Newsletter for Instructors

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

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- **Online Retailers Set Up Shop in Newfangled Manhattan Mall** **(Chapter 7)**
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Consumer Giants Spurn Risks to Chase Online Subscribers

Martinne Geller, Reuters, January 17, 2019

Use with Chapter 5, "Retail Market Strategy"

If a consumer product goods (CPG) manufacturer can get buyers to subscribe to receive periodic deliveries of its products, the benefits are massive. It earns guaranteed revenues; it can improve its inventory forecasting by knowing demand in advance; it obtains efficiencies in terms of serving customers; and it can achieve precise deliveries but still ship ahead of time, which reduces its shipping costs by eliminating the need for next-day deliveries. Accordingly, many of the biggest names in CPG manufacturing—including Procter & Gamble, Nestle, and Unilever—are acting like retailers, offering subscription services that directly target consumers, rather than going through conventional retail channels.

The benefits are remarkable, but are they attainable? Anecdotal evidence suggests that this model also creates substantial challenges that the CPG firms have not quite figured out how to overcome. In particular, consumers appreciate the convenience and fun of a subscription box that delivers novel options to them on a regular basis, but they also grow bored of the service relatively quickly. That is, after a few months, they may find that they are receiving too much of the same product, not receiving their most preferred items, or getting too much or too little of the options. One early subscriber to Oreo's monthly delivery service noted that despite the fun of trying different flavors of her favorite cookie, ultimately she could buy the treat for far less money in the local grocery store. The value of the unique flavors simply was not enough to balance the higher cost of the subscription service.

This example repeats in other snack and pet product categories, where subscription services have struggled. In contrast, successes are prominent in personal care (e.g., razors) and beauty categories. Shave clubs, such as Dollar Shave and Harry's, already account for about 12 percent of the razor market. Unilever, which purchased Dollar Shave Club several years ago, also expanded the subscription offerings to include beard oil, cologne, and toothpaste, and it continues to expand the number of subscriptions it maintains. In addition, Unilever is attempting to leverage this experience by introducing the Skinsei service for beauty products, which will attempt to avoid boredom by changing the cosmetics it ships to subscribers regularly, such as based on the time of year.

These successes are not the only inspiration for CPG manufacturers to keep trying to establish subscription services though. They also consider the activities of their existing retail partners, like Amazon. With its subscribe-and-save service, the online retailer promises discounts if shoppers agree to receive deliveries of various household goods on a regular basis. These deliveries account for several billion dollars in revenues for Amazon.

But to support this offering, Amazon also pressures the CPG companies to provide it with products at a price discount. In the meantime, it continues to push its own branded products, to compete directly with the national brands of its CPG partners. In the face of such moves, the CPG companies perceive no real option other than to compete directly in the retail subscription channel with Amazon. They want those revenues, rather than giving up so much of the pie to Amazon's retail dominance.

Discussion Questions:

1. **What are CPG companies doing to compete directly for retail customers?**
2. **What are the advantages and disadvantages of this strategy from the perspectives of the CPG firms, retailers, and consumers?**

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Retailers Are Shopping for Ways to Get Rid of Checkout Lines

Associated Press, The New York Times, February 8, 2019

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

Grocery and convenience stores without cashiers or checkout lines appear to be an unavoidable eventuality. It's how those stores ultimately will work that remains the real question. As in so many other cases, Amazon is leading the way, with Amazon Go convenience stores already operational in a few major U.S. cities. But is its approach the optimal one?

A key question is how to determine and register what a shopper wants to purchase, without having a cashier on hand to ring up the products. Amazon uses an app, which shoppers must download and open just to enter the stores. Thus it can identify them and collect payment information in advance. Then in Amazon Go stores themselves, cameras and sensors monitor what people add to their shopping baskets. As they leave, their credit or debit cards get charged automatically for the items they have collected.

Another option would be to use facial recognition software, such that the store would know who each customer was by scanning his or her face. This option may be less likely though, because consumers thus far have rejected such uses of this software, regarding it as overly creepy and intrusive. However, retailers keep looking for alternative options, because getting shoppers to download different apps may be challenging.

Rather than cameras, retailers also might be able to rely on RFID technology, if the tags could be applied to each individual product. In that case, a sensor at the store's exit would be able to read all the tags, without having to keep track of what a customer picks up during the course of the shopping trip. This option is not available yet, due to the expense of applying RFID tags to each item.

Furthermore, the use of RFID tags would limit the retailers' ability to gather and exploit information about how shoppers act in stores. By learning which items they pick up and consider, retailers can target promotions precisely. For example, if a shopper picks up two different boxes of cereal and holds them in a way that indicates a comparative consideration, the retailer could facilitate the process by sending additional product information through the app. If another customer picks up and then puts down a product, the retailer might issue a coupon, to encourage purchase.

Yet another consideration involves the payment method. Although many shoppers are happy to have their purchases charged to a card automatically, without requiring them to undergo any explicit purchase effort, others still prefer cash payments. In particular, low income consumers may lack access to traditional banking products like debit cards, and this issue is likely to become especially relevant as the model spreads outside Western, developed markets.

Finally, the location and design of the stores remain to be determined. Some experts predict that Amazon will soon eliminate cashiers from its Whole Foods stores. But its current implementation focuses on small convenience stores. A tiny, recently introduced, 450 square foot version of Amazon Go suggests the company's seeming interest in inserting retail outlets in existing spaces, such as office buildings or hospitals. Small spaces might make it easier to track consumers' behaviors, but the benefits of going without cashiers might be more valuable for shoppers visiting vast hypermarkets, who really don't want to have to stand in line for an extended period.

Discussion Question:

1. **How do stores without traditional checkout lines record sales?**
2. **How does this technology work?**
3. **What are the advantages and disadvantages of eliminating checkout lines, from the perspectives of the retailer and the consumer?**
4. **How would eliminating checkout lines influence the strategic profit model?**

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Online Retailers Set Up Shop in Newfangled Manhattan Mall

Anne Kadet, The Wall Street Journal, February 5, 2019

Use with Chapter 7, "Retail Locations"

A retail gallery? Retail as a service platform? A modern mall? The most interesting store in the world? Whatever we call it, the new four-story Showfields store in Manhattan is distinct in its approach to retailing. The idea is to provide space to products and brands that thus far have only had an online presence, then attract customers to the store to try out the various options and make a purchase, whether on the spot or through each individual vendor's website.

Visitors to Showfields thus might encounter a weighted blanket that they can try out before buying it, samples of face cream that they can test, or the option to design a shampoo specifically matched to their hair care needs. The individual booths, each about 100–200 square feet, are dedicated to particular brands, which pay anywhere from $6000–$20,000 for the monthly rental. That may seem high, but it is substantially lower than they would have to pay for any other retail location in Manhattan. In addition, they can enter into contracts for a short as four months, with an option to renew, such that they do not have to commit to long-term rental leases. For the online-born companies, these elements are vastly appealing, in that most of them remain small firms without many slack resources to devote to high-end locations, even if that is where they need to be to find their target market.

In return for their rents, the vendors also have access to several shared features, like an in-store café. Showfields plans and hosts special events to attract more visitors, ensuring a steady stream of potential customers. In terms of staffing, Showfields also provides unique benefits, in that vendors can rely on trained sales assistants, which the company calls "brand hosts," to staff their booths, demonstrate their products, and push free samples. Depending on the brand's strategy, it can either turn to a general staffer who roams the corridors or ask for a dedicated host who remains in their booth.

Along with human service providers, Showfields is fully equipped with video technology that monitors visitors' movement and shopping patterns. With this information, it can inform vendors when and who stopped by their booths and for how long—valuable data that the brands can use to enhance the appeal of their booths. When they decide to do so, Showfields also makes design services available, to give these smaller firms access to sophisticated design concepts and help them build attention-grabbing displays.

But the size and previous online presence of the brand is not the only criterion that defines a good candidate for Showfields. According to one of the vendors who already has space in the modern mall, the location is best suited to brands that need to give consumers a way to try their products before buying. He notes, "If you're a brand focused solely on driving units off the shelf, it's not the destination for you. But if it's something the customer needs to experience to understand, it's perfect."

Discussion Questions:

1. **What type of firm would locate in Showfields?**
2. **Why is Showfields a viable option for these firms?**

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Saks Turns Prime Space into a Handbag Emporium

Suzanne Kapner, The Wall Street Journal, February 5, 2019

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

When a department store undertakes a complete redesign, it needs to tread carefully, especially considering the tough competition in this sector. For Saks Fifth Avenue though, careful and expected was not the goal. Instead, the company totally revamped its flagship store by going counter to what market trends seemingly would suggest, in an effort to set itself apart and change the very experience that consumers have in the store.

The design change includes some visually stunning features, such as a massive opening surrounding a multicolored escalator, designed by Rem Koolhaas. But more significant than the visual cues is the revised layout of the different departments.

In particular, whereas most department stores (including Saks, in the past) feature cosmetic counters on their main floor, the flagship store sends them upstairs to the second floor. All the fine jewelry also moved, down to the lower level. In their place, Saks has devoted substantially more space to handbags, featuring a vastly expanded array of approximately 50 different designer and luxury brands.

The move came as a surprise to some market observers, who note that whereas the cosmetics market continues to grow, sales of handbags have slowed. A variety of reasons offer explanations for why people are not buying quite as many luxury bags: prices that exceed the reach of all but the wealthiest of consumers (e.g., Saks offers an alligator bag from The Row for $495,000); consumers' shifting preferences, such that they spend more on experiences rather than goods; and the availability of alternative options, such as rental services and secondhand markets, for accessing luxury handbags.

But Saks brushes off such concerns, noting that the goal of the redesign was to "create something epic." The retailer also acknowledges no slump in sales of its handbags, such that it believes adding even more options and brands to its product line should lead to an increase in sales. Beyond stocking brands that are new to its mix, Saks has obtained exclusive rights to about 100 designs, meaning that serious collectors can find these versions nowhere else than in this handbag emporium.

Furthermore, according to the CEO, moving cosmetics was a smart move, because specialty retailers such as Ulta and Sephora already have cut drastically into department stores' share of the cosmetics market. In his view, competitors that continue to devote prominent space to makeup sales are missing the boat. Should we thus expect similar redesigns in other Saks stores soon? once, when its volume gets high enough. But even it has adopted a new sorting system to ease the strain.

Discussion Question:

1. **How has Saks bucked traditional department store layout norms with its new flagship store?**
2. **Why did it make these particular changes?**
3. **Do you agree with the changes? Why or why not?**

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Brands Invent New Lines for Only Amazon to Sell

Annie Gasparro and Laura Stevens, The Wall Street Journal, January 25, 2019

Use with Chapter 12, "Buying Merchandise"

Along with nearly everything else in retail, Amazon now is transforming the private label concept. Retailers have long developed and sold their own private label options in stores, as a means to attract consumers and earn more revenues, in competition with national brands. Some of them develop the products on their own; others work with manufacturers to develop a parallel line of offerings, such that a national brand might have its own branded products on a shelf, right next to a private label option that does not bear its name but that it manufactured nonetheless. For Amazon, the approach is somewhat similar, except that the powerful retailer is taking the concept to the next level.

For several years, it has been designing and developing its own private labels, including the AmazonBasics brand that spans multiple product categories, Mama-Bear baby products, and Happy Belly food options. But designing such product lines and brands is expensive, in terms of time, money, and labor. Both Happy Belly and Mama-Bear represented the outcome of several years of effort by Amazon—a process that the retailer decided could be far more efficient, if it went about it in a different way.

Therefore, it turned to existing brands, with more experience developing product lines, and requested Amazon-exclusive lines from them. The mattress brand Nod is made by Tuft & Needle, but it is only available on Amazon. Motivated by consumers' shift to online purchases, GNC agreed to produce two supplement brands, Challenge and Informed Nutrition, just for Amazon.

In addition, a brand of non-sugar sweetener called Sugarly Sweet competes with Equal but also is made by Equal. Not only did the consumer packaged goods manufacturer agree to grant Amazon the rights to sell a competitive product, but it also accepted terms that demanded it develop the new offering in just 90 days—substantially faster than its average one to two year development time.

But these concessions seem necessary. According to some estimates, half of all consumer products sell through Amazon. Partnering with Amazon also offers unique benefits, such that the products often get highlighted with an "Amazon's choice" flag or listed higher in the search results. Thus the product manufacturers continue getting their products into consumers' hands and earning revenues off those sales, even if they have to share the profit with Amazon, and even if some of those sales come at the cost of cannibalizing their existing brand sales. Furthermore, Amazon promises key insights and assistance to ensure a successful launch of the new product offerings. With its resources, Amazon thus makes a private label partnership far more appealing for many consumer product goods manufacturers.

Discussion Question:

1. **What are the advantages and disadvantages of working with suppliers to develop store brands, from Amazon's perspective? From the manufacturers' perspective?**

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Amazon's Pitch to Woo Shippers: Fewer Fees than FedEx, UPS

Paul Ziobro, The Wall Street Journal, January 23, 2019

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

A small company, thrilled to get its products listed on Amazon, might face an unpleasant and unexpected surprise following its first sale: surcharges imposed by the big shipping companies to get the purchases to consumers in their homes. But the giant retailer may be coming to the rescue, by establishing its own delivery service to pick up products from the manufacturers' production facilities and ensure their timely delivery to end consumers.

Both FedEx and UPS add surcharges, based on various factors that affect their operating costs. A residential surcharge reflects the added effort they need to devote to getting packages to individual homes, rather than delivering a pallet of items to a business or office building. Fuel surcharges come into effect when gas prices rise. And both companies have charged extra for holiday deliveries, noting the greatly increased volume of packages that they must handle in that time period.

For businesses seeking to ship to Amazon's customers—many of which are relatively small and not particularly wealthy—the varying shipping charges can be extremely burdensome. They also make it difficult to forecast costs and revenues accurately. In response, Amazon has sought to establish a delivery service that uses standard rates for all deliveries. From the start, Amazon has delivered mainly to residential addresses, so it already accounts for those costs, without needing to impose any surcharge. By leasing dedicated airplanes and trucks, as well as collaborating with small, local delivery firms for last-mile operations, Amazon is able to offer shipping rates that average about 10 percent less than those charged by UPS and FedEx.

The expanded operations also benefit Amazon. It would prefer to reduce its heavy dependence on the U.S. Postal Service, especially in light of the rising postal rates and the recent political trends that threaten the agreement it has in place with the federal agency. It also does not want to move that dependence to UPS or FedEx, especially if it can provide the service better and more efficiently—and in turn achieve yet another source of revenue for itself.

Discussion Questions:

1. **Why would shippers use Amazon Shipping rather than FedEx or UPS?**

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Tycoon of the Pre-Owned

Alexandra Jacobs, The New York Times, January 23, 2019

Use with Chapter 5, "Retail Market Strategy"

The RealReal is determined to make luxury part of the circular economy. Taking in high-end fashion and accessories from their previous owners, the company carefully authenticates each piece it buys, makes any necessary repairs or cleaning, stores them with care, and then sells them online to the next round of luxury owners.

For consumers, the options provided by the RealReal make luxury purchases less risky. A consumer might be willing to purchase the latest design if she knows she can get some return on it later by selling it to the RealReal. Another buyer can access designer goods, in excellent shape and guaranteed to be authentic, at a much lower price because they represent an offering in a secondhand market.

Although most of its sales take place online, the RealReal also is opening storefronts, to give sellers a place to bring the items they no longer want and buyers a means to interact with the items in person. The stores also will leverage the company's vast repair capabilities, so that people can bring in a ripped shirt or a skirt missing some sequins to get it repaired by expert tailors.

As another service, the RealReal keeps a running tally of which designers are hot with buyers at the moment—information that may help consumers but that can be detrimental to the brands being listed. Some luxury brands reject the RealReal model, issuing several complaints, such as their concern that organized resale markets undercut their luxury image. In addition, Chanel has sued the company, alleging that its vaunted authentication is actually flawed, such that the company sells frauds as true Chanel offerings.

Discussion Questions:

1. Define the RealReal's business mission and perform a SWOT analysis for it.

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Markdowns Cost Retailers $300B Last Year

Daphne Howland, Retail Dive, February 11, 2019

Use with Chapter 11, "Managing the Merchandise Planning Process," and Chapter 13, "Retail Pricing"

Markdowns help retailers move merchandise, especially seasonal or fashion items that are unlikely to sell at their full prices anymore. But they also put substantial pressure on retailers, by reducing the revenue they earn on those sales. The problem is even more troublesome if the retailers offer too many and unnecessary markdowns.

The reason for such unwise choices seems closely related to a few related inventory management challenges. First, some retailers simply have poor inventory systems, unsure of how much of a particular product remains in their system, so they offer markdowns in a mistaken belief that they have too much inventory, even when they don't. Others continue to rely on intuition instead of in-depth analyses to determine when to offer markdowns.

Second, returned products complicate any inventory management system, and return rates have been increasing. Especially when they shop online, consumers appear willing to make multiple purchases, receive the items at home, try them out, and then return anything that does not work. The retailer then is likely to mark down the item, whether because it can no longer be sold as "new" or because the time elapsed for the return means the item is not in high demand or fashionable any more. Notably, return rates are substantially higher for online sales, averaging 15–30 percent depending on the product category, compared with in-store sales, for which they average around 8 percent.

Along with these higher return rates, the growth of omnichannel retailing means that retailers encounter more and more consumers who shop online. That is, more people are ordering, and then more of those purchasers are returning items too. And these shoppers clearly expect the retailers to accept their returns without question. In response, some retailers have sought to offer personalized recommendations, to increase the chances that what customers order will be what they also want to keep. But if a shopper purchases the same pair of pants in several sizes, to determine which one will fit best, there is little a retailer can do but take back the rejected sizes and try to sell them again, likely by marking down their prices.

Discussion Questions:

1. **Why are retail markdowns so high?**
2. **Why are returns so much higher for online purchases than for in-store purchases?**

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Retail Tidbits

Toys ‘R’ Us Plans a United States Comeback

Associated Press, The New York Times, February 12, 2019

Use with Chapter 17, “Customer Service”

Can toys, and their retail brands, come back to life? Investors who purchased the remaining assets of Toys ’R Us through a bankruptcy auction believe they can, such that they have announced plans to reintroduce a new version of the same company to U.S. markets. The toy retailer’s bankruptcy was a well-publicized event that left both consumers and toy suppliers shocked and dismayed. But an investor group, led by the former CEO of Toys ’R Us, has created a new company called Tru Kids that aims to regain the interest of these groups. Noting the massive gap left in the toy and game market in the aftermath of Toys ’R Us’s bankruptcy, Tru Kids plans to leverage the existing brands, which also include Geoffrey and Babies ’R Us. It anticipates that it can open smaller, 10,000 square foot stores that will prioritize experiences to draw shoppers. Despite this optimism, the renewal faces several challenges, including the aggressive efforts by competitive retailers like Walmart and Amazon following the bankruptcy to ensure the loyalty of toy buyers to their own stores. Furthermore, many suppliers were badly harmed when Toys ’R Us went bankrupt, left with unpaid invoices and substantial losses. They may be less than willing to supply the new company, with its repeated leadership, or at least might not offer sufficiently good terms to enable Tru Kids to compete.

IKEA Accelerates Services Drive as Competition Stiffens

Reuters, February 11, 2019

Use with Chapter 17, “Customer Service”

The first acquisition IKEA ever made was one that might seem antithetical to its essential value proposition. It purchased TaskRabbit, a gig-based company that provides assembly and other in-home services to busy or inexperienced consumers. TaskRabbit freelancers will come to people’s homes to mount televisions or move furniture; since its acquisition by IKEA, they have greatly expanded the frequency with which they assemble the notoriously frustrating furniture that the international retailer sells. Putting together an IKEA table or bookcase was once part of the experience, but it was one of the least popular parts. Noting the growing competition in the online retail market for furniture, IKEA determined that to retain its market share and position, it needed to make that element more appealing. Thus in stores and online, IKEA shoppers come across information about how to hire a TaskRabbit worker to assemble the furniture, demonstrating to them in advance that IKEA is helping consumers avoid this pain point in their purchase process. The success of adding this service also has prompted IKEA to consider other ways it can expand its service provision through TaskRabbit, such as adding design professionals who will come to consumers’ homes to help them lay out and coordinate what they have purchased. Another possible extension would provide repair services if a chair leg breaks or a table becomes wobbly. Such innovations for IKEA appear to be inspired by the vastly increased customer data it has obtained through its purchase, such that by accessing TaskRabbit’s databases, it knows which services customers need the most. Overall then, the acquisition seems to be a boon, granting IKEA a new source of revenue and more in-depth consumer information, while simultaneously giving IKEA fans a convenient way to get their purchases assembled and ready for use.

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New Job for Robots: Taking Stock for Retailers

Jennifer Smith, The Wall Street Journal, January 27, 2019

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

For big retailers, operating in omnichannel environments, accurate inventory assessments would require nearly constant reviews by human staffers—and even that unreasonable level of effort might not be able to keep up with orders as they come and go in stores, from online channels, and through distribution centers. For retailers that want to eliminate distribution centers and support all purchases from their storefronts, the solution might be inventorying robots. If a robot can move up and down store aisles, gathering complete and constant data about stock levels, the retailer greatly enhances its omnichannel capabilities. For example, it can confirm in real time if the order that a shopper places online is actually available for pickup in the local store today. It also can avoid a situation in which it ships all on-shelf items to remote customers, leaving nothing available to shoppers in the store. Furthermore, it can use the collected data to prioritize restocking efforts. For example, one empty shelf might have reached that status because shoppers are snapping up the popular item, which means it should be restocked immediately. Another might represent a far less popular product, for which the store only stocks a couple of units at a time, because purchases are so infrequent. In that case, the retailer would know it could move the restocking effort lower on its priority list. Some robots already are being pilot tested in select Walmart locations. If they prove effective, they might represent the next step toward totally omnichannel retail operations.

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