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# RETAILING MANAGEMENT 9e



## Newsletter for Instructors

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

- [The Macy's Effect: How Macy's Dismantled Everything Once Right About the Department Store](#) (Chapters 2 & 5)
- [Zappos Takes to the Road to Connect with Consumers](#) (Chapters 3 & 10)
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## Retail Tidbits

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- ❖ [Six Retail Chains, Six Survival Strategies](#)

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April  
2017

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RETAILING MANAGEMENT

9e

# Teaching Tips

## Additional Material for Teaching Retail Classes

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

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

The website is available at <http://warrington.ufl.edu/centers/retailcenter/teach/>

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# The Macy's Effect: How Macy's Dismantled Everything Once Right About the Department Store

Lee Peterson, Wayfind, January 25, 2017

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



Hindsight may be 20/20, but an analysis of the history and current status of department stores suggests that some of the trends could have been predicted and avoided—if only the key actors had been paying a little more attention. Instead, they forgot several foundational premises of any retailing effort.

In particular, a turning point for the industry came with the massive merger between the Federated and May's chains. The \$11 billion deal created the biggest department store brand in the world, and the executives in charge embraced that status wholeheartedly. They pursued size, with the sense that a larger chain would enable them to realize economies of scale. Furthermore, they wanted a single brand, Macy's, that they could promote globally and establish with a powerful brand image.

These motives certainly sound promising. But what the executives failed to realize was that prices and brand images can only go so far. If the stores do not stock the products that consumers want, they are not going to buy, no matter how inexpensive the purchase seems or how appealing the idea of Macy's might be.

In particular, by bringing all the stores under the Macy's umbrella, the company lost an invaluable amount of local appeal. The most famous example remains the transformation of the Chicagoland retailer Marshall Field's into Macy's stores. With its signature location on the "Magnificent Mile," Marshall Field's was a symbol of the city. When it disappeared, so did many Chicagoans, who felt "betrayed" by the loss of their beloved local chain.

But even in the face of consumers' complaints, Macy's doubled down on its commitment to a singular, efficient supply chain. In its constant pursuit of cost savings and a consolidated supply chain, Macy's forgot to check with local customers about what supplies they wanted. Stores across the nation thus received similar shipments, with only minimal variations.

Customers were not the only ones irritated by the change. By instituting a top-down approach to inventory policies, the corporate office imposed its will on store managers, rather than listening to their insights from the field. Managers and sales clerks with decades of experience perceived that the company was dismissing not just their knowledge and expertise but their very identity as valued workers. In turn, "Decades of distinct market knowledge ended up devalued and then simply disappeared."

Without such distinctiveness, a vicious cycle began, in that consumers no longer found any compelling reason to shop at yet another indistinct retailer and drove past Macy's to get to lower priced generalist retailers such as Target. In response, Macy's has tried to be even more like Target, lowering its prices and seeking still further efficiencies. Thus the loss of personalization and specialization continues, as do the declines in Macy's sales and profits. Here again, the effects extend beyond the retailer and its customers. Due to store closings and cost-cutting moves, Macy's plans to lay off tens of thousands of workers. Such massive layoffs mean the loss of still more knowledge and experience.

Perhaps these outcomes could not have been predicted accurately at the time of the merger. But the way forward seems relatively clear. Department stores need to get back to the characteristics that helped them succeed in the first place: a local presence, reflecting the desires and needs of local customers, as gleaned and recognized by experienced local salespeople. It may not lead to efficiency, but the "ultimate model of survival for physical retailers today is to go local and stay there."

## Discussion Question:

1. Do you agree with the author's assessment that the Macy's merger was responsible for the demise of department stores? Why or why not?
2. What is the future of department stores in the United States?
3. Do you shop at department stores? Do your parents? Why or why not?

# Zappos Takes to the Road to Connect with Consumers

Glenn Taylor, *Retail Wire*, February 15, 2017

## Use with Chapter 3, “Multichannel Retailing,” and Chapter 10, “Customer Relationship Management”

Taking inspiration from rock stars throughout history, Zappos has decided to haul a 40-foot shipping container around the country to host massive shows for its fans. There might not be as many guitars, but the metaphorical link is clear.

In this road show, Zappos is the band: beloved and appreciated, but sometimes seeming quite distant from people’s everyday lives. Because it is solely an online entity, Zappos worries that its customers struggle to connect with it, in the same way they might interact with physical retailers that allow them to touch and feel the products for sale. It is embracing a rock-n-roll, slightly risqué image, calling the tour the “Friends with Benefits Road Show” and asking local folks to come by to say hi.

Consumers are the fans, who can attend when the show comes to their hometown. In addition to the marquee attraction, they can listen to actual music from local bands, which Zappos will hire for each town it visits. Each stop also will feature local food offerings and “happy hour” offerings poured by the roadies—that is, the Zappos representatives.

Many concert tours feature sideshows or tents too, and here again, Zappos offers a parallel. But in this case, in line with the brand’s long-standing dedication to pet adoption, the road show will have animals from local shelters, available for people to take in to their loving homes. Zappos even will cover the adoption fees.

Thus the experience promises to be remarkably compelling. Zappos guarantees that there is no “catch”; visitors do not need to buy anything to be able to come and enjoy the music, drinks, and puppies. They can interact with Zappos representatives and peruse some exclusive merchandise, without even needing to buy a ticket. In turn, Zappos hopes to become the best loved b(r)and, now and into the future, for the fans that get a chance to know it in person.



### Discussion Question:

1. What is Zappos doing to connect with its customers?

# Will Neiman Marcus Find Gold with its Women's Plus-Size Pilot?

George Anderson, *Retail Wire*, February 14, 2016

Use with Chapter 4, "Customer Buying Behavior"



Somewhat late to the market, Neiman Marcus has announced plans to add plus-size women's clothing to five stores in its Last Call chain, before rolling out the "Curvy Chic" in-store departments to all the off-price locations. Although it has sold larger sizes on its website for a few years, Neiman Marcus has not indicated any plans to add these options to its traditional, upscale stores.

Rather, in noting statistics that indicate that approximately 65 percent of women wear plus sizes, as well as repeated requests for extended size choices, Neiman Marcus is seeking to appeal to this prominent segment with a diverse product assortment. Among the activewear, fashion apparel, and formal dress, approximately 20 percent of what Last Call stocks will be exclusive to its locations, not available elsewhere.

Competitors such as Nordstrom already offer plus-sized options, across its Rack, online, and conventional channels. Furthermore, retailers in other sectors are taking a revised approach to appeal to female shoppers that does not separate larger sizes into a different department. For example, at Meijer, all sizes appear on the same racks, organized by product rather than by size categories.

## Discussion Question:

1. Why is Neiman Marcus expanding its offering to plus-size women?
2. Why hasn't it catered to these women in the past?
3. Think of your favorite apparel stores. Do they cater to plus-sized women? Should they? Why or why not?



# How Price Competitive Does Whole Foods Need to Be?

Tom Ryan, Retail Wire, February 13, 2017

Use with Chapter 5, “Retail Market Strategy” and Chapter 13, “Retail Pricing”

Not too long ago, Whole Foods announced plans to open 1200 new stores. But buffeted by new forms of competition and investor pressures, it has not only dropped those plans but also indicated that it will adjust its pricing strategy. Long known, with equal parts fondness and derision, as “Whole Paycheck,” the company will reconsider its pricing structure to compete more effectively with other purveyors of organic products.

A key driver of this shift is the expanding group of competitors in this organic market. As more conventional and even discount grocery chains extend their organic assortment, consumers have realized that they don’t have to visit Whole Foods to purchase pesticide-free broccoli or organic carrots. But Whole Foods also notes that many conventional grocers are not as stringent in the demands and criteria they apply to their suppliers. As a result, they can get products less expensively, even if the quality is not quite comparable.

Rather than risk its reputation for excellent quality, Whole Foods will maintain its own high product standards. In line with this commitment, it will charge more “when we have a particularly strong quality advantage.” But if it is selling the same products as a conventional grocer, it will aim to make the prices on those items equivalent. At the same time, the chain will seek to minimize costs in some areas that are less likely to affect its quality or annoy its customers, such as making the pizza and bakery departments in stores self-serve instead of staffed areas.

With this approach, it hopes to appeal even more powerfully to its most loyal customers, the “Whole Foodies.” If it can convince these loyal shoppers to buy just one or two more items on each trip to the store, Whole Foods believes it can reverse its sluggish sales trends (e.g., six quarters of decreasing same-store sales).



## Discussion Questions:

1. What is Whole Foods doing to shore up its profit slide?
2. Which efforts will make a difference?
3. Do you shop at Whole Foods? Why or why not?

# Can Augmented Reality Solve the Virtual Dressing Room Problem?

Tom Ryan, *Retail Wire*, February 6, 2017

Use with Chapter 3, “Multichannel Retailing,” and Chapter 16, “Store Layout, Design and Visual Merchandising”



With its DressingRoom app, The Gap seeks to give consumers a means to anticipate how a particular outfit will look on them, all from the comfort of their own mobile devices. The app combines augmented reality technology with the retailer’s insights into the clothing it sells to present a virtual mannequin with which consumers can interact before they make purchases.

Drawing comparisons to Pokémon Go, the app depicts the virtual mannequin in the consumer’s present surroundings. Users can choose from among five body types to represent themselves. When they add clothing options to the mannequins, the resulting augmented reality representation reveals how the fabric would drape, stretch, or hang on a body similar to their own.

The goal of this innovative app is to leverage a well-known retail tenet: If you can get shoppers to try on the clothing, their likelihood of buying it jumps. For online channels, this rule has long been a limitation, such that shoppers often need a push to move from placing items in their virtual shopping carts to clicking the buy button. The Gap hopes that by re-creating the experience of trying clothing on, it can provide that motivation.

Some other technological tools propose to tell shoppers which items would fit them best, based on information they provide about their height, weight, and other body data. But The Gap has not gone this route, based on the sense that shoppers might not want the retailer to have access to their

personal measurements. With this choice, it also creates something of a limitation for its app though, in that the images provided clearly are not actual depictions of the consumer.

## Discussion Question:

1. Describe how The Gap’s augmented reality dressing room app works.
2. What are its advantages and disadvantages?
3. Would you use this app? Why or why not?

# Shopping Becomes a Political Act in the Trump Era

Julie Creswell and Rachel Abrams, *The New York Times*, February 10, 2017

## Use with Chapter 5, "Retail Market Strategy"

Retailers and brands have nearly always faced the potential threat of a consumer boycott, with crisis management plans in place to deal with the fallout of a production problem, labor issue, or social activism effort. But in the modern era, companies are being forced to come up with a new chapter, added to their standard operating procedures, that describes ways to deal with consumers on opposite sides of the political spectrum.

The new requirements come in the wake of the unprecedented behaviors of President Donald Trump. In multiple tweets and interviews, he has indicated his preferences for certain retailers and his disdain for others. Both his supporters and his detractors have responded in kind, creating an entirely new and unfamiliar situation for retailers.

By and large, companies are "darned if they do, darned if they don't." For example, Nordstrom was targeted by the activist group GrabYourWallet for carrying the Ivanka Trump line of products. Consumers opposed to the President and his policies were encouraged to stop shopping there, to express their discontent. When Nordstrom quietly pulled the Ivanka Trump line from its stores (claiming that the move was justified by poor sales, rather than indicating any political statement), Trump supporters responded with fury, promising never to come back, while those on the other side of the political fray made sure to visit their local stores and post their purchases on social media.

As the Nordstrom example reveals, even if a company claims to be apolitical, it can get dragged into the fray. When a member of the Bean family proclaimed her support for the President, activists recommended boycotting L.L.Bean, prompting the firm to protest that she was just one of about 50 heirs involved in the company, and her comments did not reflect any corporate policy. Even as it tried to stay out of politics though, consumers continued to attempt to make their opinions clear by avoiding the brand.

Other firms seem unafraid to take political positions though, embracing the controversy as a way to appeal to their target markets. Starbucks recognizes that its customer base tends to be somewhat more progressive. In a clear rebuke of the administration's proposed travel ban and suspension of the nation's refugee program, the company announced its plans to hire 10,000 refugees in the next five years. Although some potential customers might have been irked by the move, Starbucks is strongly aligning itself with the more progressive attitudes and political leanings of a majority of its customers, as well as its employees, seeking to establish itself as a defender of civil liberties and to firm up its image as a progressive company.

These challenges and choices have become especially acute for another reason: social media. Without it, the President would have less opportunity to issue controversial, unexpected announcements, such as when he complained that Nordstrom's product line decision was an example of treating his daughter "unfairly." Similarly, consumers' boycotting efforts would be more limited, or at least slower, without social media. Instead, in the modern era, a president can tweet about a retailer at 3:00 a.m., and by 8:00 a.m., that company needs to have its response in place. That response is not going to please everyone, but it has no choice but to offer one. No one can stand apart from the political debate in today's world.



## Discussion Questions:

1. How are retailers handling Trump-branded products?
2. If you were the CEO of one of these retailers, what would you do?



# Young Consumers Tap Online Market for Recycled Apparel

Khadeeja Safdar, *The Wall Street Journal*, February 16, 2016.

Use with Chapter 4, “Customer Buying Behavior”



Rather than waiting for retailers to stock the fashions they want or for their parents to give them enough money to purchase the latest fashion, modern teenagers have embraced a recycling economy in e-commerce settings. Functioning as both sellers and buyers, the young consumers have prompted the emergence of retail platforms that reflect their unique competencies and needs.

On the Poshmark app for example, teens can earn credits for products they sell. They are not required to provide a credit card, as is standard on many other e-commerce sites. Then they can use the credits to buy other items available on the site. Poshmark also offers social networking capabilities and an intuitive process for uploading photos and descriptions of the items for sale. To facilitate the supply chain, it allows sellers to print out shipping labels, ready to slap on to a box

getting mailed to a buyer.

The consumers on such sites enjoy the distinctiveness they can achieve. Rather than going to the mall to buy the same things that everyone else is wearing, they can find unique, one-of-a-kind items. Accordingly, a recent survey suggests that more teenaged consumers shop resale and recycling sites than shop at once popular retail chains such as Abercrombie & Fitch.

When these buyers shift to selling mode, they also obtain several notable advantages. An obvious one is the chance to make money. One New York teen has leveraged his sense of fashion by selling rare sneakers, effectively and frequently enough to earn more than \$100,000 last year. He thus notes his fervent anticipation to purchase a luxury car—as soon as he is old enough to drive, that is.

Beyond the direct earnings, the young resellers gain valuable experience with sales, marketing, and retailing. Many of them customize products, such as one savvy seller who buys out-of-fashion merchandise at a low cost, then cuts, dyes, and decorates the items to make them more stylish. Thus a \$10 pair of blue jeans transformed into an acid-washed pair of pink denim shorts with frayed hems, which she sold for \$75.

Interviews with some of these entrepreneurs indicate their growing understanding of the 4Ps of marketing: They recommend finding distinctive products that can set the wearer apart; promoting the offerings using vivid descriptions, pricing them to sell quickly, and making sure to upload new offerings at the place and time (e.g., evening hours, after school) that buyers are most likely to be ready to make a purchase.

## Discussion Question:

1. Who is Poshmart's primary target market?
2. Using Chapter 4's Fashion Appendix, explain how fashions develop and spread in the recycled apparel business.

# How Omnichannel Is Offering Wholesalers and Retailers New Partnering Opportunities

Chris Petersen, Retail Wire, March 1, 2016

## Use with Chapter 10, “Information Systems and Supply Chain Management”

In some ways, omnichannel initiatives seem likely to eliminate distributors from the supply chain. If consumers can access retail offerings directly, the story goes, they have no need for the services that distributors and wholesalers offer. But rather than disappearing, some savvy distributors are recognizing that the omnichannel trend actually offers them some promising options for growth and expansion.

In particular, unless they are Amazon, retailers lack the full spectrum of capabilities required to get products to consumers. Especially for smaller, independent sellers, an online channel might increase direct sales, but they still need help to maintain products in inventory, ensure efficient and accurate deliveries, and receive returns. Instead of their traditional roles (i.e., obtaining bulk products from manufacturers, holding them in warehouses, and then providing them to retailers as needed), wholesalers and distributors can perform more customized and personalized services that benefit various other parties in the supply chain.



For example, retailers still don't want to have to hold substantial inventory, so a good distributor could offer benefits by warehousing products, then shipping them directly to consumers when directed to do so by the retail firm. Such deliveries may demand new competencies, which distributors may be uniquely positioned to develop. For example, a distributor might promise delivery within certain time windows and thereby ensure that a perishable shipment, for example, arrives when the customer is at home to receive it. If they can also ensure rapid replenishment, it might be worth it for a retailer to continue to rely on the distributor for conventional shipments of goods to its stores.

Another promising alternative would be to transform distribution centers into collection points or “pickup lockers,” **such that consumers have** another, potentially more convenient option for collecting the goods they order. Such centers also could function as collection points for returns. For retailers, the challenge of reverse logistics is becoming increasingly pressing, especially when consumers purchase items that are only available online but then return them to the stores, which have no place to put those items.

### Discussion Question:

1. How is omnichannel retailing improving the partnering relationships between wholesalers and retailers?

# Will Smart Shelves Ever Be Smart Enough for Kroger and Other Retailers?

Tom Ryan, *Retail Wire*, February 28, 2016. See also Kim S. Nash, "At Kroger, Technology Is Changing the Grocery-Store Shopping Experience," *The Wall Street Journal*, February 20, 2017

Use with Chapter 16, "Managing the Store"



Despite their slow rollout, smart shelves continue to offer massive promise for retailers. Consider just a few of the benefits that grocers such as Kroger have realized in pilot tests of smart shelf technology.

First, stockouts have decreased substantially. The smart shelves can sense inventory levels and prompt store managers to restock as soon as the product levels reach a critical point. Thus, shoppers are far less likely to encounter an empty shelf, because someone will have restocked the popular item already. The efficiency of the process also minimizes costs (e.g., labor, inventory) to the store.

Second, smart shelves can move merchandise that is selling slowly. For example, if few consumers have purchased a particular product, the smart shelf can issue a money-saving offer immediately after a potential buyer picks it up from the shelf. Rather than wait patiently for the valuable shelf space, the retailer thus might offer a 2-for-1 deal to clear the unpopular

item from shelves more quickly.

Third, Kroger notes the personalization promise of smart shelves, working in conjunction with its app. If shoppers keep the Kroger app open while they shop, the smart shelves can access pertinent information, such as their shopping lists or past purchases. Then if distracted shoppers pass by an item on their list, the shelf can alert them. It also can offer price promotions on items they may not have tried yet. As an example, the Kroger CIO suggests that a consumer who has self-identified as being on a gluten-free diet could stand in front of a smart shelf of protein bars and see the gluten-free options clearly highlighted by the shelf itself.

Fourth, because they can change dynamically, smart shelves can provide expanded nutrition information for consumers who request it. They also can change prices quickly and without requiring labor-intensive efforts from store clerks.

Such benefits seem unquestionable. Thus the main question that remains is why it's taking so long for retailers to adopt smart shelves more widely.

## Discussion Question:

1. How are stores using smart shelves?

# Will Irrational Shipping Prices Doom Brick and Mortar Stores?

Dan Gilmore, *Retail Wire*, February 27, 2017

Use with Chapter 3, “Multichannel Retailing,” and Chapter 6, “Retail Financial Strategy”

There is, as the saying goes, no such thing as a free lunch—or a free delivery. Consumers might enjoy, and even demand, shipping policies that do not charge them, but at some point, someone in the supply chain must pay the costs required to pack, label, and ship merchandise. According to some observers, that supply chain member is going to be brick-and-mortar retailers, and the result is not going to be pretty.

As this prediction goes, Amazon has established the expectation of free shipping, and it provides this service relatively well. Although Amazon still loses millions on its shipping each year, it is more efficient than many of its competitors. Moreover, even with these losses, it continues to grow and show stock gains.

To compete, conventional retailers have had to offer free shipping too. But they are not as good at it as Amazon, such that they are losing more due to their efforts. Thus a cycle begins, in which brick-and-mortar retailers turn increasingly to their e-commerce channels, in an attempt to cut costs. This shift in focus expands the delivery demands even further, and so their losses grow instead of diminishing.

Also affected by the situation are delivery services such as UPS and FedEx, which have shown some negative earnings due to their inability or unwillingness to charge sellers what it costs to ship. Perhaps worried that increasing their rates would lose them the business of big clients like Amazon, shipping prices do not reflect the true costs either.

Someday though, the situation will have to change. The costs will come due. If customers have to pay them, they are likely to express resentment and take their business elsewhere. If logistics providers have to pay them, their ability to earn profits might disappear. And if retailers have to pay them, as seems most likely, it could mean the end of many of them that are not named Amazon.



## Discussion Questions:

1. How do Amazon's and other retailers' free shipping policies affect their bottom lines—and the bottom lines of other retailers?
2. Is free shipping a sustainable strategy, even for Amazon?

# Retail Tidbits

## You Cut Your Prices. So Why Didn't Consumers Notice?

*James Allen, The Wall Street Journal, February 20, 2017*

Basic economic theory predicts that when prices go down, consumers buy more. But the reality, as it often is, is more complex. Sometimes, when prices go down, consumers don't even notice. The reason has to do with the powerful influence of consumer perceptions. If people believe a retailer charges high prices, the actual prices charged might not matter much. If they perceive another retailer as inexpensive, it can list products for the same price as competitors but earn more sales. The challenge for retailers—especially those with a low price positioning—is to ensure that consumers' perceptions match their pricing strategies. For example, one discount apparel retailer learned that by offering a vast variety of price points, it was confusing consumers and leading them to believe its prices were higher than they really were. By eliminating some of this variety, as well as upping its marketing communications and in-store signage to highlight its discount position, the retailer achieved increased sales. These tools appear central to establishing the pricing position, suggesting that retailers must devote more attention to creating an accurate image, both within and outside the store.

## Six Retail Chains, Six Survival Strategies

*Khadeeja Safdar and Suzanne Kapner, The Wall Street Journal, February 28, 2017*

In response to continued growth in online retailing, six retail chains have taken distinct approaches to drive more traffic to their stores. Some of them are shrinking in size, such that Sears is closing about 150 stores, while JCPenney plans to shutter around 140 stores. But whereas Sears sold off its Craftsman line of tools, JCPenney will expand its product offerings. The store closings at Macy's are expected to reach nearly 100 in number, and those that remain will feature a greater presence of its off-price Backstage concept. Rather than closing stores, both Walmart and Target are remodeling and lowering prices, even as they concentrate more of their resources on their online efforts. For Kohl's, the goal is to remodel some stores, move others into smaller locations, and feature more brand name athletic apparel on its shelves. Thus, despite the varied approaches to the challenges that retail chains face, there are some common trends: Get smaller, leaner, and less expensive.