Newsletter for Instructors

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Are Retailers Getting Over Their SKU Management Hurdles?

Denise Leathers, Retail Wire, December 17, 2018

Use with Chapter 11, "Managing the Merchandise Planning Process"

Sales performance is a clear-cut, informative, and easily measurable criterion that retailers can use to decide which brands and products to stock on their shelves. But in today's sophisticated retail marketplace, it may be too simplistic. Thus many stores have moved away from a sole reliance on the hurdle rate—a long-used threshold that indicated when a product had achieved sufficient sales to stay on the shelf—to integrate various other assessments of performance.

In more detail, the hurdle rate reflects the items sold per stockkeeping unit (SKU) per week. If a brand sold enough, it surpassed the hurdle rate. But many of the products that currently promise to bring customers to a store—such a niche brands, organic or gluten-free options, or specialty offerings—struggle to reach this conventional milestone, especially when they are first introduced to the market.

Thus at Walmart for example, the hurdle rate for organic and gluten-free products is lower than it is for other items, giving the providers a little more breathing room to build their clientele and establish a competitive position. The retailer also relies on lower hurdle rates for discount, low cost items, in its effort to compete better with hard discount retailers. In this sense, Walmart actively adjusts its use of the hurdle rate to meet the needs of its channel partners but also to enhance its competitive positioning.

Other products also might benefit from measures that go beyond hurdle rates. For example, private-label offerings might remain on store shelves almost regardless of their sales rate, because of the image, awareness, or margin benefits they provide for the retailer. Similarly, a retailer might stock a highly innovative product that only a few consumers buy, to establish a cutting-edge reputation for itself. In the grocery market for example, many retailers ignore the hurdle rate metric when it comes to assessing the performance of meat substitutes or dairy-free foods, recognizing that there is a dedicated segment of consumers who will visit their stores just to buy these items, but they are unlikely to achieve such widespread popularity that they would move out the door in volume.

Discussion Questions:

1. **What is the hurdle rate?**
2. **How has the use of hurdle rates changed in recent years?**

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Amazon and Whole Foods After a Year: Supermarkets Will See Massive Changes

Richard Kestenbaum, Forbes, December 16, 2018

Use with Chapter 2, "Types of Retailers," Chapter 3, "Multichannel and Omnichannel Retailing," and Chapter 5, "Retail Market Strategy"

It's a million-dollar—or more accurately, a 13 billon-dollar—question: Why did Amazon buy Whole Foods? Even casual observers note that there have been relatively few changes to either shopping channel thus far. Whole Foods stocks some Alexa devices, and Amazon hosts the Whole Foods store brands. But were those collaborations really worth the $13 billion Amazon paid to acquire Whole Foods?

Of course not. Instead, Amazon invested in Whole Foods mainly to learn more about the grocery business, and how it might be transformed successfully as a viable online sales model. Thus far, consumers have remained resistant to adopting online grocery shopping, but Amazon, in its efforts to continue growing, needs to convince them to start buying their household supplies, cereal, milk, produce, and meat through its site.

The first couple of categories appear viable. People are happy to have detergent or dry goods shipped to their door. But the latter product categories create a different challenge. Human shoppers hesitate to allow someone else to pick out their perishable goods, for fear they will wind up with bruised fruit, not-very-fresh fish, or poor quality steaks. Because they are willing to devote the effort to visit a store to guarantee their preferred quality for these items, it is easy for them to pick up some paper towels at the same time, which means the convenience benefits of the online channel no longer hold the same appeal.

In seeking to overcome this hurdle, Amazon has devoted substantial time, money, and resources to analyzing more and more data. At the same time, data analytics companies are developing new technologies to inform the challenge. For example, new video software would allow consumers to take a peek at which produce is being packed for them, such that they could select the most appealing looking apple from a remote location.

The company that develops and applies the technology that ultimately convinces consumers to do most of their grocery shopping online will enjoy a massive first-mover advantage. From this perspective, Amazon's determination to understand shopping behaviors better, through its access to Whole Foods and its consumers, makes better sense. It hopes to become the first place people look for their groceries, along with virtually everything else.

Such an outcome also implies that Amazon eventually will need to decide what to do with the physical inventory of Whole Foods stores. That is, if grocery shopping transforms into an online process for the majority of the population, the industry is likely to undergo substantial shifts, similar to those that have affected booksellers. There will likely be fewer large supermarkets or hypermarkets; instead, consumers likely will want smaller, easily accessible stores for fill-in trips between their primary orders for groceries, placed online.

In addition, the online channels will need to support more diverse product offerings, such that consumers can get the specialty and ethnic foods they desire, wherever they live. Another key element that the online channel can provide, to the benefit of consumers, will be services that increase the convenience of the chore of grocery shopping and that support their meal planning. A recent study showed that many consumers started planning for their holiday feasts by visiting a grocer's website; such service offerings may make the difference in encouraging more people to embrace an entire consumer journey through an online channel.

Discussion Question:

1. **Why did Amazon buy Whole Foods?**
2. **What significant changes has Amazon made to the Whole Foods shopping experience?**
3. **What changes need to occur to make online shopping a viable alternative for most consumers?**

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Amazon Targets Unprofitable Items, With a Sharper Focus on the Bottom Line

Laura Stevens, Sharon Terlep, and Annie Gasparro, The Wall Street Journal, December 16, 2018.

Use with Chapter 9, "Information Systems and Supply Chain Management," and Chapter 11, "Managing the Merchandise Planning Process"

Shoppers might prefer to order bulky, heavy household products (e.g., cans of soup, bottled beverages) to be delivered, so that they don't have to worry about lugging the heavy packages home. But that option creates a stringent challenge for Amazon, the site that receives many of these orders. These products might be too heavy for shoppers to carry, but they're also way too heavy for Amazon to ship cost effectively.

In response, it has adopted several solutions, mostly in collaboration with the brands that sell their products through its channels. In particular, it requires many companies to promote or even limit their offerings to larger case sizes. For example, rather than making a 6-pack of Smartwater the default option, linked to Amazon's easy reorder Dash button, the brand's owner Coca-Cola agreed to feature a 24-bottle case. The price per bottle is higher, and Amazon avoids the costly need to ship multiple small but heavy packages.

Larger packages also apply to seemingly more convenient products. For example, Campbell Soup Co. pushes cases of canned soup, but it also encourages consumers to purchase larger packages of its Goldfish snack crackers. Rather than the small bags that they might grab from a physical store shelf, Amazon shoppers find larger cartons on offer, which again help increase the efficiency of the shipping process.

Furthermore, many more products are coming directly from the producers, representing a notable shift from previous practices. In the past, Coca-Cola would ensure that Amazon's distribution centers were well stocked with beverages; today, it receives orders from Amazon and ships the products directly to consumers. By eliminating a step in the delivery process, the companies lower the costs throughout the supply chain.

Another option for suppliers is to alter the formulation of their products to facilitate shipping. For example, Seventh Generation encourages consumers to consider laundry pods instead of liquid detergent when they are shopping through Amazon. The pods are less expensive to ship, with less risk of damage as well.

Moreover, Amazon is increasingly turning to its Prime Pantry to facilitate and create customers' orders. Shoppers buying household goods and groceries receive incentives to fill an entire box. Thus they still can request a 6-pack of water instead of a case, but they also are likely to add other items to their order. By ensuring the box is full, Amazon avoids inefficient shipping—while also encouraging expanded sales.

Finally, if it simply cannot make money on an item, Amazon designates the product as one for which it "Can't Raise A Profit." The resulting acronym describes what the company thinks of these products, many of which it will simply stop selling. To avoid such a designation, suppliers continue to seek ways to reformulate their packaging and volume designs. Although the responsibility thus has shifted up the supply chain, for most sellers, the benefits of selling through Amazon far outweigh any costs associated with ensuring they remain viable offerings for sale and delivery.

Discussion Questions:

1. **How is Amazon becoming more profitable through better supply chain management and buying practices?**

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UPS's Christmas Wish: A Delivery Surge It Can Handle

Paul Ziobro, The Wall Street Journal, November 26, 2018

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

Although the challenge happens nearly every year, it just keeps getting bigger: How can delivery services handle the massive increase in demand around the holiday shopping season? The key lies in supply chain operations, and the competitors in this industry seek improvements in some specific areas.

At FedEx, the focus is primarily on working with business customers to predict what their levels of demand will be, but also enforcing limits on how many packages they can add to its system. However, it also is adding capacity, including dedicated distribution centers that are designed to handle larger packages and get them out the door faster.

At UPS, a new technology application seeks to shift where products get moved in the supply chain, to avoid bottlenecks. In addition, it has added or retrofitted 22 facilities to feature more automated capabilities, seeking to make the process more efficient and quicker. It thus estimates that 70 percent of all the packages in its system move through automated tools. In particular, its "super hub," located near the company headquarters in Atlanta, offers the capacity to sort approximately 100,000 packages per hour.

Of course, UPS also is looking for ways to collaborate with shippers to predict peak purchases. Rather than limit their input, it charges shippers a surcharge for deliveries during prime windows, such as the week before Christmas.

At the U.S. Postal Service, the solution is a little more low-tech: The government agency sends delivery drivers out twice a day, instead of once, when its volume gets high enough. But even it has adopted a new sorting system to ease the strain.

Discussion Question:

1. **What are UPS and FedEx doing to improve efficiency during peak shipping periods?**

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E-Commerce Companies Get Creative in Quest for "Last Mile" Space

Jennifer Smith, The Wall Street Journal, October 15, 2018; see also Kimberly Chin, "Sears Expands Kenmore, Die Hard Brands with Licensing Deals," The Wall Street Journal, November 1, 2018.

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

When is a parking garage not a parking garage? During the busy holiday shipping season, the answer is, "when it's a retail distribution center." In the drive to fulfill increasing volumes of order deliveries, as well as achieve the same- or next-day shipping promises that retailers increasingly offer, both retail firms and logistics operators are getting creative in the design and localization of their supply chains.

Thus a parking lot becomes a distribution center. The company that owns the massive parking structure underneath Chicago's famous lakefront Millennium Park has discovered that it can fulfill parking demands with less space than it originally anticipated, so it is converting some of the facility into a last-mile logistics hub. From this enviable location, logistics companies are in close proximity to millions of businesses and consumers. Furthermore, the design of the space already allowed for large trucks to pass through the garage, so the transformation to a shipping hub was relatively easy, in an operational sense.

But not every city has extra parking capacity underground. Instead, Amazon finds vacant fields and pitches huge tents to hold products for last-mile delivery. Especially during holiday seasons, it also turns to Amazon Flex drivers—an on-demand fleet of people who work their preferred hours (similar to Uber or Lyft drivers), pick up items from the nearby tents, and deliver them to homes and businesses in the same area.

Not all retailers can establish such extensive operations on their own though, so new entrants to the logistics market specialize in resolving last-mile challenges. Some of them facilitate deliveries, but another addition to the supply chain functions more like a broker. Service providers such as Flowspace and Warehouse Exchange negotiate short-term deals between warehouse owners and tenants that need that space for a limited duration. Thus a retailer might rent a few thousand square feet in a warehouse during the holiday season, near where most of its customers live, to ensure that it can get products to those buyers quickly. Such innovations represent a sharp contrast from traditional approaches to warehousing and distribution, which have historically involved finding relatively remote locations, where land was cheap, and building massive distribution centers. Instead, the drive today is to find space in densely populated areas, a radical change driven by consumer demand, the growth of e-commerce, and the competitive moves of various logistics and retail trendsetters.

Discussion Questions:

1. **How are retailers changing their supply chains to get merchandise to consumers faster?**

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How Dick's Sporting Goods Decided to Change its Gun Policy

Sarah Nassauer, The Wall Street Journal, December 4, 2018

Use with Chapter 5, "Retail Market Strategy," and Chapter 11, "Managing the Merchandise Planning Process"

In the aftermath of the unthinkable tragedies associated with gun violence in schools, people seek solutions and new ideas for reducing their likelihood. Dick's Sporting Goods decided that it could be part of this solution; following the Parkland, Fla., high school shooting, it announced in early 2018 that it would no longer be selling any assault-style guns and would limit all gun sales to people older than 21 years of age.

The move was driven by the ethical beliefs of the company's CEO and board of directors, who resolved to "take a stand." In a unanimous vote, the board agreed to institute these changes, even while it recognized that the moves could have damaging implications for the sporting good retailer's financial health. In particular, guns and their accessibility represent controversial topics, and the retailer's attempt to address the problem of gun violence accordingly created some new challenges for it.

As the board had anticipated, sales at Dick's dropped by about 4 percent after its announcement. In addition to the loss of sales of guns, some consumers regarded its position as contrary to their beliefs and promised to stop shopping there. On the employee side, about 60 employees quit in protest of the new policy, though they account for a very small percentage of the 40,000 or so people who work for Dick's.

But even as sales declined, Dick's noticed that its profits had risen. Much of the shift resulted because it could replace guns with higher margin items in its stores. By replacing assault rifles with licensed apparel and kayaks for example, it enjoyed a jump in profits. Thus Dick's even is experimenting with removing guns from its stores altogether, noting that a decision made on the basis of a sense of social responsibility also might prove to be beneficial from a financial and operational standpoint.

Although Dick's was the first and most vocal retailer to take these steps, it was not alone. Walmart also eliminated assault weapons and imposed age limits, though without as much public fanfare. Accordingly, its sales have not been affected, but neither have its profit margins.

Discussion Question:

1. **What is Dick's gun policy?**
2. **How has this policy affects sales at Dick's? At Walmart?**
3. **What do you think of Dick's gun policy?**

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Hate Shopping? New Texting Services Will Simplify Your Life

Rebecca Malinsky, The Wall Street Journal, December 17, 2018

Use with Chapter 3, “Multichannel and Omnichannel Retailing,” Chapter 14, “Retail Communication Mix,” and “Chapter 17, “Customer Service”

Convenience and accessibility are key drivers of consumers’ behavior, never more so than today, when they expect to be able to find, order, and receive products at the touch of a button. For some shoppers, even having to take the extra step of visiting a retailer’s website or app represents too much effort. Accordingly, growing trends enable them simply to text their requests to service providers that locate and ship the products with literally no further effort required.

This service offering takes two main forms. First, some providers have developed a model that relies primarily on text-based ordering. A concierge service called Jetblack requires a $50 monthly membership fee. For this price, members can text the service with a description or picture of virtually anything they want. Then the service will perform the work of finding the item, charge the consumer’s credit card (held on file), and ship it. Thus busy professionals who need a gift for a party or who find that their local store has stocked out of a fashionable item they want can simply text their needs to Jetblack and then wait for it to arrive.

Another option along these lines leverages existing social media to make the connections. On Instagram, visitors already can click on desirable products, which takes them to a retail website where they can purchase the product. But some sellers also are finding that their sales increase even more when they include a WhatsApp link. Because the link enables visitors to place the order quickly and easily, with a text message instead of having to visit a separate site, people appreciate the ease and appear more likely to complete the purchase.

Second, some sales professionals are using text messages to establish a new form of personalized connection with their best customers and facilitating their shopping task in the process. At high-end retailers such as Prada and Celine, as well as department stores such as Bloomingdale’s, sales clerks request shoppers’ phone numbers. Once they have them, they can send out alerts when a desired product gets restocked or remind shoppers of a new shipment arriving at the store.

As mobile shopping continues to increase, reaching a value of $210 billion according to some recent estimates, making it easy for people to shop however they prefer continues to be a priority for retailers. If it can enable consumers to shop via text, a seller might enjoy a notable advantage in the competition for mobile shoppers.

Discussion Questions:

1. How have texting options changed the way some people shop?

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Start Buying Furniture the Millennial Way—or Risk Missing Out

Catherine Romano, The Wall Street Journal, December 13, 2018

Use with Chapter 3, "Multichannel and Omnichannel Retailing," and Chapter 4, "Customer Buying Behavior"

Retail practitioners and academics have long relied on a simple segmentation concept: For some products, consumers demand to be able to touch and feel the options, whereas others can be ordered sight unseen. But even that seemingly straightforward classification is starting to blur as the Millennial generation shrugs off the need to interact in person with certain products, especially when the retailer offers generous return policies.

The trend is particularly notable in the furniture sector. Older shoppers often insisted on going to a showroom to try out a mattress, couch, or chair before they would buy it. Instead, companies such as Burrow and BenchMade Modern ship custom furniture to online buyers, then promise to take it back if the items are not exactly what the person wants.

Such an offer can quickly get expensive, because the company is on the hook for shipping expenses, to and from the customer, as well as an inventory of custom-made furniture that will be hard to resell (though some firms charge minimal restocking fees). To support such expensive guarantees, these modern retailers work to make their supply chains far more efficient than in conventional furniture markets. By selling directly to consumers, they eliminate the retail markup that usually happens after a furniture brand takes delivery from a manufacturer. They also avoid expensive showrooms, because their customers never plan to visit anyway.

In turn, in addition to being less expensive, their manufacturing operations are quicker. Whereas many major furniture brands require six weeks or more for custom orders, BenchMade Modern averages about 10 days from order to delivery.

To minimize the risk of returns though, the brands also seek to offer as much transparency as possible in the buying process. The furniture maker Sixpenny sends wood and fabric samples to potential buyers, so they can determine which options will fit best with their existing décor. The product descriptions, listed on simple-to-navigate websites, are detailed, so buyers know precisely how long a couch is and whether it will fit in the intended space. The extensive information provided reduces not only the buyers' purchase risk but also the sellers' risk of having to deal with returns.

Although these buying behaviors are most noticeable among Millennials, some older consumers have figured out the appeal as well. It is not as if there is an age limit on the sites. But with their greater comfort with online shopping, willingness to take some risks, and faith that they can always return what they do not like, it is the Millennials who are driving this unconventional way to make major purchases of furniture.

Discussion Questions:

1. How and why do Millennials purchase high ticket items differently than older consumers?

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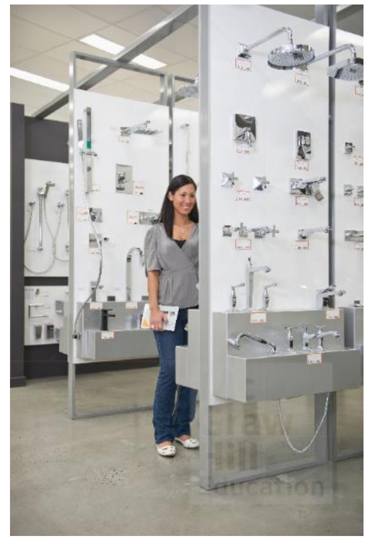
IKEA Takes on Manhattan with Showroom Coming this Spring

Saabira Chaudhuri, The Wall Street Journal, December 3, 2018

Use with Chapter 7, "Retail Locations"



Furniture shoppers in Manhattan cannot visit the new IKEA outpost to purchase a bureau or bed to take home. Instead, the showroom is designed to help them picture how the various furniture options available through the company's website might help them meet their needs, as well as provide a place for them to interact with store personnel to get answers to their questions. That is, rather than a traditional store, IKEA's New York city-center location mainly functions as a complement to its online channel.

For IKEA, the idea of city-center showrooms continues to grow in appeal. It has opened such showrooms in London and Madrid. If the New York experiment goes well, it plans to open other U.S. showrooms in Washington DC, Los Angeles, and San Francisco. Ultimately, it anticipates opening about 30 city center stores.

In most of these stores, the focus will be on solutions for small spaces. People in the heart of densely populated cities often are desperate for space-saving options and innovative storage ideas. For these buyers—and noting predictions that 70 percent of the world's population will live in a city by the middle of this century—IKEA promises to keep coming up with new and appealing ideas, which it will display to consumers in showrooms, then help them order for delivery to their small residences.

Discussion Questions:

1. **Why is IKEA locating in urban centers?**
2. **What is the difference between these stores and its suburban stores?**

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Retail Tidbits

Kroger to Sell Groceries in Walgreens Stores

Heather Haddon, The Wall Street Journal, December 4, 2018

Both Kroger and Walgreens have been aggressive in their efforts to find new ways to remain competitive. In their latest move, the two national chains have joined forces, hoping to establish a new kind of retail space that appeals widely and effectively to picky shoppers. With this collaboration, Kroger Express sections in select Walgreens stores will feature produce, Kroger's Home Chef premade meals, and other grocery items. In addition, shoppers who place online orders through Kroger's website will be able to pick up their purchases at Walgreens stores. This cooperative agreement follows various other moves by the two companies. For example, Kroger purchased the home meal delivery service Home Chef and started putting the dinners on its shelves; Walgreens has added FedEx counters to many of its stores. Other pharmacy and grocery chains are experimenting with other options, such as the merger between CVS and the Aetna health insurance company. But this partnership is unique thus far, reflecting both companies' desires to set themselves apart from the pack of competitors in these crowded sectors.

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