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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:

- [Seeking to Compete on Price, Amazon Angers Third-Party Sellers](#) (Chapter 14)
- [Fashionable Revisions Help Kroger Compete](#) (Chapter 12)
- [Thinking Inside the Subscription Box to Generate Sales](#) (Chapter 2)
- [Walmart Rolls Out Robots to Help Increase Customer Satisfaction](#) (Chapter 2 9 & 16)
- [Neiman Marcus Hopes to Set Itself Apart by Providing a Data-Enriched Shopping Experience](#) (Chapters 11 & 18)
- [Amazon Attempts to Crack the Secret of the Australian Market](#) (Chapter 5)
- [Sézane Finds Limited Availability Is a Surprising Secret for Success](#) (Chapter 12)
- [Luxury Goods Coveted by Generation Y and Generation Z](#) (Chapters 5 & 12)
- [I'll Have the Chicken with a Side of Style: Retailers Find a Recipe for Success by Mixing Dining and Shopping](#) (Chapters 5 & 17)
- [Nike Trims Partnerships to Focus on Key Retailers](#) (Chapter 14)

Retail Tidbits

- ❖ [American Eagle Invites College Kids to Do Their Laundry](#)
- ❖ [Walmart to Open Web Mall with Lord & Taylor as an Anchor](#)
- ❖ [An Alternate Universe of Shopping, In Ohio](#)

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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/>

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



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Seeking to Compete on Price, Amazon Angers Third-Party Sellers

George Anderson, "Amazon Undercuts Rivals by Adding Discounts to Marketplace Seller Prices," *Retail Wire*, November 6, 2017; Laura Stevens, "Amazon Snips Prices on Other Sellers' Items Ahead of Holiday Onslaught," *The Wall Street Journal*, November 5, 2017

Use with Chapter 14, "Retail Pricing"



Amazon recently rolled out a new discount feature on its website, which grants the retailing giant better control over the price points set by its third-party sellers. Continuing to compete aggressively with Walmart, Target, and other big box retailers on price, Amazon has added a new, extended discount, paid for by Amazon itself, that can apply to certain items at the moment consumers commit to their purchases. Such additional discounts typically are good news for consumers, but this move could prove unpopular and problematic for among the third-party sellers that partner with Amazon. Considering that 70 percent of the e-commerce site's merchandise revenues come from such third-party sellers, the unintended consequences of this new practice may constitute a rare misstep by Amazon that could sour some of its existing and potential vendor relationships.

At first glance, the new Amazon-provided discount seems good for vendors. They continue to receive the full asking price for the items they sell, and

Amazon absorbs the cost difference associated with the additional discount. Vendors also benefit from Amazon's sophisticated software, which tracks prices for popular items available on other retailers' websites, so that they can ensure that the price on Amazon is the lowest available, which in turn drives additional sales.

However, many third-party sellers also report that the Amazon-provided discounts get applied without any prior notification. The new, lower price point then may cause the vendor to unknowingly or unexpectedly violate existing seller agreements with other retailers, which can jeopardize those relationships for future sales—or even expose the vendor to the risk of litigation. Selling agreements often contain specific price floors for goods sold by multiple retailers, to help ensure that the vendor can compete effectively in the marketplace. Furthermore, a large spike in sales caused by a lower price might unexpectedly deplete available stock, causing popular items to sell out sooner than expected, which then results in unhappy consumers and sometimes even costly additional production. Certain high-end companies also object to the practice of the Amazon-provided discounts, in the belief that such discounts undermine the perceived value and carefully cultivated image of their brand.

In reacting to these concerns raised by third-party sellers, Amazon mostly emphasizes that all vendors have the opportunity to opt out of the new discount program. However, many third-party sellers complain that the damage has already been done. Without prior notice of the new discount program or awareness that they had the right to opt out, many vendors already cite the additional costs they have incurred, related to the violations of their existing seller agreements. They also assert that the opt-out feature is confusing and difficult to implement.

In its effort to put the consumer first and deliver a competitive price, it seems that Amazon may have complicated its important partnerships with third-party sellers. It will need to work hard to find a way to implement the discount, so that it can remain competitive on price, while still respecting the varied needs and requirements of independent third-party sellers who necessarily must continue to exhibit divided loyalty across multiple vendors.

Discussion Questions:

1. What is Amazon doing to enable its marketplace sellers to achieve a more competitive position?
2. What are the advantages and disadvantages of such a move?

Fashionable Revisions Help Kroger Compete

Matthew Stern, "Can Kroger Make a Name for Itself in Fashion?" *Retail Wire*, November 6, 2017

Use with Chapter 12, "Managing the Merchandise Planning Process"

Milk, eggs, bread, and ... a new pair of jeans? Kroger is ready to break out of the grocery business and make a new name for itself with a private-label fashion brand called "Our Brand." Hoping to join the ranks of other big box retailers such as Target and become the new go-to place for more than just pantry staples, Kroger is reworking its existing clothing brand to expand selection and elevate the quality. The chain hopes for an initial rollout of the redesigned line at 300 of its stores nationwide, with the potential to incorporate fashion into its more than 2,700 stores in the future.

The move is one more option among the various strategies that retailers have adopted to appeal to consumers and remain competitive. For example, Target was one of the first retailers to bring in big-name designers for collaborations on low-priced clothing collections. The smashing success of its 2011 Missoni line caused many similar retailers to sit up and take notice: Shoppers are hungry for that high-end feeling at an affordable price point. Walmart also has been trying to assert itself more prominently in the fashion and clothing space, such as with its recent acquisition of the popular e-tailer ModCloth. With such competition in mind, along with the recent threat posed by Amazon's acquisition of Whole Foods, it appears that Kroger is doing its best to stay relevant in the evolving grocery marketplace, by finding new ways to compete.



Discussion Question:

1. What do you think are the factors behind Kroger's decision to launch its "Our Brands" clothing lineup?
2. What will determine whether Kroger succeeds or fails in this endeavor?
3. Would you shop for apparel at Kroger?

Thinking Inside the Subscription Box to Generate Sales

Jeff Miller, "Large Brands and Retailers Expand the Subscription Economy," *Retail Wire*, November 3, 2017

Use with Chapter 2, "Types of Retailers"



Large brands are attempting to box out the competition—literally and figuratively—by starting their own subscription box programs. Seeking to compete with services like LootCrate and Dollar Shave Club, retailers more traditionally known for brick-and-mortar locations are attempting to join the growing subscription economy and translate existing customer loyalty and brand-name recognition into new sales.

For example, the sportswear brand Adidas recently rolled out its new Avenue A program. This quarterly subscription box is filled with the brand's higher end products, shoes, and apparel, and it specifically targets the growing market of female athletes. The popular makeup brand Sephora has rolled out Play! to compete for consumers currently served by Birchbox and ISPY. Its monthly subscription box features a variety of makeup and skincare items; when they sign up for a subscription, members also earn additional Beauty Insider loyalty points and access to special in-store events. At The Gap, the clothing retailer is

rolling out a new subscription box targeted at new parents. Each box contains a variety of baby apparel specific to the gender and age of the baby, and then each subsequent box "grows" along with the child, providing increasing sizes, as well as merchandise specific to each season.

These retailers are jumping into the subscription box business to take advantage of recurring revenue, increase brand loyalty, and help create a deeper connection with customers. Furthermore, they hope that expanded name recognition in this growing market space might give them an edge over competitors and show Wall Street that they can compete with the best of the boxes.

Discussion Questions:

1. Who are the main players in the subscription economy?
2. Why are large brands and mainstream retailers offering subscription services?
3. Why do some customers respond favorably to these subscription services?
4. Do you subscribe to any subscription services? Why or why not?

Walmart Rolls Out Robots to Help Increase Customer Satisfaction

George Anderson, "Walmart Puts Robots to Work with Humans in More Stores," *Retail Wire*, October 27, 2017

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

Walmart is going high-tech in an effort to automate and better serve its customers. After a successful test, the superstore has announced plans to roll out shelf-scanning robots across 50 additional locations. The two-foot-tall robots patrol the store, looking for items that are out of stock or goods that are incorrectly priced or missing tags. The information each robot collects then gets compiled and reported to management, so that human associates can better target their efforts to keep things running smoothly. By automating these repetitive and predictable tasks, Walmart hopes to free up its human staff to provide better customer service and handle tasks that cannot be easily outsourced to robotic labor.

The shelf-scanning robot program continues to be tweaked in response to feedback from customers and associates, so that the robots are used as effectively as possible. The hope is that the program can be implemented and expanded to an even greater number of stores in the future. Walmart also is seeking input from other retailers that might test similar robots in their own stores. For example, updates to the existing program might allow the robots to be programmed to skip busy aisles or stop when approached by a customer, to help avoid inconvenience and accidents. With more stock on the shelves and human associates freed up to better meet the needs of customers, Walmart believes is poised for success with its new robotic program, when it comes to both bottom line and the perceptions of customers.



Discussion Question:

1. How and why is Walmart using robots?

Neiman Marcus Hopes to Set Itself Apart by Providing a Data-Enriched Shopping Experience

Tom Ryan, "Will In-Store Clienteling Aid Neiman Marcus' Digital Push?" *Retail Wire*, October 23, 2017

Use with Chapter 11, "Customer Relationship Management," and Chapter 18, "Customer Service"



Neiman Marcus is working hard to deepen its customer engagement and drive sales, both in and outside its brick-and-mortar locations. The chain's new digital-first strategy features novel tools that in-store associates can use to help connect with customers during their shopping experience, but also after the customer has left the store.

In particular, each associate receives an iPhone, equipped with a proprietary digital client management tool. While the customers remain in the store, associates use their technological tools to look up customer-relevant data and receive information about each customer's preferences and style, according to her or his prior transactions. Then, once the customer has left the store, the retailer and its employees can continue to connect with clients by sending them personalized outfit suggestions via text message and sharing updated information about available specials or merchandise that might appeal specifically to that client.

According to Neiman Marcus spokespeople, the chain's digital-first strategy will enable it to provide an unmatched level of customer service and a customized experience that shoppers will not soon forget. By incorporating existing client data into these high-tech tools, Neiman Marcus hopes it can encourage consumers to respond more positively to the customized shopping experience; it also expects that the value provided by these high-end, tailored service interactions will appeal deeply to its demanding customers. When it couples these efforts with impending upgrades to the Neiman Marcus website, as well as with several new planned partnerships with designers to increase the company's selection of exclusive merchandise, the chain sets itself apart from similar high-end retailers. It becomes the one and only place to go for a completely customized shopping experience.

Discussion Questions:

1. How is Neiman Marcus using its clienteling system?
2. How does this system affect the CRM process cycle?

Amazon Attempts to Crack the Secret of the Australian Market

Damien Cave, "Australia's Amazon Book Battle," *The New York Times*, October 19, 2017

Use with Chapter 5, "Retail Market Strategy"

Borders entered the Australian market in 2002; the market responded by pushing the bookseller's Australian division into bankruptcy. Starbucks tried to break into the country's vibrant café culture, only to experience weak sales and pull out a short time later. As these examples indicate, past experience has shown that Australians remain fiercely loyal to local merchants and independent sellers, so it can be difficult for big retailers to break into the country's well-loved ecosystem of independent sellers and local commerce.

For these and other reasons, Amazon has thus far avoided the Australian market. But that is all set to change in the coming year: Amazon recently announced its planned expansion into Australia. In a move celebrated by some and scorned by others, Australians and economists are watching the latest move by Amazon with both caution and interest.



In addition to the challenges created by Australia's fierce loyalty to independent sellers, Amazon also faces some serious logistic concerns if it intends to succeed in Australia. The country's 24 million people are spread across the continent, with small population centers all along the country's coasts. Distribution costs are expected to be higher than in the United States, and some of the company's most loved conveniences (e.g., two-day shipping) may be difficult to deliver efficiently in Australia. Regardless of these barriers, Amazon sees potential in the still-untapped market, and it is hoping to wedge itself into a position of success by returning to its roots and focusing on the sale of books.

That is, Amazon today is known for carrying everything, but it started out as primarily a book seller, and Australians are avid readers. They buy more books per capita than Americans and also spend more time reading. In the publishing world, Amazon still carries tremendous clout. The company can negotiate with publishers for special discounts, and it also receives faster delivery of stock for big releases. These benefits have left many independent bookstores in Australia worried that they will not be able to compete. Australian authors and scholars also express some concerns about the impact that Amazon will have on the country's literary appetite. Currently, the "buy local" culture encourages independent bookstores to partner with Australian authors. Most stores have dedicated Australian sections and host frequent readings to help promote the work. But Amazon's online culture will not provide authors the same level of support and promotion, which may result in fewer works by Australian authors being published.

Although many observers remain optimistic that Amazon, just like the other big box retailers that came before it, will be rejected by the Australian public, others worry that the powerful company's entrance into the Australian market will be the end of the nation's unique economic culture.

Discussion Question:

1. Do you believe Amazon will be successful in Australia? Why or why not?

Sézane Finds Limited Availability Is a Surprising Secret for Success

Hayley Phelan, "Sézane Finds Success by Making Less," *The New York Times*, October 17, 2017

Use with Chapter 12, "Managing the Merchandise Planning Process"



Does it ever make sense for a retailer to try to make less money? The fashion label Sézane has proven that sometimes it does. Using a practice called "the drop" to increase demand, Sézane identifies certain pieces in each new collection as special, then intentionally offers only a limited run of those items. The quick turnover of the limited release designs helps keep customers engaged; they know it is a "see now/buy now" situation, such that they must act quickly to score on the latest trend. Furthermore, the limited release policy helps the mid-priced brand portray a sense of luxury. Customers lucky enough to snag one of the limited release pieces can be confident that no one else will have the same piece and that they have something truly unique to wear.

The limited release approach represents a carryover from Sézane's humble beginnings, when the designer Morgane Sézalory first started

selling vintage pieces on eBay. Seeking to reduce the number of trips to the post office, Sézalory would release new items for sale only once a month, announcing the arrival of new stock in an email sent only to the most loyal, repeat customers. This personalized communication approach, along with the limited available stock, often resulted in her inventory selling out on the same day it was released. Sézalory built her brand and eventually graduated to designing custom pieces with expanded production, but the lessons she learned as she was getting started have stuck and continue to contribute to the success of the emerging brand.

In recent concessions to customer demand and in line with a more traditional retail experience, Sézane has started to shift slightly away from its practice of "the drop." For example, the brand's seasonal collections feature more available initial stock of most items and do not sell out as quickly. The brand also recently rolled out La Liste, its first permanent collection, which will continue to be restocked over several seasons. With a mix of exclusive, buy-now items and a more traditional approach to stockkeeping, this brand is hoping to help redefine the future of the omnichannel shopping experience.

Discussion Questions:

1. Evaluate "the drop" as a merchandise management strategy.
2. In which other stores or types of stores do you believe "the drop" could be successful? Support your choices.

[Top of Document](#)

Luxury Goods Coveted by Generation Y and Generation Z

Elizabeth Paton, "Gens Y and Z are Buying Lots of Luxury Stuff After All," *The New York Times*, October 25, 2017

Use with Chapter 5, "Retail Market Strategy," and Chapter 12, "Managing the Merchandise Planning Process"

After a flat year in 2016, retail analysts were unsure about the future of the luxury goods market. However, a recent report from the consulting firm Bain & Co. has revealed some exciting trends, and surprisingly, they show that the upward momentum is being driven primarily by shoppers born after 1980. Buoyed by the collected data and the swift growth of this category of goods throughout the year, Bain & Co. even has updated its projected growth for the luxury sector, to 5–7 percent, which represents nearly a doubling of its initial expectations for 2017. The value of this market for the year thus is expected to reach \$1.4 trillion.



These predictions and trends come as a relief to a variety of retail actors. Following the global economic recession, many luxury brands attempted to reposition themselves to capture the attention of younger buyers, and those efforts seemingly have paid off. Generation Y accounts for 30 percent of all spending in the luxury goods sector; together with Generation Z consumers, they explain the 85 percent of the increase in growth in the luxury market.

In particular, new content generated for digital platforms such as Instagram and Snapchat have helped retailers connect with younger consumers, and changes that the brands have made include the introductions of new items such as sneakers and jackets, which appeal better to younger consumers, encouraging their brand loyalty at a young age. Online sales also have helped drive the increases, as have efforts made by high-end brands to tap into new international markets. In this sense, 32 percent of all buyers in luxury goods markets are from China.

Long bemoaned as the "killer" of traditional retailers, Millennials and Generation Z are now celebrated in the luxury good space as saviors of a once-beleaguered market. Retailers are likely to continue their outreach efforts to both Generation Y and Generation Z, to help ensure that this relationship lasts.

Discussion Questions:

1. What are luxury goods companies doing to appeal to Gen Y and Z?
2. Will these promotional efforts have a positive impact on you?

I'll Have the Chicken with a Side of Style: Retailers Find a Recipe for Success by Mixing Dining and Shopping

Melanie Abrams, "Come for the Shopping, Stay for the Food," *The New York Times*, October 26, 2017

Use with Chapter 5, "Retail Market Strategy," and Chapter 17, "Store Layout, Design, and Visual Merchandising"



In their efforts to highlight the added value they can offer, compared with their online counterparts, as well as to drive traffic and increase revenues, many brick-and-mortar retail locations are expanding into the restaurant business. Well-known retailers such as Barnes & Noble, Polo Ralph Lauren, Saks Fifth Avenue, and Barneys are all adopting a version of this practice, opening up swanky restaurants or casual cafes in their flagship stores around the globe.

Customers visit the stores to meet friends, have a unique dining experience, and relax, such that the experience sets the tone for a more fun and relaxed shopping trip afterward. The stores also benefit from an additional revenue stream: From a casual cup of coffee or glass of red wine to a fine dining experience, many retail locations have made the dining experience a central part of the existing store, while also filling up some vacant store space with revenue-producing café tables.

In addition to benefiting from the increased sales that happy, relaxed, well-fed shoppers provide, many stores are working on developing innovative ways to blend the shopping and dining experiences. For example, some retailers provide services to hold items for diners, so that they can finalize their purchases after eating and without tucking their new clothes under the table. Not only does it save space at the table, but it also encourages diners to take one last walk through the store as they go to collect their purchase (and hopefully add one or two more items to their tab).

The Maison Assouline bookstore in London even places a book catalog on the table, next to the menu, so that hungry readers can peruse the available selection of new releases and other top sellers while dining. Barneys has integrated its online platform with its café tables, such that shoppers can even sit and order items while dining, then pick up the products at another location in the same store after their meal has ended.

In the dynamic retail world, companies must continue to innovate new ways to bring customers into stores and engage and excite them once they have arrived. Adding food to the equation is one tried-and-true way to capture the attention of the modern consumer, implying that these retailers may have stumbled upon the recipe for success.

Discussion Questions:

1. Why do retailers have in-store restaurants?
2. How have the reasons for installing restaurants in stores changed over the years?
3. Have in-store restaurants affected your shopping behavior?

Nike Trims Partnerships to Focus on Key Retailers

Sara Germano, "Nike Tells Investors It Will Shift Away from 'Mediocre' Retailers," *The Wall Street Journal*, October 25, 2017; George Anderson, "Nike Turns Its Back On 'Undifferentiated, Mediocre' Retailers," *Retail Wire*, October 26, 2017

Use with Chapter 14, "Retail Buying"

Nike recently announced some significant changes coming over the next five years, as it seeks to realign its brand with its ambitious revenue goals in the changing face of the sportswear retail market. When the brand first announced its goal to reach \$50 billion in sales by 2022, the year was 2015 and many of the large players in the sports market still remained. But since that time, The Sports Authority and City Sports have both closed their doors, and sportswear sales across the industry have slowed.

To combat these retail pressures, Nike is implementing two bold strategies. First, the brand will take steps to limit itself to only 40 key retail partnerships. Although it will not discontinue existing accounts, with the more than 30,000 retailers that currently sell its products, the brand will actively shift its focus over the next five years, to emphasize those key retailers that appear poised to grow, even in the tough modern retail market. Nike explains the move by noting that many other retailers that sell its apparel are "undifferentiated and mediocre," such that they are unlikely to survive much longer. With this key retailer strategy, the brand will expand its online partnership with Amazon, while also maintaining its products in several well-established brick-and-mortar locations, such as Foot Locker.



Second, the brand also hopes to meet its revenue goals through a focused expansion of its direct sales platform, Nike.com. With more than 100 million members already, Nike.com continues to seek ways to lure even more consumers to register for its service offerings. For example, it promises limited release of specific sportswear items to members. It also works to engage consumers by offering customized experiences through its digital application. By focusing more on its own direct sales platform, Nike hopes to insulate itself further against some of the market disruptions and pressures that can result when a retailer declares bankruptcy or significantly restructures its business model.

Discussion Questions:

1. Why is Nike limiting the number of retailers it sells to?
2. Is this strategy good or bad for Nike? What about retailers?

Retail Tidbits

American Eagle Invites College Kids to Do Their Laundry

Tom Ryan, Retail Wire, October 30, 2017

At American Eagle Outfitters, students who present their college IDs can do far more than purchase new jeans or t-shirts; they also can make sure their existing clothing is clean. In a flagship store in Manhattan, the retailer offers laundry facilities for free, seeking to appeal to university students with a social gathering spot that also happens to sell clothing and accessories. The store focuses predominantly on jeans, but it also offers free Wi-Fi and a social space, such that students can hang out and study while their clothes go through the rinse cycle. Tablets in the dressing rooms also encourage the visitors to interact with the brand. Although cash-pressed and time-limited students thus might drop by the store to gain convenience and a free service, American Eagle Outfitters hopes that the enjoyable experience will translate into future sales. If it can get members of its target market to walk into the store, it is that much more likely to be able to sell them new products and styles as they arrive on store shelves.

Walmart to Open Web Mall with Lord & Taylor as an Anchor

George Anderson, Retail Wire, October 20, 2017

In a proposed deal, Walmart would provide dedicated space on its website for the department store chain Lord & Taylor to sell its products. Although the agreement has not gone into effect, it appears to represent an effort by Walmart to diversify the offerings available through its e-commerce channel and thus to compete more effectively with Amazon. The website has logged increasing numbers of visitors lately, possibly due to the addition of several brands that Walmart purchased recently, such as Bonobos, ShoeBuy, and Jet. With the contributions of third-party sellers, Walmart now lists approximately 67 million products on its website. The addition of Lord & Taylor products would expand the offerings even further. Yet they still have a ways to go to catch up with Amazon; for example, whereas Walmart.com averages about 79 million monthly visitors, and Lord & Taylor's own website brings in around 850,000, Amazon attracts about 160 million visitors each month.

An Alternate Universe of Shopping, In Ohio

David Gelles, The New York Times, October 14, 2017

For a variety of historical, geographic, and cultural reasons, Columbus, Ohio, is widely known as the best test market for new retail concepts. Scores of brands and retailers literally set up shops in the Midwestern town, trying out novel store designs, new product flavors, and alternative service options. The appeal of Columbus rests on several factors. First, its population closely resembles the demographics of the nation as a whole. Thus, if something sells well to folks in Columbus, their counterparts throughout the country are likely to appreciate it as well. Second, it is home to the Ohio State University, offering a vast population of college students, who constitute the primary target market for many of the retailers that set up operations in the town. Third, the cost of living is relatively low in Columbus, such that retailers can afford to experiment with various locations and try out new ideas, while still paying reasonable rents. They also enjoy more affordable advertising and marketing rates, so they can spread their test messages to local shoppers more effectively. Fourth, because it is less prominent than major cities like New York, a failed experiment in Columbus is less likely to make the national or international news. Accordingly, not only do many retailers visit the city to test their new concepts, but it also has been the source of a disproportionate number of novel retailing concepts. For example, L Brands (Limited, Victoria's Secret, Express, Abercrombie & Fitch) grew out of the mind of a local Ohio State University graduate, Les Wexler. Such innovation is increasingly necessary in the competitive retail landscape, and Columbus welcomes retailers that want to experiment in its midst. But as these retailers struggle to remain profitable, it also is confronting some related challenges; as some retailers leave the market, the vacancy rates for Columbus retail locations keep creeping up. For a town that depends on ensuring a healthy retail industry, innovations in the sector represent both necessities and deep concerns.