**UNIVERSITY OF PENNSYLVANIA**
**THE WHARTON SCHOOL**
**MARKETING DEPARTMENT**

# MARKETING 225 – PRINCIPLES OF RETAILING
## FALL 2006 – MONDAY/WEDNESDAY 3:00PM – 4:20PM; JMHH F70


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### OVERVIEW

This course provides an interdisciplinary overview of the retailing industry. Retailing represents a significant portion of the U.S. and world economies – in the United States alone, retailers employ over 23 million people and exceed $3.5 trillion in annual sales. Over the past thirty years, few industries have undergone the level of change that retailing has. By anticipating and reacting to changes in consumer shopping behavior, competitive economics and technological innovation, 'upstart' retailers such as Wal-Mart and Best Buy sit at the top of their industries, while former 'icons' of retail's past are relegated to history books and nostalgia items on eBay.

The primary focus of this course will be on the customer-facing activities of retailers, including assortment planning, private-label development and the management of in-store operations, and the back-door activities of forecasting and supply chain management that support customer interaction. In addition, we will explore current issues facing retailers, such as customer relationship management, industry consolidation, and supplier relations. We will also survey topics in finance, operations, information technology, and real estate as they relate to retailing.

Upon completion of the course, you should be able to:

- appreciate the complexities of operating a retail business;
- understand the challenges retailers face in striking a balance between generating profits and pleasing customers, and
- explain what factors are involved with offering the right product, in the right quantities, in the right place, at the right time, at the right price, with the right service.

The course is relevant for students interested in working for retailers or retail-affiliated businesses (e.g., wholesalers or manufacturers), and retail-related functions (e.g., advertising or third-party logistics providers). The topics we will cover provide a firm foundation in many facets of retailing, including merchandising, pricing, sourcing, logistics and site selection. To complement and expand upon these topics, students interested in pursuing further work in retailing should speak with me about the *Secondary Concentration in Retailing* and/or take OPIM 397 – Retail Supply Chain Management, which is offered concurrent to this course.

## COURSE MATERIALS

Coursework consists of reading and case preparation, active participation in class discussion, four short written assignments and a group project.

- **Required Text:** Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill (ISBN 0-07-301978-X). The text is available at the Penn Bookstore and two copies will be on reserve at Lippincott Library's reserve desk.
- **Coursepack:** Contains cases for class discussion and analysis, journal articles from academic and business publications, and selected newspaper/magazine articles highlighting relevant retail topics.

Each class session will have required readings (self explanatory) and some sessions will include optional materials. The optional readings include text chapters and newspaper/ magazine articles that provide additional background and context for that session's topic. If you are having difficulty understanding the concepts discussed in the cases or journal articles, the optional material should help.

The optional readings are also a good reference for current industry issues, particularly for students intending to pursue careers in retail or retail-affiliated businesses. For those students interested in keeping up-to-date on current events in the industry, I recommend these three resources:

- Wharton's Jay H. Baker Retailing Initiative maintains a list of links to online industry trade journals at http://bakerretail.wharton.upenn.edu/links.html;
- Retail Forward, an industry consultancy, provides various retail newsletters via email. The daily "all retailing" newsletter is very comprehensive; you can enroll for free at: http://www.retailforward.com/Newsletter/sign_up.asp; and
- Women's Wear Daily (WWD), a trade publication covering the apparel and accessories industries, also offers a daily email newsletter at www.wwd.com.

## GRADING

Grading will be based on three components:

| | |
|---|---|
| 1) Class Participation (10%) | Class participation is based on the quality of your comments, rather than the quantity of comments during class sessions |
| 2) Four Assignments (10% each) | The short assignments are listed below. Further details of each will be discussed in class. |
| 3) Final Project (50%) | The final project will be due in my office **no later than 12:00PM on 10/30**. |

Each of the four short assignments represents 10% of your final grade and will be graded on a 0 to 10 scale. Each assignment will be distributed in class one week before the due date and may be done solo or in groups of two.

| | **DUE DATE** |
|---|---|
| 1) Competitive Merchandising | 09/18 |
| 2) Retail Concept/Brand Extensions | 09/25 |
| 3) Channel Competition and Conflict | 10/04 |
| 4) Case analysis: Starbucks: Delivering Customer Service (Class #12) | 10/16 |

## FINAL PROJECT

Throughout the course, we will observe that retailers tend to pursue one of three general strategies: Value, Accessibility or Discovery (VAD for short). Some retailers may try to win on rapid transaction processing, or *accessibility*. Retailers in many classes of trade try to reduce transportation costs through lots of locations and make it easier for shoppers to get in and out of the store than competitors. Examples include Walgreens, Starbucks, and Wawa. Other retailers focus on *value* through operational efficiency, looking to reduce the total cost of shopping to the bare minimum for the customer. Wal-Mart and Aldi are good examples. Finally other retailers emphasize *discovery* and entertainment, inviting the customer to explore. Zara, Whole Foods and Urban Outfitters seem to take this approach.

A separate document will be distributed in class with the full details for the project. Here are some general details:

***VAD Group Project:***

- You need to form a group of three or four members – no exceptions. If you cannot find a group or need to add an additional member(s) to meet the requirement, we will have a "meet and greet" after class on **September 13th**.
- Identify a "wish list" of four retailers your team would like to analyze. This "wish list" is due on **September 20th**, and must include at least one retailer from each general strategy (i.e., one retailer that pursues a value strategy, one that pursues an accessibility strategy and one retailer that pursues a discovery strategy). Since we will be discussing several retailers in depth during the course, you may not include the following companies on your "wish list":
    - Best Buy
    - CVS
    - Gap, Inc.
    - Polo Ralph Lauren
    - Starbucks
    - Target
    - Wal-Mart
    - Wawa
    - Whole Foods
- I will assign each team a retailer from their list, usually your first or second choice. Once your retailer has been assigned, identify 10 levers that the retailer needs to manage particularly closely to successfully delivery against its chosen strategy. A preliminary VAD grid (introduced in class #1) and definition of key levers is due on **October 2nd**.
- Visit one or more (the more the better) of the retailer's store locations. Observe customer shopping and store associate activity. Look carefully at the store environment. Feel free to supplement your observations with photos and video (be sure to obtain permission as your instructor will not post bail). You can also collect shopper questionnaire data to supplement your observations.
- In addition, visit two of this retailer's direct competitors to benchmark relative performance on the key levers.
- On the basis of your store visit, assess the retailer's success and failure on the 10 levers you have identified. Call out the choices the retailer makes that support each lever and those that undermine it.
- Predict how the retailer will fare over the next two years on each VAD orientation and offer suggestions on how to improve vis-à-vis their competition.
- Final report due in my office on **October 30th at 12:00PM**. You will also need to submit an electronic copy on WebCafé. There is no limit to the length of the report, though the key narrative should be no more than 10 pages.

## EXPECTATIONS AND OBJECTIVES FOR CASE DISCUSSIONS

### *Case-Based Learning*

Case discussions are not "war stories" recounting an historical business situation. They are an important tool in participative learning, where you assume the role of protagonist or manager in the case. Effective case analysis is not easy, but with preparation and practice, case-based learning will improve your ability to:

- identify opportunities;
- define problems;
- gather and interpret relevant data;
- formulate strategies;
- make and implement decisions; and
- work effectively with others.

### *Preparing the Case*

Cases represent a snapshot in time for a particular business issue, so (though history may prove otherwise), there are no "right" or "wrong" answers. You are provided with all the information required to help you, the protagonist, formulate an action plan to address the key issues facing your company. The tools you will use to prepare the case include the case narrative and all exhibits. Class notes and course readings will supplement the case discussion by providing industry context and/or explanation of a technical concept that may be useful to your analysis. Your personal experiences with the particular retailer or industry segment may be helpful, but is not critical to effective analysis.

Case analysis goes beyond just reading the case. You should <u>prepare</u> for a case discussion by:

- identifying the critical issues in the case, using the questions in the syllabus or distributed prior to the class to guide your analysis;
- illustrating your points <u>using</u> case facts, <u>not simply repeating</u> case facts;
- connecting the dots between elements of the case and across topics covered in the course;
- making decisions on critical questions and formulating an action plan for the case protagonist.

### *Case Discussion*

Effective case discussions depend on the active, effective participation of everyone in the class. My role is to orchestrate and lead the discussion, not to lecture the case to the class. Your role is to assume the position of the main protagonist in the case and to think critically about the issues at hand. As you analyze the case and during the class discussion, you should continually ask yourself:

- "what would I do?"
- "why would I do this?"
- "what evidence in the case supports this approach?"

I will assume that everyone in the class knows the case facts, so we will not spend our time repeating them unless they are used to support further analysis. During the discussion, I may call on students at random to contribute and I may ask you to respectfully support, refute or elaborate on a classmate's position. The better prepared you are for the case discussion, the more we will learn together.

| OUTLINE OF CLASS SESSIONS | | | |
|---|---|---|---|
| **CLASS** | **DATE** | **TOPIC** | **READING** |
| 1 | 09/06 | Retail Industry Overview | ▪ **Textbook:** Types of Retailers (Chapter 2)<br>▪ **News:** "A Bored Shopper's Lament: Seen a Store, Seen Them All"<br>▪ **News:** "Survival of the Fittest in the World of Retail"<br>▪ **Optional (Textbook):** Introduction to the World of Retailing (Chapter 1) |
| 2 | 09/11 | Wal-Mart Stores, Inc. | ▪ **Case:** Wal-Mart Stores in 2003<br>▪ **Article:** Note on Retail Economics<br>▪ **Optional (Textbook):** Financial Strategy (Chapter 6)<br>▪ **Optional (News):** "Wal-Mart's Bid to Remake Itself Weighs on Sales" |
| 3 | 09/13 | Target Markets & Organization Design | ▪ **Case:** Gap, Inc<br>▪ **Textbook:** Customer Buying Behavior (Chapter 4: **p. 111-118**)<br>▪ **Textbook:** Human Resource Management (Chapter 9 **p.241-251**)<br>▪ **Optional (News):** "What They Know About You" |
| 4 | 09/18 | Assortment Planning<br>**Assignment #1 Due** | ▪ **Textbook:** Managing Merchandise Assortments (Chapter 12)<br>▪ **Textbook:** Store Layout, Design, and Visual Merchandising (Chapter 18 **p.495-510**) |
| 5 | 09/20 | Concept Development<br>**Project Team & Retailer "Wish List" Due** | ▪ **Guest Speaker:** Michael Kramer, Senior Vice President & Chief Financial Officer, Abercrombie & Fitch Co.<br>▪ **Textbook:** Retail Market Strategy (Chapter 5)<br>▪ **News:** "The $1 Billion Mark, and Growing"<br>▪ **News:** "Aiming for Another Hit: Specialty Stores Flock to Launch New Concepts" |
| 6 | 09/25 | Format Evolution<br>**Assignment #2 Due** | ▪ **Case:** Best Buy Co., Inc.: Customer-Centricity<br>▪ **Textbook:** Customer Relationship Management (Chapter 11) |
| 7 | 09/27 | Retail Pricing and Promotion | ▪ **Textbook:** Retail Pricing (Chapter 15)<br>▪ **Article:** "Mind Your Pricing Cues"<br>▪ **Article:** "Does Promotional Pricing Grow Future Business?"<br>▪ **News:** "Consumer Goods Firms Duel for Shelf Space"<br>▪ **News:** "Stores and Vendors Take Their Haggling Over Payment to Court" |

| OUTLINE OF CLASS SESSIONS | | | |
|---|---|---|---|
| **CLASS** | **DATE** | **TOPIC** | **READING** |
| 8 | 10/02 | Channel Coordination<br>**VAD Grid and Preliminary Levers Due** | ▪ **News:** "When One Hand Doesn't … Know What the Other Hand Is Doing, Customers Notice; And They Aren't Pleased"<br>▪ **News:** "Retailers Go Online for Key Lessons"<br>▪ **News:** "Shoppers Who Blend Store, Catalog, Web Spend More" |
| 9 | 10/04 | Channel Competition and Conflict<br>**Assignment #3 Due** | ▪ **Guest Speaker:** Peter Boneparth, President & Chief Executive Officer, Jones Apparel Group<br>▪ **News:** "Cutting His Own Figure in Fashion"<br>▪ **News:** "Survival of the Fittest: Moderate Vendors Rush to Adapt to New World"<br>▪ **News:** "Wal-Mart Ripple Effect Strikes Again: Cutbacks Weigh on Suppliers" |
| 10 | 10/09 | Private Labels | ▪ **Case:** H-E-B Own Brands<br>▪ **News:** "Brand Killers; Store Brands Aren't For Losers Anymore"<br>▪ **News:** "Saving Private Labels"<br>▪ **News:** "Top 10 Groceries Trends: New Food, New Look" |
| 11 | 10/11 | Product Sourcing and QR | ▪ **Guest Speaker:** Martin Bloom, former President and Chief Executive Officer, May Department Stores Int'l<br>▪ **Textbook:** Information Systems and Supply Chain Management (Chapter 10 **p.268-272, p.276-286**)<br>▪ **Textbook:** Buying Merchandise (Chapter 14)<br>▪ **News:** "McGrath's Mantra: Speed to Market"<br>▪ **News:** "Shining Examples: How Three Large and Successful Companies are Using Their Supply Chains to Compete"<br>▪ **Optional (Textbook):** Merchandise Planning Systems (Chapter 13) |
| 12 | 10/16 | Customer Experience<br>**Assignment #4 Due** | ▪ **Case:** Starbucks: Delivering Customer Service<br>▪ **News:** "Top 10 Retail Trends: Upscale Experience, Downscale Prices"<br>▪ **News:** "Retailing, The High Tech Way"<br>▪ **Optional (Article):** "Creating the Living Brand" |
| 13 | 10/18 | Competing for the Future | ▪ **Case:** Tesco Plc.<br>▪ **News:** "The Next Wal-Mart"<br>▪ **News:** "Discount Variety Stores Work on Image to Upgrade Retail Locations"<br>▪ **News:** "The Staples Turnaround: That Was Easy"<br>▪ **Optional (News):** "How Target Does It" |

## **DETAILED DESCRIPTION OF COURSE SESSIONS**

**CLASS #1** **RETAIL INDUSTRY OVERVIEW**
**SEPTEMBER 6, 2006**

Marshall Field's was one of the pioneers in department store retailing in the United States. Founded in 1865, Marshall Field's replicated the department store concept developed in the early 1850's by Paris-based Bon Marché, and by 1881 had reached sales of $25 million – about 2% of U.S. GNP at the time. This class will discuss the environment that contributed to Marshall Field's success and the strategic choices made by Field to make this "new" department store format successful against the traditional dry goods retailers of the time.

We will also discuss the evolution of department stores since Field's time and the introduction of various retail formats that have since developed; from the emergence of chain stores in the 1920's, discount stores and mass merchandisers in the 1950's, specialty shops in the 1970's and to the "category killers" that have come to prominence in the last two decades. To understand today's competitive retail environment, we will compare and contrast current retail formats based on their product "assortment" – the "breadth" of product categories carried and the "depth" of choices within each of these categories.

**READING:** Types of Retailers (Chapter 2), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

"A Bored Shopper's Lament: Seen a Store, Seen Them All", *The New York Times (January 4, 2003)*

"Survival of the Fittest in the World of Retail", *Seattle Post Intelligencer (August 26, 2004)*

**OPTIONAL:** Introduction to the World of Retailing (Chapter 1), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

**QUESTIONS:**
1) What are the differences between variety and assortment? Why are these important elements of retail market structure?
2) Are there any retailers that you've stop patronizing? What are some of the factors that made you stop shopping there?
3) What are the issues facing Toys 'R' Us? Are any other retailers who might be dealing with a similar situation in the future?
4) Based on what you know about the theories of retail evolution, what are the prospects for today's department stores?

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**CLASS #2** **WAL-MART STORES, INC.**
**SEPTEMBER 11, 2006**

A seismic shift in retailing began rather innocuously in 1962: S.S. Kresge opened the first Kmart in Garden City, Michigan, F.W. Woolworth opened its Woolco chain, Dayton

Hudson opened its first Target store, and a guy named Sam Walton opened the first 'Wal-Mart Discount City' in Rogers, Arkansas. From first year sales of $975K, Wal-Mart's cult-like culture around "Mr. Sam", its commitment to everyday low prices, efficient distribution and a culture of customer service has propelled them to top spot in the Fortune 500, with annual revenues in 2004 of almost $289 billion. If you purchased 100 shares for $16.50 at Wal-Mart's first public offering in 1970, your investment today would be worth over $10 million.

Today's case will discuss the growth of Wal-Mart up until 2003, as well as the current state of Wal-Mart, including an update on global expansion and their new strategy of smaller formats to increase penetration. Additionally, we will evaluate the operational and financial performance of Wal-Mart and discuss how to effectively use this information in decision-making situations. Key financial and productivity ratios, such as inventory turns, capital efficiency, and comparable-store sales (i.e., "same-store" in North America and "like-for-like" in Europe) will provide insight to a Wal-Mart's operations and act as a way to compare them against their competition.

**CASE:** Wal-Mart Stores in 2003 (HBS Case 9-704-430)

**READING:** Note on Retail Economics (HBS Note 9-595-006)

**OPTIONAL:** Financial Strategy (Chapter 6), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

"Wal-Mart's Bid to Remake Itself Weighs on Sales", *The Wall Street Journal (July 21, 2006)*

**QUESTIONS:**
1) What are the sources of Wal-Mart's competitive advantage?
2) How sustainable are these advantages? Do they differ by rural markets and suburban markets? Do they differ domestically versus internationally?
3) What challenges do they face in their diversification strategies?
4) In addition to the three criticisms of comparable store sales listed in the 'Note on Retail Economics', what are some other shortcomings of this statistic?
5) How could high inventory turns be a sign of concern for a retailer?

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## CLASS #3 — TARGET MARKETS AND ORGANIZATION DESIGN
**SEPTEMBER 13, 2006**

Sam Walton, the founder of Wal-Mart Stores, said "There is only one boss, the customer. And he can fire everybody in the company, from the chairman on down, simply by spending his money elsewhere." With approximately 20 square feet of retail space per capita in the United States (and the unbounded selection provided through various online merchants), consumers have a broad array of "elsewheres" to choose from. With such diversity of choice, successful retailers realize that they cannot cater to everyone, and instead must focus on meeting the needs of a subset of "target" consumers.

In today’s class, we will use a case on Gap, Inc., to discuss the issues their brands face in meeting the needs of specific target markets, as well as the impact organization design has on their ability to execute their strategy. Different retail organization structures impact a retailer’s ability to profitably serve a target market. Of particular interest is the struggle between centralized and decentralized decision-making, a common dilemma that all retailers face: how to best leverage the benefits that central planning and buying afford with the input that stores can provide in their daily contact with consumers.

**CASE:** Gap, Inc. (HBS Case 9-706-402)

**READING:** Consumer Buying Behavior (Chapter 4: **p. 111-118**), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

Human Resource Management (Chapter 9: **p.241-251**), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

**OPTIONAL:** “What They Know About You”, *The New York Times (November 14, 2004)*

**QUESTIONS:**

1) What are the demographic and lifestyle characteristics have impacted Gap, Inc. over the last several years?
2) What role has cannibalization across brands played in Gap’s problems?
3) How can retailers effectively strike a balance between the benefits a broad ‘corporate’ view provides with the daily customer contact that store employees receive?
4) If you were Paul Pressler, what would you do?

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**CLASS #4** **ASSORTMENT PLANNING**
**SEPTEMBER 18, 2006**

As we discussed in our first class, an assortment is the selection of merchandise that a retailer carries. Constructing the right mix of products and services that both satisfies the target customer and produces the projected sales and profit is a careful balance of “art” and “science”. Once an assortment strategy is developed, retailers need to determine the most effective methods to organize and promote the assortment within the store, as well as how to profitably manage and grow the category, all while addressing the needs of the target market.

In today’s class, we will discuss how retailers plan their assortments; in particular, how many non-apparel retailers use a technique called ‘category management’ to profitably manage similar groups of product categories as strategic business units. In addition, we will talk about aspects of retailing that you are probably most familiar with – store layout, design and visual merchandising – and how these physical and visual elements support their assortments and reinforce the overall image of the retailer.

**READING:** Managing Merchandise Assortments (Chapter 12), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

Store Layout, Design, and Visual Merchandising (Chapter 18 **p.495-510**), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

**QUESTIONS:**

1) How does assortment planning differ between a fashion-based business (e.g., Urban Outfitters) and a convenience store (e.g., Wawa)?
2) How do pricing goals impact assortment planning?
3) How do the merchandising and store operations teams work together to ensure that assortments are effectively presented to the consumer on the selling floor?

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**CLASS #5** **CONCEPT DEVELOPMENT**
**SEPTEMBER 20, 2006**

**GUEST SPEAKER:** Michael Kramer, Senior Vice President & Chief Financial Officer, Abercrombie & Fitch Co.

Our discussion of Gap, Inc. highlighted many issues facing apparel retailers, including format saturation, concept maturity and escalating competition. Retailers find it extremely difficult to evolve their formats rapidly enough to meet the fickle, changing demands of their customers. Yesterday’s retail star (e.g., Gap, Inc.) can find their fortunes quickly dim as consumers flock to today’s trend-right and priced-right retailers (e.g., Abercrombie & Fitch and American Eagle Outfitters). Over the past ten years, shifting consumption patterns from malls to other shopping venues, rapidly changing fashions, and the impact of commoditization in certain product categories have forced numerous retailers to make substantive changes to their format in order to survive.

One strategy that has been increasing in recent years has been the launch of new concepts. Apparel retailers, in particular, have moved away from stores with broad appeal toward concepts attracting narrower, lifestyle-driven segments of the population. Today’s guest speaker, Michael Kramer of Abercrombie & Fitch Co., will discuss his company’s knack for launching successful concepts, including their recent success with Hollister in 2000 and Ruehl No. 925 in 2004.

**READING** Retail Market Strategy (Chapter 5), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

“The $1 Billion Mark, and Growing”, *Women’s Wear Daily (April 17, 2006)*

“Aiming for Another Hit: Specialty Stores Flock to Launch New Concepts”, *Women’s Wear Daily (April 26, 2005)*

**QUESTIONS:**
1) What are the key factors driving the launch of new apparel concepts?
2) What issues do corporate-level executives need to be concerned about when launching and growing new concepts?
3) Why has Abercrombie & Fitch Co. been so successful launching new concepts?
4) What are the similarities and differences in new concept development between apparel, grocery and mass merchandise categories?

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**CLASS #6** **FORMAT EVOLUTION**
**SEPTEMBER 25, 2006**

Successful retailers have survived intense competition by making constant adjustments to their image, target markets, merchandising, human resources and physical environment (e.g., store design and location). Certain retailers in particular, such as those selling consumer electronics, have undergone significant upheaval in recent times to stay relevant in a rapidly evolving marketplace. Facing intense competition from a broad swath of retail segments, these and other chains need to continually monitor the demands of their target market and offer their customers a compelling reason to shop them over their competition.

In our third class, we talked about the evolution of The Gap from a store selling Levi's and records (i.e., the precursor to compact discs) in 1969, to a vertically integrated, multi-brand retailer with over $16 billion in annual sales in 2004. In today's class, we discuss the growth of Best Buy, a retail contemporary of Gap, which has followed a strikingly similar path of successes and failures over the past 37 years. In particular, we will evaluate Best Buy's continued roll-out its "Customer Centricity" initiative, aimed at helping the company face the brutal competition from other retail formats (e.g., Wal-Mart) and the margin pressures that continually plague 'commodity' electronics retailers.

**CASE:** Best Buy Co., Inc.: Customer-Centricity (HBS Case 9-506-055)

**READING:** Customer Relationship Management (Chapter 11), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

**QUESTIONS:** *Will be distributed prior to class*

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**CLASS #7** **RETAIL PRICING & PROMOTION**
**SEPTEMBER 27, 2006**

Retailers communicate with their customers on a continuous basis and central to that interaction are the retailer's promotional efforts. Retail promotions involve a series of activities that not only provide consumers with information regarding the retailer's store and its product offering, but also influence consumer perceptions and attitudes toward the store and what it has to offer.

In today's class, we will discuss a wide range of pricing and promotion strategies used by retailers. In particular, we will discuss the impact that pricing and promotion decisions have on the long-term viability of certain segments (e.g., department stores), as well as the impact that everyday low pricing (EDLP) has on a retailer's overall competitiveness.

**READING:** Retail Pricing (Chapter 15), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

Eric Anderson and Duncan Simester, "Mind Your Pricing Cues", *Harvard Business Review, Reprint #R0309G, (September 2003)*

"Does Promotional Pricing Grow Future Business?", *MIT Sloan Management Review (Summer 2004)*

"Consumer Goods Firms Duel for Shelf Space", *The Wall Street Journal (October 22, 2004)*

"Stores and Vendors Take Their Haggling Over Payment to Court", *The New York Times (May 17, 2005)*

**QUESTIONS:**

1) In addition to clearing unwanted merchandise, what are some other reasons a retailer would use markdowns?
2) Why is '9' pricing effective?
3) When competing with Wal-Mart, is following an everyday low pricing (EDLP) strategy a requirement?
4) How might manufacturers and retailers address the issues of vendor rebates?

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## CLASS #8 — CHANNEL COORDINATION
**OCTOBER 2, 2006**

Over the past several years, "bricks and mortar" retailers in certain segments have focused on developing electronic channels to extend the reach of their stores. A major issue these retailers face is the degree of merchandising coordination to exercise between their physical stores and their direct-to-consumer channels (i.e., catalog and Internet). For retailers with catalogs, replicating the catalog offering to an online channel was a natural extension of their direct business and a more cost effective way to process customer orders. However, for bricks and mortar-based retailers without catalogs, the skills required to "pick, pack and ship" a product to send to an online customer required significant investments in new operational capabilities.

In today's class, we will discuss the pros and cons of various levels of channel coordination. Some companies, such as Limited Brands' Victoria's Secret, prefer to maintain two independent, yet interdependent divisions: Victoria's Secret Stores and Victoria's Secret Direct. Though the Victoria's Secret brand may appear to be the same to the consumer, they are managed by separate organizations and carry significantly different assortments (e.g., swimsuits only available through direct channels). In contrast to Victoria's Secret, Eddie Bauer developed a more uniform model, which sought to minimize merchandising differences between its retail and catalog operations (e.g., prices were kept the same). We'll discuss the pros and cons of each approach and the impact on their stores, supporting operations and dual-channel customers.

**READING:** "When One Hand Doesn't … Know What the Other Hand Is Doing, Customers Notice; And They Aren't Pleased", *The Wall Street Journal (March 22, 2004)*

"Retailers Go Online for Key Lessons", *The Wall Street Journal (June 21, 2006)*

"Shoppers Who Blend Store, Catalog, Web Spend More", *The Wall Street Journal (September 3, 2004)*

**QUESTIONS:**

1) What are the pros and cons of separating store-based and direct-based businesses like Victoria's Secret?
2) How can retailers develop a seamless integration between their store-based and direct-based businesses?
3) Where does Amazon.com fit on the "Wheel of Retailing"? What risks do they face as they add more product categories?

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**CLASS #9** **CHANNEL COMPETITION AND CONFLICT**
**OCTOBER 4, 2006**

**GUEST SPEAKER:** Peter Boneparth, President and Chief Executive Officer of Jones Apparel Group

In our discussion on Marshall Field's, we discussed how traditional department stores have continued to lose market share to broad group of competing formats over the past 20 years. Over this period, one key problem plaguing the segment has been product assortments becoming more and more similar across chains, leading to an unhealthy reliance on discounts and promotions to lure shoppers. This lack of differentiation, coupled with the increased availability of identical merchandise at numerous off-mall competitors, has rapidly put the viability of the department store format in peril.

Consequently, department stores are now dedicating significant resources to develop more focused assortments that not only resonate with their target market, but also distinguish them from their competition. Most chains are going about this strategy by developing high quality private label apparel lines, as well as working with branded suppliers to develop exclusive lines available only at their stores. This strategy, however, creates complications for branded suppliers: how should they determine what level of resources to commit to costly exclusivity relationships with department stores when those stores are not only losing apparel market share to other formats, but also are developing competitive private label lines that take share from branded lines?

Today's guest speaker, Peter Boneparth of Jones Apparel Group, the third largest apparel company in the United States, will share his perspectives on the dilemma branded apparel suppliers face in their relationship with department stores and how the segment's declining market share impacts the growth prospects across Jones' brands.

**READING:** “Cutting his own figure in fashion”, *The New York Times (May 6, 2004)*

“Survival of the Fittest: Moderate Vendors Rush to Adapt to New World”, *Women’s Wear Daily (April 5, 2006)*

“Wal-Mart Ripple Effect Strikes Again: Cutbacks Weigh on Suppliers Earnings”, *The Wall Street Journal (April 27, 2006)*

**QUESTIONS:**

1) What are the pros and cons of branded apparel suppliers collaborating with department stores to develop exclusive lines?
2) How should off-mall department stores such as Kohl’s and mass merchandisers like Target react to the collaboration between branded apparel suppliers and department stores?
3) Will this new approach in apparel assortments revitalize the department store segment? What other factors should department stores address to support their assortment changes?

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**CLASS #10** **PRIVATE LABELS**
**OCTOBER 9, 2006**

A private label is a product line that is owned, controlled, merchandised and sold by a specific retailer in its own stores. Among other things, private labels give retailers greater flexibility over pricing, higher gross margins and enhance store loyalty. On the down side, retailers selling private labels require higher selling costs (since they’re not supported by advertising, stocking support or slotting fees from manufacturers), greater financial risk of obsolete or unwanted inventory, and expanded responsibilities in product development, sourcing and manufacturing.

Private labels are available in most types of retailers. Department stores and mass merchandisers use private labels to differentiate themselves against competitors and to build customer loyalty. Target has dedicated significant resources to develop the Michael Graves and Mossimo lines, while Sears’ Craftsman and Kenmore private-labels have been leading brands for decades. In fact, Wal-Mart’s Ol’ Roy dog food is the top selling dog food in the United States.

The H-E-B Own Brands case outlines the strategic and tactical issues that H.E. Butt Grocery faces with its private label program. As the 8$^{th}$ largest supermarket chain in the United States, H-E-B has been very successful in the past, maintaining a 65% share in its core markets. Now facing a competitor that has a reputation for low pricing, H-E-B must devise a strategy for defense of its existing markets and the future growth of the chain.

**CASE:** H-E-B Own Brands (HBS Case 9-502-053)

**READING:** “Brand Killers; Store Brands Aren't For Losers Anymore”, *Fortune (August 11, 2003)*

“Saving Private Labels”, *Brandweek (May 8, 2006)*

"Top 10 Groceries Trends: New Food, New Look", *The Wall Street Journal (November 21, 2005)*

**QUESTIONS:**
1) What is your recommendation on Glacia?
2) How should Own Brands respond to competitive price promotions? When should they follow? What about national promotions?
3) What is the role of H-E-B and Hill Country Fare as Own Brand labels? How should these be positioned with respect to other brands in the category?
4) What is the role of Own Brands in H-E-B's overall corporate strategy? Why is it important? Should it be scaled up? Or dialed down? If so, in what products or in what product categories?

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**CLASS #11** **PRODUCT SOURCING & QUICK RESPONSE (QR)**
**OCTOBER 11, 2006**

**GUEST SPEAKER:** Martin Bloom, Former President and Chief Executive Officer, May Department Stores International

Our discussion of Wal-Mart showed how an efficient supply chain enables retail success. This session we will explore how an effective supply chain can lead to competitive advantages in the fashion apparel segment.

Over the past few years, reduction in apparel quotas and the emergence of China as a sourcing powerhouse have enabled retail and apparel companies to offer fashionable merchandise at lower and lower prices. Today's guest speaker, Martin Bloom, former President and Chief Executive Officer of May Department Stores International, will discuss why retailers are intensely focused on developing private label apparel brands. In addition, Mr. Bloom will share how effective collaboration with sourcing partners can positively impact a retailer's bottom line through shorter order cycles, lower levels of inventory and fewer markdowns.

**READING:** Information Systems and Supply Chain Management (Chapter 10: **p.268-272, p.276-286**), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

Buying Merchandise (Chapter 14), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

"McGrath's Mantra: Speed to Market", *Women's Wear Daily (October 5, 2004)*

"Shining Examples: How Three Large and Successful Companies are Using Their Supply Chains to Compete", *The Economist (June 15, 2006)*

**OPTIONAL:** Merchandise Planning Systems (Chapter 13), *Retailing Management, Michael Levy and Barton Weitz, 6th Edition, Irwin/McGraw Hill*

**QUESTIONS:**
1) What are some key differences in private label programs in apparel versus grocery?
2) Why are department stores emphasizing their private label programs?
3) How do these programs differ in risk and reward from "exclusives" offered by branded apparel companies?
4) How specifically does collaborating with sourcing partners improve a retailer's financial and operational performance?

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**CLASS #12** **CUSTOMER EXPERIENCE**
**OCTOBER 16, 2006**

To develop the right customer experience, retailers draw upon: (1) the expectations of the brand; (2) the physical and sensory environment; (3) the products; and (4) the people at the store, both shoppers and store employees. We've discussed how retailers cultivate and enforce their brand image through marketing, developing assortments, and the store environment. In today's class, we'll explore how the least predictable element of the retail mix – the people – impact customer experience.

Since positive experiences trigger the repeated movement of money from a wallet to the cash register, customer experience is the most critical element in retailing. Store employees obviously play a vital role by representing the retail brand and delivering service when customers shop the store. In addition, your fellow shoppers play a key role in influencing your buying behavior. Whether conscious or unconscious, elements of consumer behavior, including expectations and affiliation, can have a significant impact on a customer's impression of a store. With these factors in mind, retailers must focus on making customer expectations meet reality on both sides of the people equation to ensure the long-term viability of their business.

The case on Starbucks will demonstrate the important role employees and shoppers play in defining customer experience in retail. At the time of the case in 2002, Starbucks is the dominant specialty coffee brand in the world, with more than 4,500 retail outlets in North America alone. However, the rapid growth of the chain has launched a narrowly defined market segment to mass appeal, to the utter dislike of some core customers. With customer satisfaction on the decline, Starbucks' management must decide how to profitably reconcile the needs of a growing, fragmented customer base with the authenticity of the Starbucks brand and experience.

**CASE:** Starbucks: Delivering Customer Service (HBS Case 9-504-016)

**READING:** "Top 10 Retail Trends: Upscale Experience, Downscale Prices", *The Wall Street Journal (November 21, 2005)*

"Retailing, The High Tech Way", *Business Week (July 6, 2005)*

**OPTIONAL:** Neeli Bendapudi and Venkat Bendapudi, "Creating the Living Brand", *Harvard Business Review, Reprint #R0505G, (May 2005)*

**QUESTIONS:** 1) What factors accounted for the extraordinary success of Starbucks in the early 1990s? What brand image did Starbucks develop during that period?
2) Why have Starbucks' customer satisfaction scores declined? Has the company's service declined, or is it simply measuring satisfaction the wrong way?
3) How does the Starbucks of 2002 differ from the Starbucks of 1992?
4) Should Starbucks make the $40 million investment in labor in the stores? What's the goal of the investment? Is it possible for a "mega-brand" to develop customer intimacy?

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**CLASS #13** **COMPETING FOR THE FUTURE**
**OCTOBER 18, 2006**

Retailing is a brutal business. Over the past thirty years, few industries have undergone the level of change that retailing has. Even if you've developed the "perfect" retail concept, the minute you open your doors to the public, you're providing a living laboratory of your "perfect" concept to your competition. Every merchandising, pricing and promotion decision is visible to your competition and, for the most part, can be easily replicated.

The success of Wal-Mart Stores is unparalleled. Wal-Mart accounts for almost nine cents of every non-auto retail dollar spend in the United States and register tape from one day's sales at Wal-Mart would stretch almost 2,700 miles, or from Philadelphia to Los Angeles. In fact, Wal-Mart's day-after-Thanksgiving sales in 2003 of $1.5 billion were larger than the gross domestic product of 36 countries. Fortunately, the almost 5,000 Wal-Mart stores worldwide provide a living laboratory for all retailers to shamelessly borrow from the most successful retailer in history.

As we've seen with H-E-B, competition with Wal-Mart is not a death sentence. In today's class, we will discuss how several retailers are successfully competing with Wal-Mart in the United States and abroad. Our case on Tesco Plc., a UK-based grocery and mass merchandise retailer, will show how they transformed from an also-ran, to become the UK's dominant grocery chain and a formidable global competitor to Wal-Mart.

**CASE:** Tesco Plc. (HBS Case 9-503-036)

**READING:** "The Next Wal-Mart", *Business Week (April 26, 2004)*

"Discount Variety Stores Work on Image to Upgrade Retail Locations", *The New York Times (July 28, 2004)*

"The Staples Turnaround: That Was Easy", *Business 2.0 (June 7, 2006)*

**OPTIONAL:** "How Target Does It", *Fortune (October 18, 2004)*

**QUESTIONS:** *Will be distributed prior to class*