Newsletter for Instructors

February
2017

COMMENTS?
CONTACT US

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

- **Is There Time for QVC in the Age of Amazon?** **(Chapter 2)**
- **As Sephora Adds Products, Rivalry Heats Up at Its Stores** **(Chapter 13)**
- **Department Stores, Once Anchors at Malls, Become Millstones** **(Chapters 5 & 7)**
- **What Will the Sale of Craftsman Mean for Sears and Stanley Black & Decker?** **(Chapters 5 & 6)**
- **How Can Retailers Make Online Reviews More Useful?** **(Chapters 3, 11, & 15)**
- **What Will Amazon Gain from its Charitable Shipping Efforts?** **(Chapter 1)**
- **How Can the Retail Job Market Survive the AI Revolution?** **(Chapters 9 & 16)**

Retail Tidbits

- **The Limited Latest Apparel Retailer that Faced Struggles in Changing Industry**
- **McDonald's Aims to Flip China Results by Ceding Control**
- **Alibaba Looks to Bricks and Mortar with Bid for Mall Operator in China**
- **Amazon Considers Floating Warehouses**
- **Will Data-Driven Checkout Get Shoppers Through the Line Faster?**

If you are interested in the text book please visit **www.mhhe.com/levy9e**. Simple registration is required to gain access to the newsletters and other instructor materials. If you would like to see this newsletter and the previous editions, go to:
http://warrington.ufl.edu/centers/retailcenter/research/publications.asp

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/**

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

Is There Time for QVC in the Age of Amazon?

Paul Ziobro, The Wall Street Journal, January 9, 2017

Use with Chapter 2, "Types of Retailers"

Sales might have slipped at QVC, but the home shopping retailer seems largely unconcerned. The reason stems from its unique positioning, which it cites as a distinction that will always set it apart from competitors, even if temporary shifts might keep its customers from placing an order in a particular week.

Observers of the sales dip in a recent quarter questioned whether QVC might be suffering in the face of competition from various fronts, including Amazon and niche online retailers that make virtually everything accessible at any time. In contrast, QVC still relies largely on its conventional television channel, and it sells a limited stock of items, hoping that viewers will be compelled to make impulse purchases of a piece of jewelry, clothing items, or housewares. But with this reliance on television, the increasing numbers of people who are cutting the cable cord represent a threat, because they no longer receive the channel in their regular lineup of shows. If they aren't watching, they can't be buying.

Within QVC though, the mood remains confident. In particular, executives note that the sales dip occurred during a period when the U.S. presidential election was dominating people's viewing time, while at the same time many conventional retailers were offering deep discounts in the face of inventory excesses.

Moreover, it dismisses the question about viewership. Most of the people who are getting rid of cable services are younger than QVC's target segment of women between the ages of 35 and 64 years. Those shoppers continue to pay for cable channels, including QVC, and all the company needs is some of those viewers to buy. Once a consumer makes an initial purchase with the company, she tends to stay loyal to it, purchasing an average of 24 items annually over a period of at least five years.

Furthermore, QVC is not just sitting still. It was one of the first retailers to respond to Amazon, by launching its online channel way back in 1996. It also has purchased several e-commerce brands to expand its reach, including Zulilly, as well as shares in its direct competitor HSN. Altogether QVC thus ranks as the tenth largest e-commerce retailer in the United States. But Amazon also launched its own webcast, where viewers can watch hosts introducing new beauty products, seemingly encroaching on QVC's territory.

Finally, QVC executives highlight what makes this retailer different from all the other retailers: the stories that the channel tells, which help people realize they want something they never knew they needed. Thus it does not need to compete directly with Amazon, for example. Shoppers can visit Amazon to purchase particular items that they are seeking, but at the same time, they can watch QVC or browse its website to get new ideas about compelling products that they might decide they simply cannot live without any longer.

Discussion Question:

1. **Perform a SWOT analysis for QVC.**
2. **Would you invest in QVC? Why or why not?**

Top of Document

As Sephora Adds Products, Rivalry Heats Up at Its Stores

Khadeeja Safdar and Sharon Terlep, The Wall Street Journal, January 8, 2017.

Use with Chapter 13, "Buying Merchandise"

For beauty brands, Sephora is both a blessing and a curse. For Esteé Lauder and L'Oreal for example, the cosmetic-focused retail stores have provided a critical channel to reach consumers, especially as their traditional routes—through department stores in malls—continue to shut down. But Sephora also is owned by the massive LVMH conglomerate, whose other brands include competitive beauty brands such as Marc Jacobs and Make Up For Ever. In this sense, Sephora is both a source of sales and a site of intensified competition.

According to some estimates, LVMH brands account for about half of the shelf space in any given Sephora store. Although the retailer insists that its applies the same criteria to all brands competing for space—namely, whether customers want them—some of its aggressive tactics suggest that partner brands get some priority.

For example, Sephora often requires outside brands to assign it exclusive rights to certain products. Determined to get their products in front of customers, through Sephora's nearly 2400 stores, many smaller or new brands agree. But if they have a hit product, they confront a difficult discussion with other retailers that demand the popular items for their shoppers too. In another tough move, it asked Nars Cosmetics simply to remove all its products from Amazon, if it wanted to continue to appear on Sephora shelves.

Although most brands comply with these demands, some have balked. Chanel—which competes with LVMH in multiple industries—not longer sells any cosmetics through Sephora, though its perfumes remain. Although its products also still appear in Sephora's stores, Esteé Lauder has made some clear moves to expand its own retail channels, such as through its website and by adding more dedicated stores to push its MAC Cosmetics brand.

Discussion Questions:

1. **How does Sephora determine which merchandise brands to carry?**
2. **Should national brands like Esteé Lauder sell to Sephora? Why or why not?**

Top of Document

Department Stores, Once Anchors at Malls, Become Millstones

Tom Ryan, Retail Wire, October 14, 2016

Use with Chapter 5, "Retail Market Strategy" and Chapter 7, "Retail Locations"

There are a few types of malls, and in them, shoppers find a few types of stores. In high-end malls in expensive locations, luxury brands such as Tesla, Nordstrom, or Apple Stores set the stage. In lower end malls in more remote spots, department stores such as Sears, Macy's, and JCPenney function as the anchors—at least for now. Somewhere in between are mid-range malls that once might have housed four or five department stores but now are shifting gears, looking to put new and exciting offerings, including movie theaters and restaurants in the spaces previously held by the department stores.

The stratification reflects several trends. As shoppers discover the appeal of fast fashion (e.g., Zara), more targeted discount options (e.g., TJX, with its Marshall's, Home Goods, and TJ Maxx brands), and e-commerce, the broad, undifferentiated offerings of department stores no longer are enough to bring them to the mall to shop. Such competition has been particularly problematic for those stores that conventionally anchored malls in every town, whose positioning was somewhere between the deep discounters and the luxury stores—that is, Sears, JCPenney, and Macy's.

Accordingly, Macy's has announced another round of store closings, bringing its total to more than 200 closures in the past few years. Sears has lost nearly as many stores, and it also sold off its popular Craftsman brand. The announcements of store closures keep coming faster and faster, as these well-known brands struggle to eliminate unprofitable operations and keep themselves afloat.

For many malls, the closures are likely a death knell, unless they can convince some other sort of retailer to take over the space. Some malls are pursuing TJMaxx stores, as well as alternative options such as restaurants. On the other side, for malls that are thriving, the reason is rarely the department stores. Instead, shoppers head to these sites to visit an Apple Store or check out the latest model Tesla. Historically though, malls offered the best rental terms to their anchor stores. Thus the most successful malls find themselves allowing an unprofitable store to enjoy the benefits of low rent, without offering much in the way of customer appeal in return.

Discussion Question:

1. **Why are department stores struggling?**
2. **What are mall developers doing in response to this department store problem?**

Top of Document

What Will the Sale of Craftsman Mean for Sears and Stanley Black & Decker?

George Anderson, Retail Wire, January 6, 2017

Use with Chapter 5, "Retail Market Strategy" and Chapter 6, "Retail Financial Strategy"

As we have discussed elsewhere, department stores like Sears and Kmart are struggling to stay afloat. The parent company of both these retail brands, Sears Holdings, thus has taken a drastic step and sold one of its most popular brands, Craftsman Tools, to the competing tool maker Stanley Black & Decker.

In a complex agreement, Sears Holdings will retain a perpetual license to the brand, meaning that shoppers will still find Craftsman drills, saws, and hammers at their local Sears store. But they also will be able to find them anywhere else that Stanley Black & Decker chooses to sell them, such as Home Depot or Lowe's. The tool company also noted that it planned to expand distribution in previously untapped channels, such as online and through industrial supply chains.

Furthermore, Stanley Black & Decker gains the rights to develop new products under the Craftsman brand. In turn, it will pay Sears Holdings $525 million immediately, another $250 million in three years, and then some undisclosed percentage of its sales revenue.

Discussion Questions:

1. **Why did Sears sell Craftsman to Stanley Black & Decker?**
2. **What do you think is the future of Sears?**

Top of Document

How Can Retailers Make Online Reviews More Useful?

Tom Ryan, Retail Wire, January 3, 2017

Use with Chapter 3, "Multichannel Retailing," Chapter 11, "Customer Relationship Management," and Chapter 15, "Retail Communication Mix

Good, clear communication is necessary in any communication channel, and that holds for review sites as much as for any other source of information. Accordingly, retailers increasingly are adopting specific standards and tactics in an attempt to improve the appeal and usefulness of the reviews that appear on their websites, to leverage this important form of word of mouth more effectively.

For example, whereas Amazon allows customers to write as much as they would like, some sites have imposed length limits or edit submissions to highlight key points. Many sites encourage a general organization, such as by providing boxes in which reviewers can enter product pros and cons.

To make the reviews more compelling, some sites allow reviewers to upload dynamic content, such as videos or at least photos of the products they are reviewing. Going beyond simple star ratings, certain sites break reviews down into categories, such that reviewers can assess the products on various features (e.g., color, fit, fabric, customer service). They also can describe themselves, such as by clicking to indicate their age, gender, or expertise with particular products, thereby establishing their credentials for offering the review.

Along with improving the content in these ways, many sites aim to make the information easier to access, such as by offering sorting or search capabilities. For example, Best Buy supports keyword searches, and Kohl's allows shoppers to organize reviews according to whether they feature pictures or video.

Discussion Question:

1. **What are retailers doing to improve the salience of online reviews to customers?**
2. **Which of these practices would be most useful to you?**
3. **Does your answer change depending on the type of product you are planning to purchase?**

Top of Document

What Will Amazon Gain from its Charitable Shipping Efforts?

Matthew Stern, Retail Wire, January 3, 2017

Use with Chapter 1, "Introduction to the World of Retailing"

Sometimes, a solution offers up benefits for everyone involved. That seems to be the case for a recent initiative adopted by Amazon, called Give Back Box, which addresses issues related to environmental waste, corporate social responsibility, and shipping costs in one move.

Specifically, the program gives consumers a meaningful way to reuse the shipping boxes in which they receive their many Amazon purchases. Simply reusing them helps cut down on some of the massive waste associated with the growth of e-commerce. But the solution goes further, because it allows consumers to fill the boxes with unwanted items. By printing out a label on Amazon's Give Back Box site, they can have the boxes shipped to the Goodwill facility that is nearest their home. Goodwill pays the shipping costs, then prepares the received goods for sale in its stores.

Other retailers, including Newegg, Levi's, and Overstock.com already have partnered with Give Back Box, but the sheer size of Amazon's customer base suggests that the latest partnership may change the game.

For Amazon, the move gives it a way to address accusations of environmental waste, associated with the millions of cartons it ships to consumers. It also avoids additional shipping costs, because Goodwill picks up that tab. For Goodwill, the initiative promises to increase donations substantially. In turn, the charity can expand its efforts and reach. For consumers, Give Back Box makes it easy to get rid of outdated or unwanted items, while they also enjoy the warm glow that comes from donating to a worthy cause.

Discussion Questions:

1. **What is Amazon's Give Back Box program?**
2. **Why has Amazon implemented this program?**
3. ***Do you think it is a good idea? Why or why not?***

Top of Document

How Can the Retail Job Market Survive the AI Revolution?

Matthew Stern, The Retail Wire, December 30, 2016.

Use with Chapter 9 "Human Resource Management," and Chapter 16, "Managing the Store"

Artificial intelligence (AI) is everywhere. Usually in these abstracts, we focus on the benefits of these advanced technologies for retailing and consumers. Sophisticated AI functions make it possible for retailers to perform inventory analyses more rapidly and accurately, as well as provide accurate and personalized customer service more efficiently. But the expansion of AI throughout retail settings also threatens another critical group: the employees who currently perform those tasks.

The retailing industry employs vast numbers of employees; if those employees' jobs are taken over by AI, the risk is mass unemployment rates. A recent government report suggests that cashiers and drivers are particularly threatened as innovations such as automatic checkouts and driverless cars come closer to reality.

It is impossible to predict the future precisely—some AI applications might never find widespread acceptance, and technologies such as driverless cars still need years of testing before they are safe to use widely. But it also is hard to contest the notion that AI is spreading further and further, such that someday soon, retail workers will have to find other ways to earn a living. If they cannot do so, the vast increase in unemployment rates would threaten the entire economy and depress consumer spending overall.

The solution likely will require new forms of job training, job creation in other sectors, and possibly expanded social safety nets. Unfortunately though, such long-term (and expensive) initiatives are often hard to begin, until it's almost too late.

Discussion Question:

1. **What have been, and what will be, the impacts of an increased use of artificial intelligence on the retailing industry?**

Top of Document

Retail Tidbits

The Limited Latest Apparel Retailer that Faced Struggles in Changing Industry

Suzanne Kapner, The Wall Street Journal, January 10, 2017

In its heady early days, The Limited was known for its effective merchandising, innovative retailing tactics, and stellar strategy. The founder and CEO Leslie Wexler had a reputation for sensing shifts in the market and adopting tactics that would meet those needs as they arose. Thus, when Wexler sold a majority of the shares of The Limited brand to a private equity investor, it was an early signal of where the brand was headed. Accordingly, the retailer recently announced that it would close all of its remaining stores. Wexler and the parent company, L Brands, have turned their attention to specialty brands such as Victoria's Secret and Bath & Body Works, with the recognition that The Limited simply could not continue to compete with fast fashion powerhouses such as Zara and H&M. The challenge was particularly strong for The Limited, because when the brand received infusions of money from its private equity owner, it also took on substantial debt. In turn, revenues mostly go to service the debt, rather than to updating stores. The Limited thus entered into a downward spiral, in which it has failed to keep up with the times, producing a stale brand that could not earn enough to stay afloat. Although The Limited is notable in its complete closure, other competing brands, including Wet Seal, Aeropostale, and Pacific Sunwear similarly continue to struggle. They might be wise to take a look at whatever Les Wexler does next.

McDonald's Aims to Flip China Results by Ceding Control

Wayne Ma, Kane Wu, and Julie Jargon, The Wall Street Journal, January 9, 2017

In its effort to deal with macro-environmental trends that have slowed its sales in China, McDonald's is embracing the benefits of franchising even more powerfully than it has in the past. Specifically, it is selling 80 percent of its stake in its operations in China to a conglomerate, agreeing to a 20-year term worth an estimated $1.66 billion. By handing over most of the operations to franchise owners, the corporation avoids the costs and liabilities of running the stores, while still retaining ownership of the brand and a portion of the proceeds. Unconfirmed reports suggest that in this deal, McDonald's would receive 6 percent of the sales of the franchised stores in China. The move follows dwindling sales in China, where consumers facing some economic insecurity are turning more to inexpensive local options, such as noodle shops, for their convenient meal needs. Moreover, some proud Chinese consumers are choosing to avoid Western food brands, especially in the aftermath of quality scandals, in which several fast food chains received and sold expired meat. But according to the new franchise owners, 1500 new McDonald's restaurants will soon open in more second-tier cities, adding to the 2400 that already serve mainland China. Buoyed by the promise of this approach, McDonald's also announced its plans to move toward a model in which 95 percent of its restaurants, all around the world, are franchise operations.

Alibaba Looks to Bricks and Mortar with Bid for Mall Operator in China

Amie Tsang and Paul Mozur, The New York Times, January 10, 2017

The dominant e-commerce retailer in China, Alibaba has been going on a bit of a buying streak itself, snapping up existing brick-and-mortar retailers and logistics providers in its continued efforts to remain nimble and competitive. Alibaba's strength largely stems from its business model, such that it does not purchase or hold any of the inventory it sells. Rather, for the vast Chinese consumer market, it provides a platform that collects nearly anything people might want to purchase, then ensures that the delivery takes place efficiently and accurately—a persistent challenge in China, where the delivery infrastructure remains insufficient, especially in rural areas. By purchasing controlling shares in physical retailers and logistics providers, Alibaba can coordinate and ensure access to the products and services they already sell for its customers. In a telling comment, the company's chief executive noted that Alibaba does not "divide the world into real or virtual economies, only the old and the new." With the belief that physical retailing remains a pertinent and important market for consumers, it is seeking to make it new by infusing traditional retail operations with its advanced technological capabilities.

Top of Document

Amazon Considers Floating Warehouses

Tom Ryan, Retail Wire, December 30, 2016

Amazon seemingly has been sampling some of the books in its science fiction category. In a recently discovered (and approved) patent application, the retailer requested protection for an idea for floating warehouses—airborne fulfillment centers (AFC) in its terminology—that would cruise around at about 45,000 feet and support drone deliveries to consumers. Smaller airships would keep the big blimp-like AFCs supplied with sufficient inventory. With this innovation, Amazon anticipates that it could reduce costs and increase delivery speed. For example, the patent application notes that the AFCs would rely on helium or hot air, creating less density than the surrounding air, so that their fuel requirements would be minimal. The delivery drones would rely mainly on gliding, again with little need for additional energy to power them. Then Amazon could send the AFCs to relevant locations; one noted example suggested that it could park above a sports stadium during a big game, such that spectators could order food items or additional cold weather gear and have it delivered right to their seats. Although many of Amazon's patents refer to technology that it has not used (yet), the retailer's active efforts to expand its drone delivery capabilities suggest that the AFCs might not be outside the realm of the possible.

Will Data-Driven Checkout Get Shoppers Through the Line Faster?

Matthew Stern, Retail Wire, December 28, 2016

A new option in the effort to reduce wait times in checkout lines extends on previous techniques by calculating not only how many people are in each line but also how full their carts are and how quickly each cashier scans the items. In a test Hy-Vee store in Nebraska, the system gathers all these data and then determines the speed of each checkout line. Lights above the registers flash green, yellow, or red, signaling which ones are fastest and which are stuck in place. Customers then can select a line that is moving well; managers can see easily when too many yellow lights are shining and thus open new lines to get things moving. Some similar innovations instead count customers as they enter the store and make recommendations for how many lines to open. This version promises to go further by considering cart volume too. Accordingly, it has reduced wait times in the pilot store by more than a minute.

Top of Document