PREFACE

In this first Canadian edition of *Retailing Management*, we have responded to three important developments in retailing. First, retailers are increasing the sophistication of retail operations and decision-making tools for coordinating their supply chains, buying merchandise, and managing store operations. They are using customer databases and decision support systems to tailor assortments to local markets, schedule sales associates, set prices for merchandise, and target promotions to customers.

Second, retailers are increasingly looking to international markets for growth opportunities. For instance, Carrefour, France's hypermarket chain, is the second-largest retailer in the world and operates in 25 countries. To compete globally, retailers must be tuned to the needs of their local markets yet exploit the scale economies gained through centralized purchasing and common systems.

Finally, both large and small store-based and catalogue retailers are making significant investments in the Internet channel to communicate with and sell merchandise and services to their customers. Retailers are striving to provide a seamless shopping experience for their customers whether they shop in their stores, place orders from catalogues, or purchase merchandise from their websites.

Our objective in preparing this first Canadian edition is to capture this excitement and challenge in the retail industry as we inform students about the state-of-the-art management practices of these important institutions in our society. In preparing the first Canadian edition, we have made a number of changes to reflect the evolving nature of retailing.

NEW FEATURES IN THE FIRST CANADIAN EDITION

New Chapter on Customer Relationship Management Chapter 15 examines how retailers are using customer databases to build repeat business and realize a greater share of wallet from key customers. These customer relationship management activities exploit the 80–20 rule—20 percent of the customers account for 80 percent of the sales and profits. In this chapter, we discuss how retailers identify their best customers and target these customers with special promotions and customer services. Some topics covered in this new chapter are:

- Why retailers want to provide special services for their best customers
- How retailers use customer databases to determine who are their best customers
- How retailers build loyalty from their best customers
- What retailers do to increase their share of wallet
- How retailers balance customer privacy concerns with the provision of personalized promotions and services.

Improved Coverage on Multichannel Retailing This coverage includes the opportunities and challenges retailers face interacting with customers through multiple channels—stores, catalogues, and the Internet. While the e-commerce bubble has burst for e-tailing entrepreneurs, traditional retailers are investing in using the Internet to complement their stores. We discuss the unique issues that store-based retailers face when communicating with and selling merchandise to customers over the Internet, and addresses issues such as:

- The distinctive customer benefits offered to customers by the different channels—stores, catalogues, and the Internet
- How multichannel retailers provide more value to their customers
- Factors that will affect the growth of the Internet channel
- Why most pure electronic retailers fail
- The key success factors in multichannel retailing
- How technology might affect the future shopping experience.

More Extensive Treatment of New Technologies and Methods Retailers are using innovations to improve operating efficiencies and deliver more value to their customers. Some examples of these retail innovations reviewed in the first Canadian edition are:

- Use of the Internet to provide information and sell products and services to customers
- Application of geographic information system (GIS) technology for store location
- Internet applications for effective human resource management
- Quick response supply chain management systems
- Analysis of customer databases to determine customer lifetime value
- Implementation of frequent shopper programs
- CPFR (collaboration, planning, forecasting and replenishment) systems
- Sophisticated inventory management systems
- Reverse auctions for buying merchandise
- Use of profit optimization decision support systems for setting prices in different markets and taking markdowns
- Development of targeted promotions using customer databases
- Decision support systems for scheduling sales associates
- Creation of planograms to optimize the sales and profits from merchandise categories
- Use of in-store kiosks and the Internet to improve customer service.

Greater Emphasis on International Retailing We examine international retailing strategies ranging from those used to enter new international markets to the global sourcing of merchandise. The expanded number of international retail examples are designated with a special global icon. As retailing evolves into a global industry, it is imperative that students understand how firms adapt their business practices to the cultural and infrastructure differences in international markets. The first Canadian edition includes expanded treatment of global retailers such as Zara, Sephora, H&M, and Carrefour as well as discussions of issues confronting North American retailers as they expand from their domestic base. For example:

- Cultural impacts on buying behaviour
- Keys to successful entry into international markets
- Evaluation of international growth opportunities
- Global sourcing of merchandise
- Employee management issues in international markets.

Expanded Treatment of Brand Development Issues To differentiate their offerings and build a competitive advantage, retailers are placing more emphasis on developing their brand image, building a strong image for their private-label merchandise, and extending their image to new retail formats. Issues related to the development of brand images and private-label merchandise are discussed in more detail from both a merchandise management and a communications perspective.

Get Out and Do It! Exercises Found at the end of each chapter, these exercises suggest projects that students can undertake by either visiting local retail stores or surfing the Internet. The exercises are designed to provide a hands-on learning experience for students.

Twenty-Four New Cases These include cases on Starbucks, Rainforest Café, eBay, Goodlife Fitness Clubs, Avon, and Home Depot.

READER-FRIENDLY TEXTBOOK

In the first Canadian edition, we continue our attempt to interest and involve students in the course and the industry by making the textbook a “good read” through the use of Refacts (retailing factoids), Retailing Views, and retail manager profiles at the beginning of each chapter.

Refacts We have updated and added more interesting facts about retailing, called Refacts, in the margin of each chapter. For instance, did you know that a Montgomery Ward buyer created Rudolph the Red-Nosed Reindeer as a Christmas promotion in 1939? Or that “Dollar Store” retailing is the fastest growing sector in Canadian retailing?

Retailing Views The textbook contains new and updated vignettes called Retailing Views to relate concepts to activities and decisions made by retailers.

The vignettes look at major retailers like Wal-Mart, Canadian Tire, Shoppers Drug Mart, and Home Depot. They also discuss innovative retailers including Harry Rosen, Mountain Equipment Co-op, and Running Room.

Profiles of Retail Managers To illustrate the challenges and opportunities in retailing, each chapter in the first Canadian edition begins with a brief profile of a manager or industry expert whose job or expertise is related to the material in the chapter. These profiles illustrate how senior executives view the industry, and provide students with firsthand information about what people in retailing do and their successes and challenges.

Online Learning Centre for Students and Instructors (www.mcgrawhill.ca/college/levy) Just as retailers are using the Internet to help their customers, we have developed a website to help students and instructors use the first Canadian edition of this textbook effectively. Some of the features on the website are:

- Multiple-choice questions on the student site
- Chapter-by-chapter Instructor Manual coverage
- Case and video notes
- News articles about current events in retailing
- PowerPoint slides summarizing key issues in each chapter
- Hot links to retailing news sites and sites associated with the Internet exercises in the textbook

BASIC PHILOSOPHY

The first Canadian edition of *Retailing Management* maintains the basic philosophy of the successful U.S. parent editions. We continue to focus on the broad spectrum of retailers, both large and small, selling merchandise or services. The text examines key strategic issues with an emphasis on the financial considerations and store management issues. We include descriptive, how-to, and conceptual material.

Broad Spectrum of Retailing In this text, we define retailing as the set of business activities that add value to the products and services sold to consumers for their personal or family use. Thus, in addition to the products in stores, this text examines the issues facing service retailers like Starbucks and non-store retailers like eBay, Lands' End, and Avon.

Critical Issues in Retailing Strategic thinking and the consideration of financial implications are critical for success in the present dynamic, highly competitive retail environments. In addition, operations and store management are playing an increasingly important role.

Strategic Perspective The entire textbook is organized around a model of strategic decision making. Each section and chapter is related back to this overarching strategic framework. In addition, the book focuses exclusively on critical strategic decisions such as selecting target markets, developing a sustainable competitive advantage, and building an organizational structure and information and distribution systems to support the strategic direction.

Financial Analysis The financial aspects of retailing are becoming increasingly important. The financial problems experienced by some of the largest retail firms, like Kmart, highlight the need for a thorough understanding of the financial implications of retail decisions. Financial analysis is emphasized in selected chapters. Financial issues are also raised in the sections on negotiating leases, bargaining with suppliers, pricing merchandise, developing a communication budget, and compensating salespeople.

Operations and Store Management Traditionally, retailers have exalted the merchant prince—the buyer who knew what the hot trends were going to be. This text, by devoting an entire chapter to information systems and supply chain management and an entire section to store management, reflects the changes that have occurred over the past 10 years—the shift in emphasis from merchandise management to the block and tackling of getting merchandise to the stores and customers and providing excellent customer services and an exciting shopping experience. Due to this shift toward store management, most students embarking on retail careers go into store management rather than merchandise buying.

BALANCED APPROACH

The first Canadian edition continues to offer a balanced approach for teaching an introductory retailing course by including descriptive, how-to, and conceptual information in a highly readable format.

Descriptive Information Students can learn about the vocabulary and practice of retailing from the descriptive information throughout the text. Examples of this material are:

- Leading North American and international retailers (Chapter 1).
- Management decisions made by retailers (Chapter 14).
- Types of store-based and nonstore retailers (Chapter 2).
- Approaches for entering international markets (Chapter 8).
- Isses concerning retail locations (Chapter 6).
- Organization structure of typical retailers (Chapter 12).
- Flow of information and merchandise (Chapter 11).
- Branding strategies (Chapter 10).

- Methods for communicating with customers (Chapter 16).
- Store layout options and merchandise display equipment (Chapter 7).

How-To Information *Retailing Management* goes beyond this descriptive information to illustrate how and why retailers, large and small, make decisions. Step-by-step procedures with examples are provided for making the following decisions:

- Comparison shopping (Chapter 4).
- Managing a multichannel outreach to customers (Chapter 3).
- Scanning the environment and developing a retail strategy (Chapter 5).
- Analyzing the financial implications of retail strategy (Chapter 8).
- Evaluating location decisions (Chapter 6).
- Developing a merchandise assortment and budget plan (Chapter 10).
- Negotiating with vendors (Chapter 12).
- Pricing merchandise (Chapter 13).
- Recruiting, selecting, training, evaluating, and compensating sales associates (Chapter 14).
- Designing the layout for a store (Chapter 7).

Conceptual Information *Retailing Management* also includes conceptual information that enables students to understand why decisions are made as outlined in the text. As Mark Twain said, "There is nothing as practical as a good theory." Students need to know these basic concepts so they can make effective decisions in new situations. Examples of this conceptual information in the first Canadian edition are:

- Retail evolution theories (Chapter 2).
- Customers' decision-making process (Chapter 4).
- Market attractiveness/competitive position matrix for evaluating strategic alternatives (Chapter 5).
- Activity-based costing analysis of merchandise categories (Chapter 10).
- The strategic profit model (Chapter 9).
- Price theory and marginal analysis (Chapter 13).
- The gaps model for service quality management (Chapter 15).

Supplemental Materials To improve the student learning experience, the first Canadian edition includes new cases and videos illustrating state-of-the-art retail practices and a comprehensive Instructor's Manual with additional cases and teaching suggestions.

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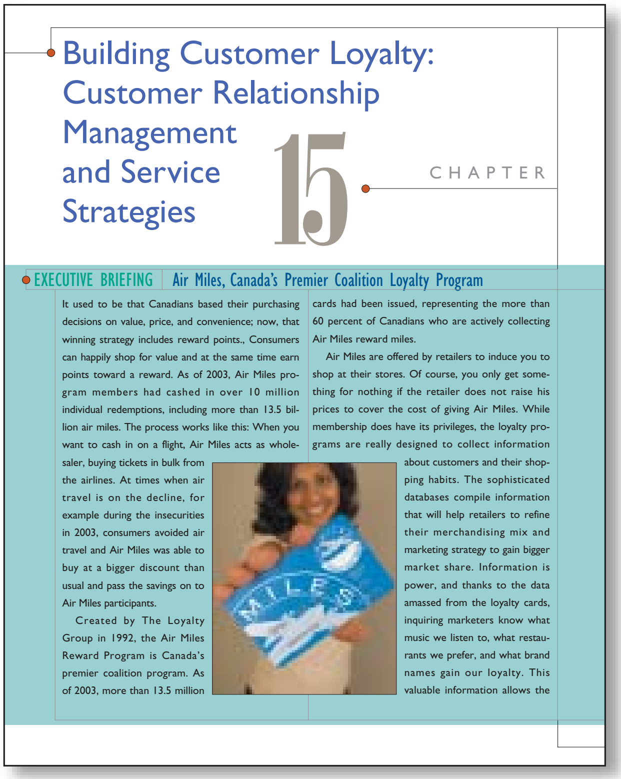
GUIDED TOUR

For five editions in the United States, *Retailing Management* has been known for its strategic focus, application orientation, decision-making emphasis, and current coverage. The authors and McGraw-Hill Ryerson are proud to introduce the *first Canadian edition* and invite you to see how this new edition has been built on the book's strong foundation.

A timely and important discussion of **Customer Relationship Management** is introduced in its own chapter, new to this Canadian edition.



Building Customer Loyalty: Customer Relationship Management and Service Strategies

15 CHAPTER

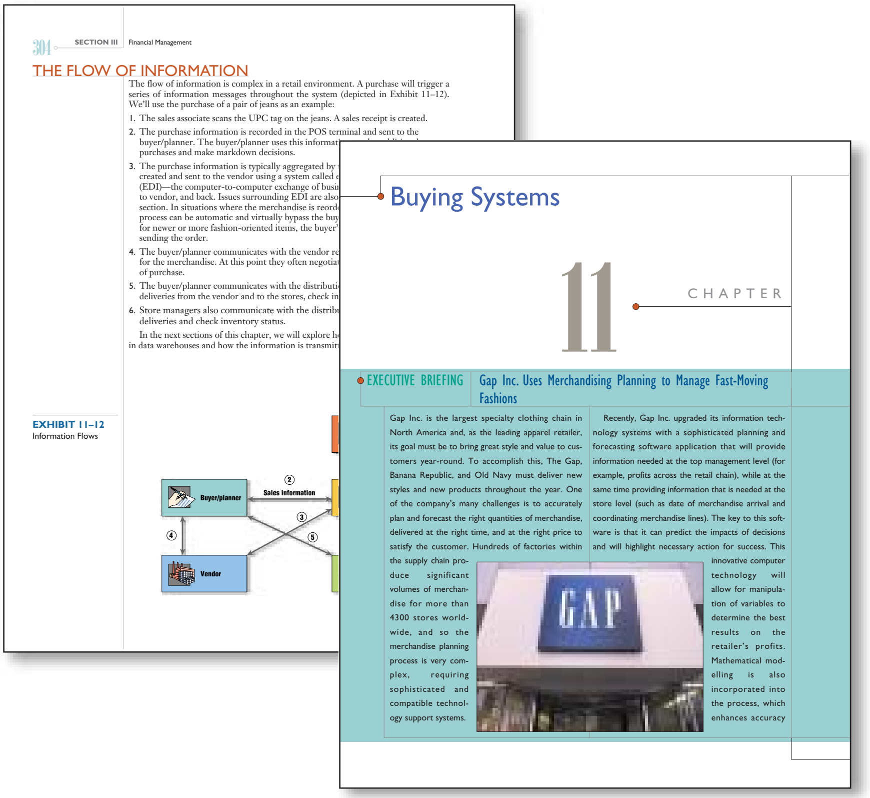
EXECUTIVE BRIEFING | Air Miles, Canada's Premier Coalition Loyalty Program

It used to be that Canadians based their purchasing decisions on value, price, and convenience; now, that winning strategy includes reward points., Consumers can happily shop for value and at the same time earn points toward a reward. As of 2003, Air Miles program members had cashed in over 10 million individual redemptions, including more than 13.5 billion air miles. The process works like this: When you want to cash in on a flight, Air Miles acts as wholesaler, buying tickets in bulk from the airlines. At times when air travel is on the decline, for example during the insecurities in 2003, consumers avoided air travel and Air Miles was able to buy at a bigger discount than usual and pass the savings on to Air Miles participants.

Created by The Loyalty Group in 1992, the Air Miles Reward Program is Canada's premier coalition program. As of 2003, more than 13.5 million cards had been issued, representing the more than 60 percent of Canadians who are actively collecting Air Miles reward miles.

Air Miles are offered by retailers to induce you to shop at their stores. Of course, you only get something for nothing if the retailer does not raise his prices to cover the cost of giving Air Miles. While membership does have its privileges, the loyalty programs are really designed to collect information about customers and their shopping habits. The sophisticated databases compile information that will help retailers to refine their merchandising mix and marketing strategy to gain bigger market share. Information is power, and thanks to the data amassed from the loyalty cards, inquiring marketers know what music we listen to, what restaurants we prefer, and what brand names gain our loyalty. This valuable information allows the

We have extended the coverage of **new technologies and methods** to underscore their importance and ubiquity. Featured technologies include: the Internet; Geographic Information Systems; Quick Response supply chain management; collaboration, planning, forecasting, and replenishment systems; reverse auctions, profit optimizing decision support systems, and customer databases.



304 SECTION III Financial Management

THE FLOW OF INFORMATION

The flow of information is complex in a retail environment. A purchase will trigger a series of information messages throughout the system (depicted in Exhibit 11–12). We'll use the purchase of a pair of jeans as an example:

1. The sales associate scans the UPC tag on the jeans. A sales receipt is created.
2. The purchase information is recorded in the POS terminal and sent to the buyer/planner. The buyer/planner uses this informati
purchases and make markdown decisions.
3. The purchase information is typically aggregated by
created and sent to the vendor using a system called e
(EDI)—the computer-to-computer exchange of busi
to vendor, and back. Issues surrounding EDI are also
section. In situations where the merchandise is reord
process can be automatic and virtually bypass the buy
for newer or more fashion-oriented items, the buyer'
sending the order.
4. The buyer/planner communicates with the vendor re
for the merchandise. At this point they often negotia
of purchase.
5. The buyer/planner communicates with the distributi
deliveries from the vendor and to the stores, check in
6. Store managers also communicate with the distrib
deliveries and check inventory status.

In the next sections of this chapter, we will explore h
in data warehouses and how the information is transmit

EXHIBIT 11–12
Information Flows

Buying Systems

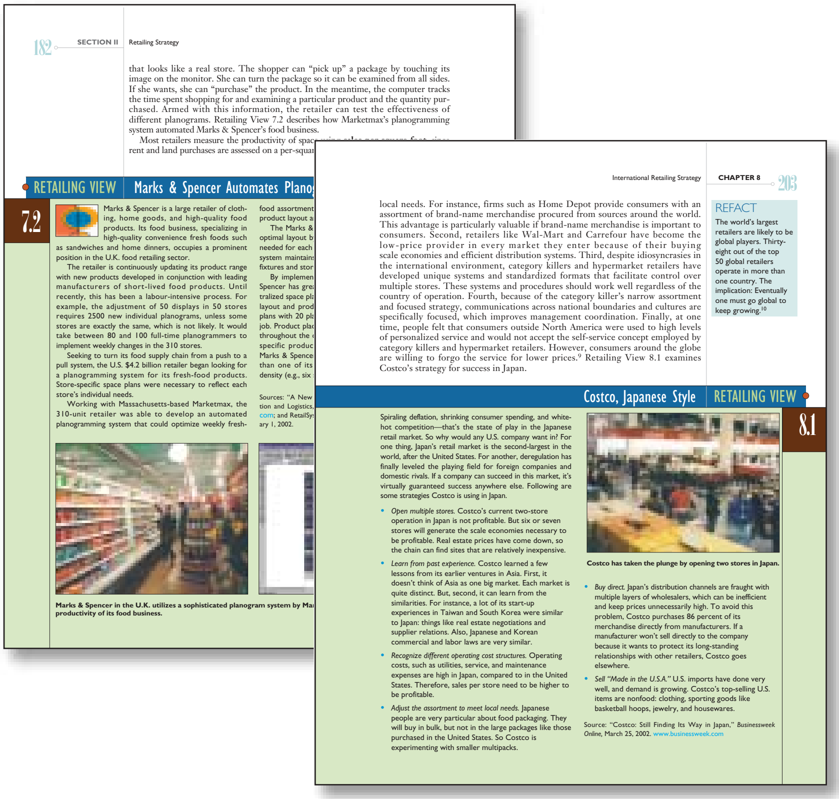
11 CHAPTER

EXECUTIVE BRIEFING Gap Inc. Uses Merchandising Planning to Manage Fast-Moving Fashions

Gap Inc. is the largest specialty clothing chain in North America and, as the leading apparel retailer, its goal must be to bring great style and value to customers year-round. To accomplish this, The Gap, Banana Republic, and Old Navy must deliver new styles and new products throughout the year. One of the company's many challenges is to accurately plan and forecast the right quantities of merchandise, delivered at the right time, and at the right price to satisfy the customer. Hundreds of factories within the supply chain produce significant volumes of merchandise for more than 4300 stores worldwide, and so the merchandise planning process is very complex, requiring sophisticated and compatible technology support systems.

Recently, Gap Inc. upgraded its information technology systems with a sophisticated planning and forecasting software application that will provide information needed at the top management level (for example, profits across the retail chain), while at the same time providing information that is needed at the store level (such as date of merchandise arrival and coordinating merchandise lines). The key to this software is that it can predict the impacts of decisions and will highlight necessary action for success. This innovative computer technology will allow for manipulation of variables to determine the best results on the retailer's profits. Mathematical modelling is also incorporated into the process, which enhances accuracy

In keeping with the evolution of retailing into a global industry, the first Canadian edition increases the emphasis on **International Retailing** through an expanded number of international retail examples and broader treatment of global retailers such as Zara, Sephora, H&M, and Carrefour. International Retailing Strategy is expanded to a chapter on its own and provides examples of Canadian success stories including Roots.



182 SECTION II Retailing Strategy

that looks like a real store. The shopper can "pick up" a package by touching its image on the monitor. She can turn the package so it can be examined from all sides. If she wants, she can "purchase" the product. In the meantime, the computer tracks the time spent shopping for and examining a particular product and the quantity purchased. Armed with this information, the retailer can test the effectiveness of different planograms. Retailing View 7.2 describes how Marketmax's planogramming system automated Marks & Spencer's food business.

Most retailers measure the productivity of spac
rent and land purchases are assessed on a per-squa

RETAILING VIEW 7.2 Marks & Spencer Automates Plano

Marks & Spencer is a large retailer of clothing, home goods, and high-quality food products. Its food business, specializing in high-quality convenience fresh foods such as sandwiches and home dinners, occupies a prominent position in the U.K. food retailing sector.

The retailer is continuously updating its product range with new products developed in conjunction with leading manufacturers of short-lived food products. Until recently, this has been a labour-intensive process. For example, the adjustment of 50 displays in 50 stores requires 2500 new individual planograms, unless some stores are exactly the same, which is not likely. It would take between 80 and 100 full-time planogrammers to implement weekly changes in the 310 stores.

Seeking to turn its food supply chain from a push to a pull system, the U.S. $4.2 billion retailer began looking for a planogramming system for its fresh-food products. Store-specific space plans were necessary to reflect each store's individual needs.

Working with Massachusetts-based Marketmax, the 310-unit retailer was able to develop an automated planogramming system that could optimize weekly fresh-

food assortment
product layout a
The Marks &
optimal layout b
needed for each
system maintain
fixtures and stor
By implemen
Spencer has gre
tralized space pl
layout and prod
plans with 20 pl
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Marks & Spence
than one of its
density (e.g., six

Sources: "A New
tion and Logistics,
com; and RetailSy
ary 1, 2002.

**Marks & Spencer in the U.K. utilizes a sophisticated planogram system by Ma
productivity of its food business.**

International Retailing Strategy CHAPTER 8 203

local needs. For instance, firms such as Home Depot provide consumers with an assortment of brand-name merchandise procured from sources around the world. This advantage is particularly valuable if brand-name merchandise is important to consumers. Second, retailers like Wal-Mart and Carrefour have become the low-price provider in every market they enter because of their buying scale economies and efficient distribution systems. Third, despite idiosyncrasies in the international environment, category killers and hypermarket retailers have developed unique systems and standardized formats that facilitate control over multiple stores. These systems and procedures should work well regardless of the country of operation. Fourth, because of the category killer's narrow assortment and focused strategy, communications across national boundaries and cultures are specifically focused, which improves management coordination. Finally, at one time, people felt that consumers outside North America were used to high levels of personalized service and would not accept the self-service concept employed by category killers and hypermarket retailers. However, consumers around the globe are willing to forgo the service for lower prices.[9] Retailing View 8.1 examines Costco's strategy for success in Japan.

REFACT
The world's largest retailers are likely to be global players. Thirty-eight out of the top 50 global retailers operate in more than one country. The implication: Eventually one must go global to keep growing.[10]

Costco, Japanese Style RETAILING VIEW 8.1

Spiraling deflation, shrinking consumer spending, and white-hot competition—that's the state of play in the Japanese retail market. So why would any U.S. company want in? For one thing, Japan's retail market is the second-largest in the world, after the United States. For another, deregulation has finally leveled the playing field for foreign companies and domestic rivals. If a company can succeed in this market, it's virtually guaranteed success anywhere else. Following are some strategies Costco is using in Japan.

- *Open multiple stores.* Costco's current two-store operation in Japan is not profitable. But six or seven stores will generate the scale economies necessary to be profitable. Real estate prices have come down, so the chain can find sites that are relatively inexpensive.
- *Learn from past experience.* Costco learned a few lessons from its earlier ventures in Asia. First, it doesn't think of Asia as one big market. Each market is quite distinct. But, second, it can learn from the similarities. For instance, a lot of its start-up experiences in Taiwan and South Korea were similar to Japan: things like real estate negotiations and supplier relations. Also, Japanese and Korean commercial and labor laws are very similar.
- *Recognize different operating cost structures.* Operating costs, such as utilities, service, and maintenance expenses are high in Japan, compared to in the United States. Therefore, sales per store need to be higher to be profitable.
- *Adjust the assortment to meet local needs.* Japanese people are very particular about food packaging. They will buy in bulk, but not in the large packages like those purchased in the United States. So Costco is experimenting with smaller multipacks.

Costco has taken the plunge by opening two stores in Japan.

- *Buy direct.* Japan's distribution channels are fraught with multiple layers of wholesalers, which can be inefficient and keep prices unnecessarily high. To avoid this problem, Costco purchases 86 percent of its merchandise directly from manufacturers. If a manufacturer won't sell directly to the company because it wants to protect its long-standing relationships with other retailers, Costco goes elsewhere.
- *Sell "Made in the U.S.A."* U.S. imports have done very well, and demand is growing. Costco's top-selling U.S. items are nonfood: clothing, sporting goods like basketball hoops, jewelry, and housewares.

Source: "Costco: Still Finding Its Way in Japan," *Businessweek Online,* March 25, 2002. www.businessweek.com

Refacts (retail factoids) are interesting facts about retailing that are found in the margins. They break up the text and provide students with an interesting break. For instance, did you know that a Montgomery Ward buyer created Rudolph, the Red-Nosed Reindeer as a Christmas promotion in 1939? Or, that 71% of Canadian adults (16 million) accessed the Internet in 2003?

REFACT

Executives at Sears Canada said sales of Martha Stewart's brands spiked after her March 2004 conviction on conspiracy charges; it appears that people were voting sympathetically by buying lots of her products.[37]

REFACT

Dollar store retailing was the fastest growing sector in Canadian retailing in 2003: Buck or Two had 328 stores, Dollarama had 300 stores, Everything for a Dollar had 60 stores, and there were also regional chains and independents.[37]

REFACT

Fifty percent of women get their ideas for clothes from store displays or window shopping.[13]

REFACT

Aldo, the Canadian shoe company, boasts average sales of more than $700 per square foot.[25]

Retailing Views are vignettes that relate the concepts discussed in the case to decisions made by retailers. These vignettes include major retailers like Wal-Mart, Sears, Amazon.com, Shoppers Drug Mart, and Home Depot that interview students on campus for management training positions and innovative retailers like REI, Starbucks, Sephora, and Harry Rosen.

RETAILING VIEW | Amazon.com Ships 200 000 Items a Day

11.1

Ever since it built five vast warehouses, Amazon.com has boasted of the wonders of the machinery inside them—10 miles of conveyer belts and myriad other gadgets. Amazon is focused on filling orders accurately.

One big goal had been to reduce errors that occur in keeping track of the several million items continually being placed onto and pulled off of hundreds of thousands of bins on metal shelves. To reduce errors, Amazon wrote new software to take better advantage of the gizmo that each warehouse worker was already carrying—a shoehorn-size device that combines a bar-code scanner, a display screen, and a two-way data transmitter. The new software checks their work by forcing them to scan each item every time they put it on or take it off a shelf.

Amazon also built a special sorting machine. The machine reads the bar code on each item and routes it into one of 2,100 chutes, each chute representing an order for a single customer. When all the items in an order are in the chute, a light flashes, and a worker rushes to put them in a box. They are then sent on other conveyers to machines that print packing slips, seal the boxes, and send them off to shippers' trucks.

Source: Saul Hansell, "Amazon Ships to Sorting Machine Beat," *New York Times,* NYTimes.com January 21, 2002. Reprinted by permission.

At Amazon.com, an Interne
sophisticated material hand

Mary-Kate and Ashley Olsen and Shoppers Drug Mart Sell Cool Stuff | RETAILING VIEW

12.1

Mary-Kate and Ashley Olsen, North America's favourite teenagers, are the embodiment of teen popular culture. The 18-year-old Californian twins have a strong attraction to the youth market in Canada and retailers are capitalizing on their popularity. Former child co-stars of TV sitcom Full House and a recent movie, New York Minute, the twins have sold 35 million copies of their videos, released 17 pop albums, launched a clothing line in Wal-Mart, and written several teen novels. They have their own magazine and website (www.mary-kateandashley.com) and are idolized by millions of teenage girls; theirs is the most profitable teen brand in North America.

Shoppers Drug Mart, the 40-year old drugstore chain, signed a deal in the spring of 2004 with Dualstar Entertainment Group, the Olsen twins' representative, to sell the Olsens' product line at more than 800 Shoppers stores in Canada. The product mix consists of hats, handbags, bracelets, watches, and cosmetics.

As part of Shoppers' re-branding effort to include a broader selection of merchandise and expanded cosmetic services, the Mary-Kate and Ashley Olsen line will extend the drugstore's reach to attract the lucrative fashion-conscious tween and teen markets. Adding the Olsen brand is an innovative strategy that is designed to have young girls choose Shoppers as a cool retail destination.

Source: Molly Gunn, "Mary-Kate and Ashley Olsen Private Label Comes to U.K.," *Retailing*, McGraw-Hill Ryerson; and Chris Sorensen, and Peter Brieger, "Shoppers is Selling Cool Makeup," *National Post*, April 27, 2004.

RETAILING VIEW | Diesel Breaks Store Design Rules

7.3

Diesel jeans stores are so confusing that it begs a question: Are they the worst run stores in America, or is something sneaky going on? The answer: something sneaky.

Walking into a Diesel jeans store feels a lot like stumbling into a rave. Techno music pounds at a mind-rattling level. A television plays a videotape of a Japanese boxing match, inexplicably. There are no helpful signs pointing to men's or women's departments and no obvious staff members in sight.

Customers who are industrious, or simply brave enough to reach the "denim bar"—Diesel's name for the counter separating shoppers from the wall of jeans at the back of the store—find themselves confronted by 35 different types of blue jeans costing U.S. $115 to $210 a pair.

A placard intending to explain the various
like an organizational chart for a decent
agency.

The company, which was founded in Italy
last year had its sales climb 40 percent from
ing U.S. $500 million, is one of the b
successfully exploiting young men's new fashi
expensive denim.

While large clothing retailers like Banana
The Gap have standardized and simplified
their stores in an effort to put customers at
approach is based on the unconventional pre
best customer is a disoriented one. They
designed an intimidating, user-unfriendly en
that customers have to interact with the sale

Indeed, it is at just the moment when a potential Diesel customer reaches a kind of shopping vertigo that members of the company's intimidatingly with-it staff make their move. Acting as salespeople-in-shining-armor, they rescue—or prey upon, depending on one's point of view—wayward shoppers.

Source: Warren St. John, "A Store Lures Guys Who Are Graduating from Chinos," *New York Times*, July 14, 2002, www.nytimes.com. Reprinted by permission.

Diesel's approach to merchandising is based on the unconventional premise that the best customer is a disoriented one. They intentionally designed an intimidating, user-unfriendly environment so that customers have to interact with the sales staff.

The text features **24 cases...**

CASE 19 Sephora: Consumer Behaviour

Sephora, a division of Moet Hennessy Louis Vuitton (LVMH), is an innovative retail concept from France that is changing the way cosmetics are sold. Sephora dares to be different in its store design and product offerings. In fact, it defines the fashion retail concept to give its customers what they want: “freedom, beauty, and pleasure.” Some of Sephora’s product offerings include makeup, fragrances, bath and body products, and skin care. There is no doubt that every woman can find the products that she desires at Sephora to pamper herself like a queen.

Sephora takes beauty offerings in a new, exciting direction, allowing the customer to choose her own level of service. The customer may opt for “an individual experience and reflection to detailed expert advice,” whether that is in Sephora’s store locations or on its highly interactive website. Sephora has been taking the U.S. market by storm ever since it arrived in mid-1998 with its first two store locations opening in New York and Miami. Furthermore, its flagship store that encompasses 21 000 square feet opened in Rockefeller Center in New York City in October 1999. Now, Sephora operates more than 70 stores nationwide, and it continues to expand at a rapid pace.

Most fashion-oriented cosmetics are sold in department stores. The scent and cosmetics area in department stores consists of areas devoted to the products made by each manufacturer. Salespeople specializing in specific lines stand behind a counter and assist customers in selecting merchandise.

Sephora represents “the future of beauty,” so it is no surprise that its store designs are a reflection of what to expect in the future. It lures customers into its stores with a bright red carpet that immediately induces an excitement and intrigue that cannot be matched. Once the customers enter the store, they are surrounded by what Sephora likes to call “the temple of beauty.” An extraordinary assortment of products are arranged alphabetically and by category along the walls of the store. Customers are encouraged to sample the beauty products on their own from self-serve modules. The stores sell a tremendous variety of brands, including new lines, best-sellers, classics, and an exclusive Sephora collection.

Sephora has a strong presence throughout the United States; however, it also has stores in France, Luxembourg, Spain, Portugal, Poland, Italy, Turkey, and England. It decided to pull out of Japan and Germany because of financial concerns, being unable to sell Japanese and German consumers on its unique retail concept.

Sephora is one of the few retailers offering cosmetic products online. There has been much speculation in recent years that beauty products cannot be displayed properly on a two-dimensional web page. Many other retailers have attempted to make the transition, but they have been unsuccessful time and time again. On the other hand, Sephora has managed to set itself apart from other retailers once again by making it work while still yielding a profit. Sephora offers brands that consumers have a difficult time finding in department stores, such as Urban Decay, Hard Candy, Stila, and Dirty Girl. Women have been making purchases on the Sephora website because they cannot find these products in their hometown malls. To many customers’ dismay, Sephora stores are not located in every regional mall across the country. For these customers, Sephora.com represents a one-stop shop for all of their beauty needs. They know that they can find the brands they love at a reasonable price with no hassles. What else can a person ask for?

In August 2001, Sephora unveiled its new advertising campaign. These new advertisements feature “close-up photographs that capture the playful application of colourful makeup to various features of the woman’s face.” These new photographs will be featured in the company’s stores, website, and direct-mail campaigns. Sephora believes that this new advertising campaign will capture its philosophy of “freedom, exploration, and discovery.” By focusing on a different feature of a woman’s face in each ad, Sephora

Typically, buyers purchase for a few stores at most, to keep the selection targeted. This also reduces excess inventory caused by poor buying decisions.

DISCUSSION QUESTIONS

1. What steps does Nordstrom take to implement its strategy of providing outstanding customer service?
2. How do these activities enable Nordstrom to reduce the gaps between perceived service and customer expectations?
3. What are the pros and cons of Nordstrom’s approach to developing a competitive advantage through customer service?

Source: This case was written by Alicia Lueddemann, the Management Mind Group; and Sunil Erevelles, University of North Carolina, Charlotte. The authors relied substantially on the following references in the preparation of this case: Sunil Erevelles and Alicia Lueddemann, “Why Winners Win,” unpublished manuscript, 2002; and Robert Spector and Patrick D. McCarthy, *The Nordstrom Way: The Inside Story of America’s #1 Customer Service Company* (New York: John Wiley and Sons, 1995).

CASE 22 GoodLife Fitness Clubs: Customer Loyalty

“These retention rates are poor. I need to do a better job of keeping members,” thought Krista Swain, manager of the GoodLife Fitness Club in Kitchener, Ontario, as she reviewed her retention rates for the 2002–2003 fiscal year.

As she was analyzing the report, Jane Riddell, chief operating officer of the chain, entered her office. Krista looked up and said, “Hi Jane. I’ve just been looking over the retention rates for the clubs. I’m not happy with my numbers.”

The head office was located at the Galleria Mall Fitness Club in London, Ontario. Head office personnel numbered approximately 40, led by Patch, Jane Riddell (chief operating officer) and Maureen Hagen (national director of fitness). The head office’s main role was to provide leadership and support for the franchisees and company-owned clubs.

One of Jane Riddell’s responsibilities was the design and management of GoodLife University, where each month 50 to 60 new associates went through a one-week program. The training included an orientation to GoodLife (basic knowledge of GoodLife and its philosophy), personal training (skills required to assist members as a personal trainer), and computer program training. When club managers hired the associates, they typically spent their first few weeks learning the ropes at the club and then attended the University program. Jane led some of the training sessions and evaluation of the participants, some of whom failed and left GoodLife.

GOODLIFE KITCHENER

In September 1998, the GoodLife Kitchener Club reopened on the second floor of an indoor mall in downtown Kitchener, Ontario. Prior to that it was located two blocks away in a relatively small (12 000 square feet) and poorly designed facility. The new facility was larger (30 000 square feet) and had an open concept design and an extensive range of equipment and programs. Over the next 18 months, membership increased dramatically under Krista Swain’s guidance. As of May 2003, the club had 3500 members, an increase of 2300 over the original 1200 members who moved from the old club.

6. Estimated total costs ($200 000 sales): $170 200.
7. Implied profit including owner’s salary: $29 800.
8. Capital invested (equipment, $8000; inventory, $70 000): $78 000.
9. ROI: $5800/$78 000 = 7.4 percent. (Assume owner salary of $24 000 per year.)

THE FUTURE

Lindy Armstrong is uncertain about the future. She enjoys the business but feels that she’s working very hard and not making much money. During all the years of Lindy’s Bridal Shoppe’s operation, she hasn’t taken a salary. She works 60 hours or more a week. Business is excellent and growing, but she’s tired. She has even discussed selling the business and returning to nursing.

DISCUSSION QUESTIONS

1. Could Lindy change the emphasis of her merchandise mix to increase her sales?
2. Which products should have more emphasis? Which should have less?
3. What personnel decisions must Lindy face to improve her business?
4. How could someone like Lindy Armstrong balance the demands of her family and her business?
5. If one of Lindy’s competitors were to offer her $150 000 for her business, should she sell?

Source: This case was prepared by Linda F. Felicetti and Joseph P. Grunewald, Clarion University of Pennsylvania.

CASE 24 Starbucks Coffee Company: Retail Successes and Challenges

By 2002, Starbucks was the leading retailer of specialty coffee beverages and beans and related food and merchandise. Its annual sales were U.S. $1.68 billion, with a profit of U.S. $102 million. Starbucks owned and operated 3000 retail stores and licensed an additional 300 airport stores in the United States, Thailand, Australia, Great Britain, and Canada.

In addition to its direct retailing activities, Starbucks had formed strategic alliances with Dreyer’s Grand Ice Cream, Kraft Foods, Barnes & Noble Booksellers, and PepsiCo to expand its product and distribution portfolios. Howard Schultz, chairman and CEO, and his senior management team were focusing on how to sustain their phenomenal growth and maintain their market leadership position.

THE COFFEE MARKET

The commercial market for coffee began in AD 1000 when Arab traders brought the coffee tree from its native Ethiopia to the Middle East. Over the next 200 years, coffee drinking spread through the Arab world and was eventually introduced in Europe in the 1500s by Italian traders. By 1650, coffee houses emerged as popular meeting places in England and France. Well-known public figures would frequent London coffee houses to discuss political and literary issues.

Coffee consumption flourished in the mid-twentieth century, aided by developments in manufacturing and cultivation. By 1940, large coffee processors such as Nestlé (Hills Bros. brand), Kraft General Foods (Maxwell House), and Procter & Gamble (Folgers) developed instant and decaffeinated coffee varieties in addition to their staple regular ground. Supermarkets emerged as the primary distribution channel for traditional coffee sales.

In the late 1980s, per capita coffee consumption fell slowly and steadily as consumers turned to soft drinks, bottled water, juices, and iced teas. The three major manufacturers—Procter & Gamble, Nestlé, and Kraft—fought for market share in a stagnant market. All of the major coffee brands were unprofitable. In an effort to regain profitability, the majors decreased historically high expenditures on image advertising, increased the use of robusta beans (as opposed to the high-quality arabica beans) to further reduce cost, and converted from 16-ounce cans to 13-ounce cans, claiming that the contents produced the same amount of coffee. Coupons and in-store promotions dominated manufacturer marketing plans as price warfare continued.

THE STARBUCKS COFFEE COMPANY: BACKGROUND

Inspiration for the present Starbucks concept came to Howard Schultz when he went to Italy on a buying trip in 1983. While wandering through the ancient piazzas of Milan, Schultz took particular note of the many cheerful espresso bars and cafés he passed. Italians, he felt, had captured the true romance of the beverage. Coffee drinking was an integral part of the Italian culture. Italians started their day at the espresso bar and returned there later on. “There’s such a strong sense of community in those coffee bars,” he mused. “People come together every single day and in many cases they don’t even know

Get Out and Do It! at the end of each chapter suggest hands-on projects that students can complete either by visiting a local retailer, or using the Internet.

GET OUT & DO IT!

1. **GO SHOPPING** Go to a local retailer that offers a frequent shopper program. Talk to the manager of the store and ask him or her how effective the program is in terms of increasing the store’s sales and profits. Find out why the manager has these views and what could be done to increase the effectiveness of the program.
2. **INTERNET EXERCISE** Contact the Canadian Marketing Association (CMA) a leading authority on privacy issues at www.the-cma.org. What are the major issues confronting retailers? What seminars are being offered to assist retailers in understanding Canada’s new privacy legislation?
3. **INTERNET EXERCISE** Go to some of the retail sites that you frequent and compare their privacy policies. Which policies make you less concerned about violations of your privacy? Why? Which policies, or lack thereof, raise your concern? Why?
4. **SHOPPING** Talk to customers in a store that has a frequent shopper program. Ask them why they are or are not members. Find out how membership in the program affects their shopping behaviour and loyalty toward the retailer.
5. **INTERNET EXERCISE** Visit www.yourshops.ca—the Air Miles virtual shopping mall. What are the shopping options and special promotions for Air Miles collectors? How does the website encourage you to participate and sign up for Air Miles? What information does it request from you?
6. **GO SHOPPING** Go to a local store and ask the store manager if you can talk to some customers in the store about the service they received. Choose customers who have made a purchase, customers who have not made a purchase, and customers with a problem (refund, exchange, or complaint). Talk with them about their experience, write a report describing the conversations, and make suggestions for improving the store’s customer service.
7. **GO SHOPPING** Go to a discount store such as Wal-Mart, a department store, and a specialty store to buy a pair of jeans. Compare and contrast the customer service you receive in the stores. Which store made it easiest to find the pair of jeans you would be interested in buying? Why?

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Canadian Edition

Retailing MANAGEMENT

Information Center

Retailing Management

Michael Levy, Babson College

Barton Weitz, University of Florida

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Online Learning Centre

A **Retailing Newsletter,** created by the authors includes short cases based on recent articles appearing in the business and trade press. Past issues of the newsletter are archived on the Online Learning Centre (www.mcgrawhill.ca/college/levy).

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