



RETAILING MANAGEMENT

Levy | Weitz | Grewal

Newsletter for Instructors

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

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<http://warrington.ufl.edu/centers/retailcenter/research/publications.asp>

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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

The Prime Effect: How Amazon's Two-Day Shipping Is Disrupting Retail

Christopher Mims, *The Wall Street Journal*, September 20, 2018

Use with Chapter 6, "Retail Financial Strategy," Chapter 9, "Information Systems and Supply Chain Management," Chapter 10, "Customer Relationship Management," and Chapter 17, "Customer Service"



In a sense, retailing has become an arms race, in which enhanced services are the weapons of mass customer satisfaction. The really big gun in this metaphor is shipping—a service that Amazon wields effectively to ensure its victory. By granting every Prime member free two-day shipping (or even faster delivery for some items), Amazon has redefined people's basic expectations, and thus the requirements for virtually every company that hopes to sell products today.

Amazon's Prime membership, which costs \$119 annually, guarantees consumers added value in various ways, but the free shipping is likely the most widely recognized benefit. Whereas previously, in the days before Amazon, mail-order retailers could

simply put their products in the mail, and consumers would wait patiently, the provision of free two-day shipping has radically altered consumers' expectations. Due to the "Prime Effect," Even tiny retailers have little choice but to offer rapid delivery, a service that is very expensive for the seller.

Many of these small retailers therefore rely on Amazon itself. Through the Amazon Marketplace, hundreds of thousands of independent retail operations rely on Amazon to help them fulfill orders. They pay Amazon a fixed shipping rate (based on size and weight dimensions), and then Amazon takes care of the rest. Although the costs are still substantial, they are much less than would be required to ship individual packages on their own, and the companies also can precisely predict what the costs will be in advance. Although these partners are not required to participate in the Prime program, if they do not, their offerings appear much farther down in the search results (or not at all, if customers limit their searches to Prime offerings). Evidence in turn indicates that they would need to reduce their prices by about 10 percent to attract the same level of sales that they can achieve by being part of the Prime offerings.

Amazon's shipping practices also have exerted effects on retailers outside its site though. As they try to play catch-up and remain appealing, major competitors such as Walmart and Target are trying to find ways to enhance their ability to get products to consumers faster. Whereas Walmart is pursuing a model similar to Amazon's, featuring strategically placed distribution centers, Target takes a different approach and ships most of its online orders from local stores themselves.

But in both cases, the retailers have a ways to go to achieve capabilities that can match Amazon's shipping logistics. For years, the company has actively invested in finding and developing the best locations for its physical distribution centers. In particular, 25 sortation centers bundle goods according to their ultimate location destination, and 75 fulfillment centers pack up the boxes. Some of these warehouses exceed 1 million square feet—a massive brick-and-mortar resource for a company mostly associated with online channels.

Discussion Questions:

1. What is the "Prime Effect"?
2. How does the shift, from requiring customers to pay for shipping to free shipping in just two days, affect the financial ratios in the strategic profit model in Chapter 6?
3. How does two-day free shipping affect customer loyalty and customer lifetime value?
4. Does two-day free shipping sufficiently enhance customers' perceptions of the overall level of customer service offered to determine whether they purchase from one retailer or another? Under what circumstances would you say yes? No?

Walmart Just Wanted to Sell Pricy Outdoor Gear. Then ‘All Hell Broke Loose’

Sarah Nassauer, *The Wall Street Journal*, September 7, 2018

Use with Chapter 12 “Buying Merchandise”



Outdoor enthusiasts love adventure, but the thrills and chills associated with a recent dustup among several outdoor brands, high-end retailers, and Walmart might not be quite what they expected. Let’s consider the perspectives of all three of these actors.

Walmart, in its effort to become all things to all consumers (and compete better with Amazon, of course), has actively sought to expand the range of products it sells online, including high-end camping, hiking, adventure, and sports gear. It purchased a smaller retailer called Moosejaw, known for selling premier equipment, and created a dedicated section of its website to sell the high-end, expensive gear that this retailer had gained a reputation for

providing. It added a range of relevant products, including Black Diamond climbing tools and Deuter backpacks. The products were only available online, not in stores.

Other retailers, recognizing the presence of these brands on the Walmart site, raised a vehement protest. They argued that by being affiliated with Walmart, the brands would also be linked to the retail giant’s well-known low price image. But these retailers have no interest in a low price positioning; instead, they charge high prices for excellent equipment. If the equipment is something people can get at Walmart, they might no longer perceive that it is worth the high price. Furthermore, Walmart’s reputation for forcing suppliers to lower their prices led them to anticipate that the goods would ultimately be for sale at much lower prices on the Walmart.com site.

In response, the brands themselves have faced a tough dilemma. If they decide to keep their existing retail partners happy by withdrawing themselves from Walmart, they lose access to the massive market of consumers who frequently visit Walmart, potentially limiting their growth. But if they remain on Walmart.com, they risk alienating their existing retail partners and potentially undermining their own reputation as a high-end brand. Thus far, approximately one-third of the brands that initially appeared on Walmart’s dedicated outdoor gear page have asked to be removed.

Walmart insists that it sought and received permission from every brand it featured, before it put them on its ecommerce site. It also engaged in proactive efforts to convince some of them, yet even after they agreed, these brands changed their minds when confronted by the severe blowback from their other retail links. Even the retail industry association for outdoor gear got in on the action, calling on its members to refuse to sell any brands that also appeared on Walmart.com. But Walmart believes these moves are short-sighted, noting that consumers today expect to find whatever products they want in multiple channels. If the brands limit themselves to specialty retailers, they also might be limiting their chances of survival.

Discussion Question:

1. Why are brands upset that Walmart is selling their products?
2. If you were one of these high-end brands, would you continue to sell to Walmart? Why or why not?

Why Walmart Shoppers Are Finding More Items ‘Out of Stock’

Sarah Nassauer, The Wall Street Journal, August 31, 2018.

Use with Chapter 6, “Financial Strategy,” Chapter 9, “Information Systems and Supply Chain Management,” Chapter 10, “Customer Relationship Management,” and Chapter 17, “Customer Service”



When Walmart bought Jet.com, it was clear that its ecommerce operations would change. In the latest shift, it has redefined what it means to be “out of stock,” by limiting online orders according to the expense of shipping the items, not just their physical availability.

Previously, Walmart would ship ordered products from warehouses all over the country, regardless of the cost. Customers might receive multiple packages, each coming from a different distribution center, and they could obtain even heavy, bulky items without any hindrance, as long as those items were somewhere in Walmart’s inventory. But no longer. Now, if a bulky item is only present in a warehouse in California, a shopper in Massachusetts

likely will receive notice that the product is out of stock and unavailable for purchase.

At the same time, Walmart encourages vendors that sell through its system to increase the stocks they make available, so that it can spread the products out and make them more consistently available. For consumers, it attempts to mitigate any frustration by rapidly suggesting product alternatives that likely will meet their needs. A website shopper searching for turkey-flavored cat food probably will accept a shipment of chicken-flavored chow just as readily, so Walmart believes it has not hindered purchasing opportunities substantially.

Still, some vendors complain that they have suffered diminished sales. The new policies are unlikely to change back though; Walmart has indicated that it must reduce the costs of shipping for its ecommerce arm to be profitable. A key to this effort is to rely predominantly on ground shipping, instead of air shipping. But if it wants to get products into customers’ hands quickly (which it must do if it wants to compete with Amazon), then it needs to have those products located in close proximity to the customers, to be able to ship them over the roads.

Discussion Questions:

1. How does the change in transportation strategy affect the financial ratios in the strategic profit model in Chapter 6?
2. What will be the impact on the total inventory of a particular SKU, if it is stocked in multiple Walmart locations instead of just one?
3. How does the change in transportation strategy affect customer service perceptions and loyalty?
4. How does this change in Walmart’s transportation strategy compare with that of Amazon?

Fred's Amps Up the Treasure Hunt

Tom Ryan, Retail Wire, August 7, 2018

Use with Chapter 6, "Financial Strategy," Chapter 12, "Buying Merchandise," and "Chapter 13, "Retail Pricing"



The deep discount retailer Fred's already lists low prices in its stores, which span the southeastern United States. But to appeal even more precisely to consumers' price preferences, it also has adopted an innovative "Closeout Bonanza" pricing concept that ensures it moves inventory, even while it gives shoppers a fun and entertaining way to grab deals.

Each Friday night, the stores assigned to feature Fred's Closeout Bonanza get restocked with brand new products. The products change week to week, depending on what inventory Fred's has left from its traditional stores or what special deals it might get from suppliers. When the stores open on Saturday morning, each item is priced at \$9.99. This price point usually represents a

pretty good deal already, so shoppers start purchasing. For example, one recent bonanza featured name-brand coffeemakers, a Fitbit flex 2 model, and an Otter-branded phone case, each for less than \$10.

Then on Sunday, everything gets marked down to \$4.99. By Monday, the items cost \$2.99; on Tuesday and Wednesday, the remaining inventory is priced at \$1.99. On Thursday, it drops to \$.99; on Friday morning, everything left is just \$.19. And then Friday night rolls around, and Fred's restocks with an entirely new set of inventory.

To keep the system running, Fred's mandates that there may be no pushing or running in the stores. Consumers may not open packages, nor do they have the option to return items once they have purchased them.

For price-conscious shoppers, Fred's Closeout Bonanza makes its effort to appeal to their precise preferences clear. Do they want to come early for the best selection? Then Saturday is their day. If instead they want deeper discounts and smaller crowds, they can take their chances and wait until Thursday.

Discussion Question:

1. What is this pricing strategy called?
2. How does this pricing strategy affect the financial ratios in the strategic profit model in Chapter 6?
3. Identify any potential problems associated with this strategy, in terms of maintaining adequate inventories.

What Will 'A New Standard for Green Retail' Mean for Starbucks' Results?

Tom Ryan, *Retail Wire*, September 17, 2018.

Use with Chapter 10, "Customer Relationship Management," Chapter 12, "Buying Merchandise," and Chapter 15, "Human Resources and Managing the Store"



By 2025, Starbucks plans to have 10,000 "Greener Stores" in operation, each of them relying completely on renewable energy sources. To establish the specific criteria that define a store as "green," Starbucks is working on an open-source framework, as well as partnering with environmental organizations, to ensure its efforts are legitimate.

The planned framework will comprise six main topics that will qualify each store's operations as green. First, it must reduce water usage by 30 percent and energy usage by 25 percent. Second, all energy sources must be renewable, including solar or wind power. Third, any materials used to build or supply the store need to be sustainably sourced. Fourth, the store

environment should be healthy, with appropriate lighting, air quality, and noise levels. Fifth, waste reduction is critical. Sixth, to encourage sustainability objectives across the board, Starbucks stores must encourage their employees to engage with their communities and environmental initiatives.

These goals have obvious benefits for society and the environment. They also promise to save Starbucks an approximately \$50 million in costs. Such ambitions represent a continuation of Starbucks's existing efforts, such that replacement lighting and refrigeration systems already offer greater efficiency, as part of a corporate mandate. In addition, Starbucks has embraced the LEEDs criteria, but it regards the new framework as a step further and a means to establish its reputation as a good corporate citizen.

Discussion Questions:

1. What is Starbucks doing to establish "green" stores?
2. Will this strategy appeal to its target market, and therefore increase customer loyalty and improve profitability?
3. Do you consider this strategy to be "greenwashing?" Why or why not?

REI Finds Audience for Used Gear

Tom Ryan, *Retail Wire*, August 27, 2018

Use with Chapter 12, "Buying Merchandise"



Imagine you order yourself a new jacket from REI for your regular day hikes. The first day out, you realize that the sleeves are a little short. You've spend a fair amount of money to purchase the product, which you hope to use for years to come, so you decide to return it. The jacket is virtually new; you haven't caused any damage or spilled anything on it. So what is REI to do with it?

The outdoor gear retailer wants to resell it, and it is using some innovative methods to do so. In its physical stores, it has long hosted "Garage Sales" of lightly used, returned items, allowing consumers who live in proximity to those stores to score great deals on selected dates throughout the year. But that option excludes a vast range of consumers who do not live near a store

or who might not be able to get to their local store on the date of the REI Garage Sale.

In response, REI opened a section on its website to make the used items available to anyone visiting its site. The products sell, on average, for about 65 percent less than the new versions would cost. In addition, REI guarantees that they are usable and do not need any repairs, though they may require cleaning. Beyond these direct sales, the site supports swaps between consumers.

Available for less than a year, the option already has proved remarkably successful. In particular, it aligns with REI's broad sustainability image, because it enables hikers and outdoor enthusiasts to embrace a reuse-and-recycle form of consumption. Furthermore, the lower prices allow more potential customers to obtain REI-branded products, which tend to be priced toward the higher end of the scale. Assuming they like the items, REI likely can count on them coming back for more when they require additional gear.

Although in some ways, these options mimic second-hand stores, the unique feature is the location. That is, few retailers sell both new and used products from their own brand in the same online and offline spaces. By doing so, REI hopes to strike a new path, both among consumers and for its future success.

Discussion Question:

1. From REI's perspective, what are the advantages and disadvantages of selling used REI merchandise?

L'Occitane Aims for a More Immersive, More Disruptive Flagship

Matthew Stern, Retail Wire, August 30, 2018

Use with Chapter 16, "Store Layout, Design, and Visual Merchandising"



Shoppers in New York City might be excused for thinking they are in Paris, assuming they are visiting the French beauty brand L'Occitane's latest flagship store. The experience-based storefront provides virtual reality opportunities that let shoppers feel like they are riding a hot-air balloon over the French capital. Or they can hop on a stationary bike and pretend that they are competing in the Tour de France.

In actual reality, they also can receive hand massages, gaze at French-inspired artwork, and chat with other shoppers in a Mediterranean-style canopy made to look like an olive tree. Many of these elements will change

constantly, so that each time a shopper enters the store, she or he will get a new experience.

Oh, and they can also review and test the products that are for sale. But even though the displays of products are innovative and creative, the real goal of the store is to create an experience, and perhaps to induce shoppers to share that experience via social media.

Discussion Questions:

1. What has L'Occitane done to attract and retain customers in its flagship store?
2. What are the advantages and disadvantages of adding these new attractions?

Are Big Box Retailers Going Too Small with New Store Concepts?

Chris Petersen, Retail Wire, September 24, 2018

Use with Chapter 16, "Store Layout, Design, and Visual Merchandising"



Is big always better? Do good things always come in small packages? For retailers, these popular sayings take on new meaning when it comes to designing layouts and store designs that will appeal best to shoppers. In addition, their answers keep changing, as the retail market shifts and changes too.

In particular, big box retailers once were all the rage. But in recent years, some of the most famous examples of these retailers have pivoted toward opening smaller versions, such as Walmart's 3000-square-foot convenience stores, Nordstrom's display shops that carry no actual inventory for sale, and IKEA's urban retail locations that are approximately one-third the size of its normally vast stores.

These small stores offer notable advantages to both retailers and their customers. In particular, the retailers can locate in more diverse areas; for example, Target determined that it could really only reach shoppers in cities if it opened small stores in urban locations, rather than insisting on its maintaining pattern of massive stores in rural or suburban sites. They also tend to be less expensive to run and maintain.

In addition, the smaller stores align with and reinforce an omnichannel strategy that relies on seamless links across channels. Shoppers can make purchases from the retailer's vast online inventory, have the items shipped to their local store, and then pick up the items later. It would be nearly impossible for a small, local store to keep all these items on hand though. The convenience of these locations encourages consumers to make use of "click-and-collect" options. Furthermore, because of their localness, the small stores can effectively tailor the assortment they keep on shelves to the preferences of nearby shoppers.

Still, the stores inevitably suffer from limited inventories, and they generally cannot support the sort of one-stop shopping that makes big box stores so appealing to many consumers. Therefore, the key seems to be finding just the right size and mix of stores to ensure that all consumers are getting just what they want from the retailer.

Discussion Questions:

1. Which retailers are opening small store formats?
2. What are the advantages of such a move?

Retail Tidbits

Amazon Investment in India Ties into Retail Chain

Corinne Abrams, The Wall Street Journal, September 20, 2018

The challenges associated with the Indian retail market have long made it difficult for global firms to reach the country's growing middle class. In particular, the nation's laws prohibit foreign firms from owning a majority stake in stores located within India's borders. Some of the biggest names in retail thus have devised complex, intricate strategies to gain a foothold. For example, Amazon has entered into a partnership with a company called Samara Capital. Samara owns Witzig Advisory Services, which specializes in providing training services. Witzig in turn owns 99.9 percent of Aditya Birla Retail, a corporation that is responsible for the approximately 500-store More supermarket chain. Thus, with several degrees of separation, Amazon gains access to shoppers at More stores. Even as Amazon works to expand its omnichannel operations by collaborating with physical grocers, Walmart is going in the other direction, having purchased a majority stake in Flipkart.com, which ranks among India's largest e-commerce sites. These moves reflect several global trends, including the ongoing desire to expand internationally, especially into promising markets such as India, and the need to establish a vast omnichannel presence.

Retailers Looking to Test Run Stores See Opportunity in Short-Term Leases

Keiko Morris, The Wall Street Journal, September 1, 2018.

Real estate is a volatile market, especially when it comes to retail spaces. In popular retail locations, high rents historically have kept smaller retailers from being able to support extended leases with confidence, and landlords often refused to budge on their rent demands. But that situation has changed, as building owners find themselves with empty storefronts and no renters. Accordingly, many of them are agreeing to more flexible lease agreements, in which retailers can agree to take up the space for perhaps two or five years, rather than being committed to a decades-long contract. For the landlords, the deal means that they have an appealing, attractive destination that brings consumers to their locations, enabling them to justify high rents. For consumers, these options increase the chances that they will encounter a fun little shop on the corner near where they live or work. Perhaps most important though, for retailers, the flexible deals allow for experimentation and market testing. They can review a location carefully, determine that it is likely a good location candidate, but still remain in test mode. Some of them engage in what are essentially pop-up shops, running them for just a month or two. But even with a five-year lease, a small retailer still can ensure it has sufficient resources to support the store in the short term, then use this opportunity to discover what its sales and revenue would be if it stayed there. The short-term leases also give these retailers—many of which started as online operations—greater visibility, allowing them to increase brand awareness among consumers in the area.

Walmart Expands Test of Giant Automated Grocery Kiosk

Tom Ryan, Retail Wire, September 17, 2018

It isn't quite a drive-through grocery store, but Walmart's experimental kiosks come close to that idea. In two test locations, shoppers can place orders online, then visit a large kiosk located in the parking lot of their local store, at their convenience. After scanning a bar code that they received with their order confirmation, they receive their entire order, without ever having to enter the store or interact with a human sales associate. The interaction takes less than a minute on average, and the kiosk maintains both dry and cold storage spaces to keep purchased items fresh. This option represents just the latest attempt by Walmart to find the best way to get its products to its customers. For example, it also offers grocery pickup in stores, delivery services in select locations, and remote "pick-up towers" for customers who live far away from an actual Walmart store. According to Walmart's CEO, its ongoing experiments include self-driving delivery vehicles too, reflecting its dedication to a truly omnichannel approach.

Will a New Beauty Concept Help CVS Pull Shoppers from Sephora and Ulta?

Matthew Stern, Retail Wire, September 5, 2018

Changes in the drugstore market are prompting an array of responses from the various competitors. At CVS, one key strategy seems oriented toward cosmetic and beauty products. The drugstore chain has opened stores-within-stores in several locations, called BeautyIRL, which offer expansive selections and testing options for cosmetic products, "in real life." It plans to introduce the designs in more stores soon, seeking to appeal to younger shoppers who might otherwise have visited specialty beauty shops like Ulta and Sephora. At the same time, CVS continues its determined effort to be the pharmacy of choice for shoppers, by increasing the convenience of getting prescription drugs; it soon plans to introduce same-day or next-day delivery of certain medications. Such proactive moves likely reflect the company's determination to head off increasing competition from Amazon, which recently purchased an online pharmacy company and thus appears poised to threaten the market share of existing drugstore chains.

J.Crew Makes the Jump to Amazon's Marketplace

George Anderson, Retail Wire, September 7, 2018

In a new storefront featured on Amazon, shoppers can find a dedicated and expanded array of merchandise from J.Crew, reflecting the preppy fashion firm's revised approach to appeal to consumers. Noting that the company had moved away from its roots as a reliable source of cute wardrobe basics—seemingly to its detriment—a new CEO has determined to change the strategy to appeal to a wider range of customers. In support of that effort, it is collaborating with Amazon. The J.Crew storefront will highlight the company's Mercantile line, a collection of everyday clothing items for men and women, priced to be accessible to most shoppers. In addition to expanding its reach by placing its items on Amazon, J.Crew is determined to design an overall pricing strategy that ensures that “anyone who walks in the store can walk out with something”—or more accurately, that anyone who walks, clicks, or browses in a retail location can leave that channel with a reasonable and appealing purchase.

Nike Expects Sales to Take Off with Launch on Jet.com

Tom Ryan, Retail Wire, September 21, 2018

First it was Amazon; now it is Jet.com (owned by Walmart). Nike products are showing up in all sorts of unexpected places. The sporting goods brand, which was long known for its vigorous efforts to control all channels to reach its customers, has changed course. After its success with a dedicated storefront on Amazon—a move that largely sought to combat the widespread threat of counterfeit products being sold through the site—Nike now has entered into an agreement with Jet.com to locate its shoes, apparel, and related gear on that ecommerce site. The Jet.com deal promises to provide “targeted shopping” for consumers, such that the site will present them with options tailored to their interests. Someone searching for fashionable sneakers will see the latest Air Jordans; they will not see pages that highlight Nike's yoga gear. In both collaborations, Nike may give up a little control, but it gains far more, including broader reach and access to massive amounts of data held by these two massive ecommerce sites.

Walmart Could Have You Shopping in the Matrix

Matthew Stern, Retail Wire, August 31, 2018

According to its patent applications, Walmart wants to go virtual. Even if the novel technologies are years from being functional, these early signs give good insights into where the company plans to devote its efforts. A recent patent application describes how shoppers could strap on their virtual reality (VR) headsets to access a showroom of products. Scanning through the three-dimensional VR store, they could select products; if they also have VR-enabled gloves, they can pick up and examine individual products. Adding them to their virtual cart would prompt an order, which Walmart would process through an automated system and deliver to the customers' doors. This futuristic notion is actually an extension of a concept that Walmart already makes available: Consumers currently can shop through a virtual house to review furniture available at Walmart, using their VR sets or their computers. Even with these strong signals though, it may be too early to guarantee that VR will become the retail reality. The technology remains somewhat unwieldy, including bulky gear and risks of headaches and nausea when people use it for too long. But if innovators can solve these VR problems, Walmart wants to be ready.