Newsletter for Instructors

March
2018

COMMENTS?
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Will Millennials Kill Costco and Sam's Club?

Abha Bhattarai, Washington Post, January 27, 2018

Use with Chapter 2, "Types of Retailers"

Is there anything that warehouse clubs can do to attract younger shoppers? Current trends show that consumers younger than about 50 years simply do not visit Costco, Sam's Club, or other warehouse stores with the same frequency and willingness as older patrons. In response, the club stores have sought various solutions, trying different marketing tactics and assortment shifts to get younger people into their warehouses. Thus far though, little seems to be working, and the trends keep pointing in the same direction—a direction that does not offer much promise for the big retailers.

The main driver of these shifts is, of course, the growth of online shopping. Younger consumers looking for bulk products and larger packages of staple items prefer to have those items delivered to their homes, rather than visiting a vast store to find them. Accordingly, the demographics of shoppers in warehouse clubs diverge greatly from those of online grocery shoppers: older people in stores, younger people buying online.

Online retailers are working to make this choice increasingly easy for consumers as well. For example, Boxed does not charge any membership fee and delivers various grocery products. Initially, it was founded with the idea that its main market would be consumers for whom getting to a warehouse club was difficult, whether because the nearest one was too far away or because they did not have access to a car to drive to the store. But instead, the company has discovered that even people with cars who live close by a Sam's Club or Costco order from it. Its popularity enabled it to earn $100 million in annual sales recently, 70 percent of it from repeat (young) customers.

This evidence also suggests that the shift toward online ordering has several drivers itself. In particular, time-pressed consumers want to take care of the chore of shopping for necessities during their lunch break or while riding the train to work. Few of them are willing give up several hours on a Saturday morning to wander the aisles of a warehouse club. That trip has long been a version of family-friendly entertainment, but young consumers (especially those without children) find little appealing about that way to spend their time.

Furthermore, warehouse clubs in general have been relatively slow to shift their offerings to match the demands of modern consumers. Only recently have they started adding popular product classes like organic foods and wine options. Although Sam's Club has introduced online purchases that are available for in-store pickup, this option still requires consumers to make the trip to the store to gather their purchased items.

And all of those shifts are taking place, even before we add in the influence of Amazon. Although an annual Amazon Prime membership is more expensive ($99) than memberships at Sam's Club ($55) or Costco ($65), it offers added benefits. Thus many consumers have substituted an Amazon Prime membership for their previous club membership, figuring that the extra fee is worth the convenience of free shipping and access to digital entertainment content, for example.

As a result of these trends, warehouse clubs are progressively disappearing from the landscape. Whereas the sector had added jobs every month between 2009 and 2016, as of 2017 it started regularly cutting employment rolls, meaning that the clubs had less need for employees. Furthermore, Walmart recently announced the closure of 63 stores, meaning layoffs for more than 10,000 workers.

But still the warehouse clubs remain optimistic, citing their expanded efforts to appeal to shoppers with their product assortments and value. As young consumers grow older and start families, perhaps they too will start spending Saturday mornings at the club—or maybe not. Two-thirds of them already have Amazon Prime memberships. Are they likely to change their minds now?

Discussion Questions:

1. **Do you shop at warehouse clubs? Why or why not?**
2. **Do you agree with the contention in this article—namely, that Millennials will not support warehouse clubs in the future?**

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Race and Security Meet in Lawsuit Brought Against Walmart

George Anderson, Retail Wire, January 31, 2018

Use with Chapter 18, "Human Resources and Managing the Store"

There is no question that retail theft is a problem. Shoplifting, not to mention organized crime efforts to steal products from shelves, is pervasive and extremely threatening to retailers that operate on very thin margins. According to a recent survey by the National Retail Federation, an average loss per shoplifting incident is nearly $800, meaning that each event harms the retailer and likely leads to higher prices for honest consumers.

In turn, most retailers implement various tactics to discourage stealing. Many of them rely on locked cases to protect frequently stolen or particularly expensive items, such a high-end cologne. Unfortunately though, some of those efforts reflect racist and prejudicial notions. For example, a woman shopping for beauty products at a Walmart in California found, over repeated trips, that all the products that were designed for African American consumers were locked into a glass case. When she sought to purchase a comb that cost just 48¢, she had to go find a store employee, who unlocked the case, handed her the comb, and then told her she would need to pay for it before she continued the rest of her shopping trip.

The woman has brought suit, alleging that Walmart's actions are clearly racist and discriminatory, causing humiliation for people of color who just need to replenish their shampoo or want to buy some cosmetics. Walmart responded by noting that the items that each store keeps locked up varies from location to location. But it seems hard to justify a simple comb being kept behind lock and key, unless the retailer resorts to biased reasoning.

Discussion Question:

1. **If you were the judge in this case, with which side would you choose? Defend your answer.**

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Robots Are Not the Answer to Store Challenges

Nikki Baird, Retail Wire, January 29, 2018

Use with Chapter 17, "Customer Service"

Lots of commentators have issued predictions about how robots are the future of retailing. The descriptions suggest a futuristic retail landscape, in which customers visit unstaffed stores and check out and pay for their groceries without breaking stride as they walk through an RFID reader. The products are replenished automatically by robots that scan the aisles for stockouts, and perhaps there are even drones flying about, picking up items to deliver to customers' homes.

But for at least one retail expert, these predictions ring false. The analyst argues that even if certain jobs and positions, currently staffed by humans, get replaced by robotic capabilities, there is still a vast and important role for human personnel. At this point, people and their unique cognitive abilities still are required to check that orders are being fulfilled accurately or to help customers who struggle with problems at a self-checkout station. Adding robots even might expand demand for retailer workers, because someone needs to introduce the new technology to consumers and explain how to use it.

More broadly though, retailing represents a human experience, one that provides social and community benefits. A good sales clerk adds substantial value for shoppers, by creating a pleasant interaction and offering expert advice. With this assertion, the author calls for a new retail model, in which robots complete some tasks and reduce the operational costs required to complete routine jobs, but stores concomitantly pursue more skilled human workers, whom they pay more, to ensure a high level of service.

Discussion Questions:

1. **What are the advantages and disadvantages of replacing people with robots in retail stores?**
2. **To what extent do you believe this "switch" will occur in the future?**

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Amazon's Cashierless "Go" Convenience Store Set to Open

Laura Stevens, The Wall Street Journal, January 21, 2018. See also George Anderson, "Starbucks and Amazon Go Cashless in Seattle," Retail Wire, January 25, 2018

Use with Chapter 6, "Financial Strategy," and Chapter 17, "Customer Service"

Although they are just single-store tests at the moment, the efforts by Amazon and Starbucks to eliminate cash from any transactions offer some predictions about the future that are hard to ignore. Both of these global powerhouses have determined that consumers relatively rarely use cash to purchase their products, prompting them to seek technology-supported and seamless innovations that would enable them to eliminate it altogether—along with most of the human staffers who previously were required to take the dollar bills and make change.

For Starbucks, the test store sits on the first floor of an office building in Seattle, where corporate employees often stop on their way in to work. Noting that mobile pre-orders through the Starbucks app already have increased to account for about 10 percent of all purchases, the company wants to determine how consumers might respond if they must pay without cash, whether through the mobile app or with a credit card waved over an in-store terminal. If this experiment is a success, it likely will roll out the design to other relevant locations.

As might come as no surprise, Amazon's experiment is even more technologically advanced. At its test Go store, located in its Seattle headquarters, Amazon employees can shop for groceries without ever pulling a payment form out of their pockets. As they enter the store, they scan their phone, to identify themselves. Then cameras mounted throughout the store track and monitor their movements, including whether they place particular items in their shopping baskets. After completing their shopping trip, they simply walk out, and their account gets charged for the items they have selected.

This sophisticated operation continues to deal with various challenges though, which is part of why Amazon has opened the Go store only to employees thus far. For example, the monitors have difficulty following individual customers when the store is very crowded. The underlying software does not rely on facial recognition, to avoid privacy concerns, so each shopper is represented simply as a three-dimensional figure. Specifying each individual customer thus is difficult if they are bunched together in a crowd.

In addition, the software has not quite perfected its ability to recognize precisely which product a customer has selected. Tubs of sour cream and cottage cheese look pretty much the same to a video monitor, for example. Human shopping habits complicate this effort even further, in that when people grab products from the shelf, their hands often cover the label information that might allow the program to determine precisely which item they have chosen.

In both these experiments, human employees might diminish, but they are unlikely to disappear completely. For now at least, baristas still need to make fancy coffee drinks, and store personnel are still required to check identification when shoppers want to buy age-restricted products like alcohol. But conceivably, such tasks could be performed by advanced technology in the near future, implying the possibility of daily shopping experiences totally devoid of human service providers.

Furthermore, both retailers have signaled their intentions to expand these operations. For Amazon in particular, an "unwritten rule" requires that any new innovation must offer the promise of being expandable on a vast scale—a novel idea cannot be just a one-time goof, to see if it can be don. Considering the bugs in the system, and the possibility that modern consumers are not quite ready to give up a pleasant interaction with a friendly barista, those expansions might be years in the future. But their likelihood is hard to deny.

Discussion Questions:

1. **In which circumstances do you use cash in retail stores? What percentage of your retail store transactions do you pay for in cash?**
2. **Why are stores like Starbucks and Amazon experimenting with cashless transactions?**
3. **Do you expect the practice of cashless transactions in stores to grow? Why or why not?**
4. **What impacts might cashless transactions have on firms' strategic profit models?**

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Bookstore Chains, Long in Decline, Are Undergoing a Final Shakeout

David Streitfeld, The New York Times, December 28, 2017

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

When sales in a particular industry or retail sector decline by something like 40 percent in a decade, it becomes pretty difficult to continue on using the same methods. And so, even after they weathered the storms that took out some long-gone competitors, the remaining brick-and-mortar bookstore chains are facing a new tsunami of insufficient profits, as well as little choice but to shutter their doors.

The most recent victim is Book World, a 45-store chain that ranked as the fourth largest in the United States. It announced it was closing all its stores and liquidating all its inventory. That leaves Barnes & Noble, the largest bookstore chain, which itself closed approximately 10 percent of its stores in the past few years, and Books-a-Million, which underwent its own bankruptcy scare but remained in operations after being taken private.

The new name that now takes the fourth spot in the rankings of bookstore chains might come as a little bit of a surprise, considering that it widely blamed for the collapse of this retail sector. That is, in opening dozens of brick-and-mortar stores to complement its online operations, Amazon now counts among this group of retailers that sells hard copies of books to shoppers in its stores—even as most of the other members of this group mourn their inability to compete with Amazon's provision of easy, quick book shipments.

This development may sound like more of the same, but it actually represents a shift in the book market. Several years back, prognosticators thought that digital readers and ebooks would replace physical books completely, such that book retailers would be left with nothing to sell. That prediction has not been borne out; many consumers still like the feel of a book in their hands, such that sales of ebooks have remained pretty consistent in the past few years.

But the difference is that those consumers who want to hold on to a book still are not visiting their local store to purchase it. Instead, they order it from Amazon and get it shipped to them, along with their household goods, holiday presents, and so forth. A few modern shoppers might visit a bookstore (including one run by Amazon) to enjoy the experience of browsing the shelves, but far more of them appreciate the convenience of getting the latest novel with a simple click.

Even if they survived the ebook revolution, the future for bookstores thus remains tenuous. One promising option might rely on localization. Rather than vast chains with centralized operations, which compete largely on price but cannot ultimately do better than Amazon on this value offer, small, independently run stores can differentiate themselves as local members of the community. They can offer personalized recommendations and a chance to interact with other book lovers who like to spend a few hours finding unexpected options stacked on shelves. That's the sort of experience that scanning the pages on Amazon's site can never recreate.

Discussion Questions:

1. **What is happening in the book store sector?**
2. **Why is it happening?**
3. **Which other retail sectors are vulnerable to similar trends? Justify your response.**

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Fanatics, Maker of Sports Apparel, Thrives by Seizing the Moment

Zack Schonbrun, The New York Times, November 20, 2017

Use with Chapter 6, "Financial Strategy," and Chapter 9, "Information Systems and Supply Chain Management"

Speed is central to pretty much every sport. Today, it also is a critical factor for a related industry: companies that manufacture and sell the jerseys, shirts, hats, and other paraphernalia that fans demand to show their team spirit. Fast fashion has come to sporting apparel, driven largely by a single company.

That company, Fanatics, emerged based on the recognition that the sporting apparel market is marked by rapid, unexpected shifts in demand. When a breakout star has an amazing run (e.g., Aaron Judge), demand for shirts with that player's name and number skyrockets. In a conventional supply chain, there was no way for the companies with licenses to product league gear to get those demanded items into shops quickly enough. In many cases, by the time they were produced and shipped, the excitement over that particular player had faded (e.g., Jeremy Lin), so stores were left with huge inventory lots and no more demand. The system failed in several ways: Customers who wanted the gear could not get it; retailers that sold it confronted frustrated customers and then huge inventory costs to hold items that they could no longer sell.

Thus Fanatics determined to adopt the rapid production model that is more generally linked to fast fashion retailers like Zara or H&M. The moment a player's name starts trending on social media, it fires up its production lines to get shirts and other gear into the market within a week. To support this effort, it has obtained licenses from all the major sports leagues (e.g., NFL, NHL, MLB, NBA, MLS, PGA), as well as more than 500 universities. Thus, it does not need to seek separate permission to emblazon each athlete's information on the gear that it produces. Its production efficiencies are so impressive that when the Cubs won the World Series, it had Uber drivers on standby to carry the immediately produced products into the streets for fans to purchase within minutes.

Consumers access these products mainly electronically, whether directly from Fanatics' own site or through links on the leagues' websites. It offers the prediction that more than 700 million consumers thus will visit the site this year. Along with this primary channel, it supplies the team stores of about 30 sports arenas and ballparks in the United States, ensuring that fans who go to the stadium can pick up their favorite player's shirt to wear during the game that same day.

It also plans to expand globally, initially by seeking licenses from teams in the English Premier League. If it continues to grow at its current pace, Fanatics could emerge as a $10 billion company within a decade—making it bigger than Foot Locker or Dick's Sporting Goods, even without its own dedicated storefronts.

Discussion Questions:

1. **Compare the supply chain of Fanatics with those of Zara and Dick's Sporting Goods.**
2. **How do you expect the key financial ratios discussed in Chapter 6 to be similar/different for these three retailers?**

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Retailers Experiment with a New Philosophy: Smaller Is Better

Tiffany Hsu, The New York Times, November 17, 2017

Use with Chapter 2, "Types of Retailers," Chapter 5, "Retail Market Strategy," Chapter 6, "Financial Strategy," and Chapter 16, "Store Layout, Design, and Visual Merchandising"

Shifting from big boxes that stock virtually everything to showrooms and concept stores that have virtually no products available—that appears to be the path pursued by several notable retailers as they continue to seek ways to attract shoppers to their stores. Rather than giving customers a dizzying array of products that they can select from racks and shelves, these retailers instead encourage them to preselect some items and engage in an interpersonal shopping experience when they seek to add to their wardrobes.

At a Nordstrom Local store in Los Angeles for example, a few specialist employees offer luxury services, such as manicures and glasses of wine. But they also sit down with shoppers with tablet devices to browse the clothing options available through Nordstrom. The 3000-square-foot concept store is located just a few miles away from a 122,000-square-foot department store, so once the customer identifies a few interesting options, they can be delivered rapidly for the shopper to try them on and purchase.

With this experimental approach—and the Los Angeles store is the only Nordstrom Local to open thus far—Nordstrom is reflecting the idea that appealing to modern shoppers requires giving them an enjoyable, extended experience, not just the instant gratification of grabbing a new outfit. This idea is supported by the success of other showrooms opened by predominantly online retailers such as Rent the Runway or Warby Parker. By giving their customers a means to interact with, feel, and assess their products in person, the showrooms run by these retailers have increased overall revenues considerably.

Beyond their sales benefits, the showrooms also offer other positive outcomes for retailers. For example, inventory costs are lower, as are merchandise theft rates, because these locations simply don't stock that much inventory. Employees work closely with each shopper, which not only reduces the risk of theft but also enhances their job satisfaction. In conventional, large retail settings, store employees spend much of their day performing routine, relatively boring tasks like folding clothing. In showrooms, they instead function as retail experts, creating a more interesting and diverse stylist-type role for these sales personnel.

However, the showrooms are not without challenges. They are unlikely to be effective for more commodity-type products, like socks or underwear. For some consumers, the high level of employee attention might be alienating too; many shoppers just like to browse at their own pace, without intervention by a sales clerk.

Accordingly, some other experiments with showroom approaches have proved less successful. For example, Macy's tried a small store format with limited inventory displayed on mannequins. When customers identified something they wanted to try on, a delivery system would send the items through chutes into dressing rooms. But the project ended after just about a year. Walmart has indicated that it has no plans to open its own showrooms, though it purchased Bonobos, which already maintains about 50 showrooms for its line of men's clothing.

The difference thus might be the type of merchandise that each store sells. For consumers seeking an enjoyable experience, showrooms might hold great appeal. For those who instead just want to grab a pair of jeans, they might be more than desired.

Discussion Questions:

1. **Why are some stores, like Nordstrom's, opening showrooms?**
2. **How do these showrooms differ from traditional stores?**
3. **How do you expect the key financial ratios discussed in Chapter 6 to be similar/different for showrooms versus traditional stores?**

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LG to Raise Prices on Washers After Trump Imposes Steep Tariffs

Andrew Tangel, The Wall Street Journal, January 24, 2018

Use with Chapter 13, "Retail Pricing"

Citing claims by domestic appliance manufacturers that imports were harming their sales and risking U.S. jobs, the Trump Administration recently imposed strict tariffs on washing machines imported from overseas. The new regulations add 20 percent tariffs to the first 1.2 million machines brought to the United States each year, then 50 percent tariffs on any washers beyond that number. The drastic and stringent imposition of these tariffs has of course prompted several responses and shifts in the market.

In particular, LG Electronics announced that it would be raising the prices on its laundry appliances for the U.S. market immediately. The South Korea–based manufacturer accounts for approximately 18 percent of retail sales of laundry appliances in the U.S. market—a share that the company argues it has earned by offering innovative features and previously unavailable designs that appeal to American consumers.

But U.S. competitors such as Whirlpool contest this explanation, arguing that the success of LG and other foreign manufacturers, such as Samsung, actually results from their aggressive pricing tactics, which ultimately undermine competition. Whirlpool requested the new tariff, citing a rarely applied regulation from the 1970s called the safeguard law. The Trump Administration agreed that international competition was harming the company and threatening the jobs of the approximately 3000 people who work in Whirlpool's manufacturing facilities, thus prompting the new tariffs.

Both Samsung and LG disagree, pointing in particular to their ongoing efforts to open new factories in the United States. But the regulation has gone into effect, prompting the price-related response. Although the exact amount of the increase has not been announced yet, retailers are preparing to adjust the numbers on their shelf tags for laundry appliances. Thus consumers who need to get their clothes clean soon will encounter different price points, with no real connection to the features that the products offer: higher for imported goods, lower for those produced domestically.

Discussion Questions:

1. **What is the impact of tariffs on retail prices?**
2. **In the case of washers in particular, how will the new tariffs affect overall sales, as well as sales for individual suppliers like LG and Whirlpool?**

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What Will 7-Eleven Do with All Its New Stores?

Matthew Stern, Retail Wire, January 26, 2018

Use with Chapter 2, "Types of Retailers"

In the largest acquisition in its entire history, 7-Eleven has purchased 1030 stores in 17 states from Sunoco, such that its overall count now exceeds 9700 stores across the United States and Canada. This acquisition seemingly flies in the face of many retail trends, in which companies appear to be shedding stores and seeking more efficient operations.

But convenience stores are a little different. This market continues to grow, along with dollar stores and off-price retail outlets. People still rely on convenience stores, even though the products and services they demand are changing. For example, many consumers appreciate fresh and prepared food options, such that they are able to grab a meal that is a little more substantial than beef jerky or a bag of chips.

Accordingly, some competitors in this sector are pursuing growth through other means too, such as Hy-Vee's experiments with "convenience stores on steroids." These alternative approaches offer all the conveniences of a conventional convenience store, but they also might feature a Starbucks counter or a small in-store restaurant, to expand the offerings available.

Nor is the acquisition the only move that 7-Eleven is trying. A new mobile app allows customers to place orders in advance, which they can pick up in stores. A future iteration also might integrate a delivery option. Regardless of which changes it makes in its retail locations though, 7-Eleven today has a much larger collection of stores in which to test them.

Discussion Question:

1. **What changes are occurring in the convenience store retail sector?**

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Some Big Retailers Are Still Betting on Brick and Mortar

Michael Corkery, The New York Times, November 14, 2017. See also Esther Fung, "Stores Borrow Tricks from Online Retailers," The Wall Street Journal, January 30, 2018

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

The competition between brick-and-mortar retailers and their electronic counterparts—especially Amazon—is long-standing, persistent, and constant. But even as many skeptics continue to warn that physical retailing is not much longer for this world, various stores are pursuing a wide range of tactics to ensure their survival and to continue giving consumers a place to visit when they are ready to make their next purchase. Consider a few of them:

- Go smaller. In urban locations, Target is opening smaller versions of the familiar big box stores that appear mainly in suburban areas. The 130 new stores give city shoppers convenient access to the range of products that the general merchandiser carries, without requiring them to get in a car that they might not even own.
- Compete on price. Discount retailers such at T.J. Maxx and Marshalls offer discounted merchandise, such that the items are comparable in price to what consumers can find from Amazon. But they also offer the fun of a "treasure hunt" setting, in which shoppers can feel like they are skilled and savvy consumers, because they have found such a great deal on designer fashions. Accordingly, the parent company TJX anticipates increasing the number of stores it runs worldwide under its various brands, from around 4000 to as many as 5600.
- Create exciting, compelling in-store experiences. The treasure hunt is not the only experience that customers enjoy in stores. During a recent holiday season, Walmart hosted parties, run by store employees sporting reindeer hats. Shoppers could enjoy the festive atmosphere while also observing demonstrations of some of the latest toy options and technological gadgets.
- Rely more on in-store technology capabilities. Various applications and software capabilities are increasing what retailers can offer customers in stores. Cosmetic counters in Neiman Marcus feature mirrors that also record interactions between customers and the expert sales personnel. The video then gets sent to the customer's smartphone, so that she can go back to watch exactly how the makeup artist created her smoky eye, step by step. Another option is facial recognition software that can alert sales clerks at the very moment their best customers enter the store, so that they can be ready with recommendations and dedicated, personalized service offerings.

- Give up. This last option is a little different, but it cannot be ignored. Whether in full or in part, many famous retailers are exiting the market. Lord & Taylor sold its flagship New York City store, though it continues to operate in other locations. Sears has closed hundreds of stores. Toys 'R Us and Gymboree have entered bankruptcy proceedings. And Radio Shack simply has stopped existing.

Discussion Questions:

1. **What are traditional stores doing to compete with Internet retailers like Amazon?**
2. **Which of these tactics are most likely to succeed? Justify your answer.**

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Retail Tidbits

FMI Says Switch to Online Grocery Sales Going Faster than Expected

George Anderson, Retail Wire, January 30, 2018

When will online grocery sales reach the $100 billion threshold? Whereas previous estimates anticipated a date around 2025, more recent predictions now have moved it up to 2022, reflecting consumers' rapid, extensive adoption of the task of shopping for groceries online. Already nearly half of all U.S. consumers skip the store and go online to purchase groceries, and within five years, approximately 70 percent are expected to do so. Moreover, these purchases come from consumers across the age spectrum; though Millennials tend to be particularly likely to shop online, 41 percent of Baby Boomers do so too. But as these rates of adopting continue to accelerate, the lack of preparedness by retailers is also becoming increasingly clear. Few retailers, or their manufacturing partners, possess the capabilities required to support a consumer population that mainly buys food online, especially when it comes to integrating their operations and promotions across channels, engaging in true omnichannel retailing, or sharing shopper data with channel partners.

At NRF Show, CVS Calls for Transparency in Beauty

Tom Ryan, Retail Wire, January 17, 2018

In a further manifestation of its desire to be known as a health care company, CVS has announced that its marketing of the beauty products it sells will now make clear whether the advertising images have been digitally altered. If they have not, the images will earn a watermark, labeling them with the "CVS Beauty Mark." But if they have, the retailer will offer no such certification, and instead, it will mark the advertising as "digitally altered." In turn, consumers can more easily determine the realism of the images they see. In announcing the initiative, CVS cited research that shows how damaging unrealistic images of beauty can be for consumers, leading to heightened threats to self-esteem and increased rates of eating disorders and other risky behavior. In its effort to ensure the health and well-being of its customers, CVS seeks to work with its suppliers to encourage marketing communications that feature more realistic images. To develop the guidelines for determining what counts as extensive alterations, CVS is working with both industry experts and brand partners, in the hope that, ultimately, its initiative will spread to all marketing communications about beauty products, whether in its stores or not.

Triple Threat: Amazon, Berkshire, JPMorgan Rattle Health-Care Firms

Anna Wilde Mathews, Emily Glazer, and Laura Stevens, The Wall Street Journal, January 30, 2018

It's no secret that health care, and its related costs, is a pressing problem for many countries and their economies. Some recent estimates suggest that health care spending in the United States is close to $3.4 trillion, and the costs show no signs of decreasing anytime soon. Uncertainty about the future of Obamacare and Medicaid and the rapidly aging population make these cost concerns even more pertinent. In response, three well-known names from other fields—retailing, investments, and banking—have joined forces to propose an innovative, unconventional approach to health care and insurance markets. They hope to create a nonprofit conglomerate that can provide health care services to their millions of employees. Although still in the planning stages, the proposed initiative, nicknamed Project Lincoln, has already exerted an influence in the market, because the people behind it are in charge of Amazon, Berkshire Hathaway, and JPMorgan Chase. Jeff Bezos, Warren Buffett, and Jaime Dimon reportedly knew one another before, but their consensus opinion about the damaging effects of healthcare costs—which Buffett descriptively referred to as "a hungry tapeworm on the American economy"—has led them to make their collaboration more formal. In these early stages, they have indicated that one of their first goals is to establish a data warehouse. With vast amounts of health care data, they ideally would be able to design revised agreements with health care providers and insurance companies, which might reduce costs by avoiding payments for unnecessary features. Furthermore, the plan would encourage physicians to turn to digital tools, so that more data can be collected over time and shared across various health care providers. These tools also would support expanded care options, moving some non-critical services outside hospitals and clinics. Finally, Project Lincoln has a goal of eliminating intermediaries, such as pharmacy benefit managers and distributors, which often add costs without providing much in terms of value. Firms in these industries are understandably concerned, and stock market investors indicated their expectations by lowering the price of shares in existing insurers and pharmaceutical firms.

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Wal-Mart Has a New Ally in the Fight with Amazon: Japan's Rakuten

Sarah Nassauer and Mayumi Negishi, The Wall Street Journal, January 26, 2018

In a collaboration designed to benefit both partners, the U.S.-based retail giant Walmart and the Japanese online retailer Rakuten are joining forces to expand their capacities—and compete more effectively with Amazon. For Rakuten, already the largest online retail in Japan, the partnership offers an entry point into the U.S. market for e-books and audiobooks. By placing its existing offerings on Walmart's website, it gains a vast potential audience with great promise for growth. On its side, Walmart earns a ready foray into the appealing Japanese grocery market. Japanese consumers rely heavily on online grocery shopping options, such that this market is worth more than $19 billion annually. Walmart has sought to dominate this market in the United States as well, but with this partnership, it gains an almost guaranteed position in a country that offers great potential. Along with these unique benefits for the new partners, the collaboration provides shared appeal because of its good chances for outcompeting Amazon. In particular, Rakuten hopes to challenge Amazon's long-standing dominance in e-readers (e.g., Kindle), e-books, and so forth, while Walmart notes that Amazon has yet to really make a mark in the Japanese grocery market. But it is not as if Amazon is struggling in either country; the United States and Japan are its first and third largest markets in terms of sales, respectively.

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