enjoying robust growth, its position is assailable. Imitators could copy styles and offer them at a lower price. Infrastructure investment required for growth could make the company vulnerable to competitors, especially if the market for expensive sports apparel collapses.

Discussion Questions:

Who is Lululemon’s target market?

Lululemon’s target market is amateur women athletes, particularly women taking yoga or pilates classes who are willing and able to purchase expense workout wear.

What is Lululemon’s retail format?

Lululemon’s retail format consists of high-priced athletic apparel, primarily for women. While goods are marketed for yoga and Pilates, women wear them for a variety of activities. Merchandise is promoted by unpaid “ambassadors” — female (or, in some cases, male) fitness instructors who model the apparel during their regular classes and during free classes held at Lululemon stores. The company also advertises occasionally in yoga and running magazines.

What, if any, are its bases for sustainable competitive advantage?

While Lululemon currently enjoys success for having tapped into the lucrative women’s fitness apparel market, it has little basis for sustainable competitive advantage. Competitors could imitate the retailer’s advertising and promotion campaign, host their own free classes, and offer similar apparel at a lower cost.
Outdoor Recreation Chain Will Open Store in SoHo

*Stephanie Clifford, New York Times, September 16, 2010*

Use with Chapter 7, “Retail Locations”

Manhattan’s SoHo isn’t the first place that comes to mind when you think of outdoor sports. But, for many New Yorkers, the city is increasingly becoming a bike-friendly town, and low-cost outdoor recreation is sounding like an increasingly attractive way to spend a weekend without spending a fortune. Recreational Equipment Inc., also known as REI, sees potential in the Big Apple, and has announced it will open a store in SoHo. Like other REI stores, the SoHo location will offer trips, in-store lectures and educational programs, and instructional outings in addition to gear and apparel.

The company has reason to hope this venture will be successful. During Mayor Bloomberg’s tenure, the city has expanded its recreational infrastructure, including bike lanes and parks. With the economy in the doldrums, bike lanes are used by commuters looking to save travel costs as well as by recreationalists. REI competitor Eastern Mountain Sports notes a growing demand for gear in New York, and rock-climbing gyms and similar businesses that offer sporting opportunities are creating demand for other types of gear. In addition, points out REI’s chief executive, New Yorkers are already shopping REI: They are just doing it via the Web or in one of the other REI stores located nationwide. Finally, the location is a good one since SoHo residents are more likely than New Yorkers in other neighborhoods to leave the city for a weekend of outdoor recreation.

REI won’t be the only outdoor retailer in Manhattan. Eastern Mountain Sports has been around since 1983. Modell’s Sporting Goods and Paragon Sports have had locations in the city for even longer.

**Discussion Question:**

Is Manhattan a good location for REI? Why or why not?

*Manhattan seems to be a good location for REI. New Yorkers are taking advantage of the city’s bike paths and green spaces to ride bikes, and bikes are also becoming a popular form of transportation for consumers squeezed by the economy. The economy has also inspired New Yorkers to hike, bike, camp or kayak on weekends rather than dine out or go to the theatre.*
When it comes to product returns, retailers must balance customer service and fraud by a small number of dishonest shoppers who can have a big impact on bottom lines. The stakes are high: Strict return policies may alienate shoppers, sending them to other stores; lenient policies cost the retail industry nearly $25 billion in 2009 in fraudulent returns and return abuse. As retailers push for the convenience and savings of self-checkout, the possibility of fraud increases. But now changes in technology and return policies are helping to curtail loss without inconveniencing honest customers.

Some of the larger retailers use software programs that track a customer’s purchase and return history based on identification required for returns. A transaction tied to an individual with a suspicious history, such as an inordinate number of returns, is flagged at the point of sale. The sales associate can then follow printed prompts to determine if the return is legitimate. This approach helps ensure the conversation isn’t uncomfortable for either associate or customer. The program uses predictive analytics that help differentiate behaviors indicative of good customers vs. those that spell fraud. Simply installing the system helps reduce fraud perpetrated by dishonest employees. Modifying return policies also helps. Many retailers now require receipts and identification, give store credit instead of cash, and require a manager’s signature for returns.

Another approach to curtailing return abuse is to put a color picture of the product, like a pair of shoes, on the outside of the box. The picture helps shoppers find what they want; it also helps associates at the return counter ensure that the shoes in the box are the right ones.

**Discussion Question:**

What can retailers do to restrict excessive returns?

To help curtail excessive returns, retailers can ask for identification, insist on receipts, require a manager’s signature, and grant store credit for returns rather than giving cash. They can also use a software program that automatically checks a customer’s return history based on their identification. This program uses predictive analytics to help determine whether the history is indicative of fraud or a sign of a good customer. Retailers can also use labels that show, in color, the product that is supposed to be in a box to make sure the proper item is being returned.
Sears Seeks Trendier ‘Vibe’ With Forever 21

Karen Talley, Wall Street Journal, September 22, 2010

Use with Chapter 7, “Retail Locations” and Chapter 14, “Buying Merchandise”

Sears Holding Corp. recently announced plans to partner with trendy retailers Forever 21 to bring a new store within a store to its Sears location in Costa Mesa, California. Sears stores already contain space for Land’s End merchandise and Edwin Watt’s Golf Shops. But at 15 percent of the Costa Mesa store, Forever 21 is one of the largest stores within a store in the industry and represents an aggressive move on the part of Sears to attract young women shopping for apparel. Under the new arrangement, Forever 21 will have its own entrance, but shoppers will also be able to access it through Sears.

Sears and other department stores have been exploring the store within a store concept to help offset losses due to unused floor space and to build sales through cross shopping. J.C. Penney, for example, has space reserves for Sephora cosmetics shops. Sears and Forever 21 are considering other stores for similar partnerships; Sears is also considering other retailers that would function well as stores within their current holdings.

Discussion Questions:

What is Sears’ new relationship with Forever 21?

In a new arrangement, Sears will lease out 15 percent of the sales floor of its Costa Mesa, California, location to Forever 21, a trendy clothes retailer. The plan is to create a store within a store that can be accessed both from the street and from within Sears.

What are the advantages and disadvantages of this relationship from the points of view of Sears, Forever 21, and its customers?

Both retailers stand to benefit from cross-shopping. For Sears, the arrangement is a prime opportunity to gain some rental revenue on unused floor space, and it may enhance the appeal of their store, particularly for the highly coveted young female shopper. Forever 21 gains real estate in existing mall locations without the investment required by a single storefront. However, both retailers may discover that the gap between the traditional Sears shopper and the Forever 21 customer is too wide. For Sears, the result is occupied space that generates little revenue and that could be used by a different retailer more compatible with their customer profile. Forever 21 may likewise discover that Sears shoppers simply are not its target market, leaving this store within a store stranded in a useless location. Customers stand to gain because by virtue of cross shopping but, if Forever 21 isn’t of interest, the new store within the store dilutes the Sears brand.