Newsletter for Instructors

April
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COMMENTS?
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Walmart Toughens Delivery Demands for Suppliers

Jennifer Smith and Sarah Nassauer, The Wall Street Journal, March 6, 2019

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

Performance metrics are most effective when they are specific. Accordingly, Walmart is changing the way it assesses, rewards, and penalizes the suppliers designated to deliver products to its stores. Rather than using an overall metric of delivery success, the retailer will measure performance according to whether the delivery is on time and whether it is complete. By separating these metrics, it hopes to improve performance, the accuracy of its assessments, and its overall logistics.

Such efforts are a direct response to Amazon's effectiveness in getting orders to customers quickly and completely. The online giant rarely suffers stockouts, whereas Walmart still struggles to ensure that desired products appear on its store shelves when customers want them. But it also is seeking to reduce inventory levels in its supply chain, to ensure greater efficiency. These contrasting demands suggest that it must improve the precision with which items move through the system. Furthermore, detailed analyses indicate that approximately 30 percent of out-of-stock events result from incomplete shipments.

In the past, a combined measure of supplier performance indicated the consistency with which suppliers delivered all the required products on time. If a delivery was late or if it was incomplete, it counted against the supplier. But it was not clear, to Walmart or its supply partners, where the exact problem lay. Was the delivery complete but a day late? Or was it on time but missing a case or two of the ordered products?

Such questions are critical for designing appropriate incentive and punishment systems. If a particular supplier is always on time but often missing half the order, Walmart would want to undertake efforts to ensure it has the capacity to produce the amount it needs. If instead another supplier always delivers the full amount but only after the deadline, Walmart might need to encourage it to expand its fleet or improve its supply lines.

The measures do more than show Walmart where it might need to assist its supply chain partners; they also establish clear standards and punishments for any supplier that misses them. For example, Walmart insists that suppliers that provide full trucks of goods must arrive within a two-day window at least 87 percent of the time. Even if they ship partial truckloads, Walmart expects them the meet that deadline for 70 percent of deliveries—a substantial jump from its previous requirement of 50 percent on-time deliveries of partial truckloads.

If they fail to meet both the on-time and complete order standards, suppliers are charged a fine, equivalent to 3 percent of the cost of the goods being shipped. But by separating the metrics, Walmart also makes the fines more precise. Thus for example, if the shipment arrives on time but is missing half of the order, the fine would apply to that half that has not arrived. In contrast, if a full shipment arrives three days late, the fine applies to the entire purchase

Discussion Questions:

1. **Why is Walmart asking its suppliers for the changes detailed in this abstract?**
2. **Which financial ratios discussed in Chapter 6 would be affected by these changes, which direction will they go, and why?**

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Rent the Runway and West Elm Partner to Rent Customers Home Decor

Melissa Fares, Reuters, March 7, 2019

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

Expanding beyond the designer gowns and fashionable work clothes that have established it in the market, Rent the Runway is entering into a collaboration with the furniture and home accessories company West Elm to bring attractive décor to customers' homes, at least temporarily.

The existing service provided by Rent the Runway allows subscribers to order and keep up to four items at a time, for as long as they want. Women rely on the service to keep their work wardrobes up to date and dynamic, as well as to give them access to a designer gown for a one-time gala or event. The company's success has prompted various considerations about how to expand and grow, including suggestions that it might include menswear.

Rather than going that route though, Rent the Runway thinks it can appeal best to its existing and potential customers by giving them access to fashionable products to make their homes look as great as they do. The collaboration adds items such as throw pillows, quilts, and blankets to the inventory of choices, so subscribers can make these products one of the four items they take out with each order. A Rent the Runway consumer thus might order a suit, a nice dress, a fashionable top, and a bundle of pillow shams and blankets, all at the same time.

The partnership with West Elm is strategic; the company, owned by Williams-Sonoma, seeks to appeal to the same target market that has made Rent the Runway so successful. That is, it targets women around 29 years of age, with disposable income but not a lot of time. By enabling them to refresh and furnish their homes and apartments with just a click on a site that they probably already use, the collaboration adds substantial value and meets an ongoing need that these consumers express.

The partnership offers another key benefit for both companies: new insights into what consumers want. In particular, Rent the Runway learns more about its shoppers' preferences in realms beyond fashion. West Elm gains access to Rent the Runway's vast data regarding which items shoppers like, as well as increased potential to transform renters into buyers.

Discussion Question:

1. **Why is Rent the Runway partnering with West Elm?**
2. **What type of growth strategy is Rent the Runway employing?**
3. **Would you rent West Elm–type merchandise? Why or why not?**

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Retailers Woo Customers with Shaky Credit

Lisa Fickenscher, New York Post, March 10, 2019

Use with Chapter 6, "Financial Strategy"

Credit providers traditionally seek out good credit risks—people with a strong track record of paying back loans and sufficient income to maintain that habit. But a relatively strong economy means that people with good credit already have it, so in their efforts to grow, lenders and their retail partners are pursuing the market of consumers with poor credit. With an innovative form of layaway and sophisticated predictive algorithms, these companies give people with bad credit access to funding and desirable products, in ways that they claim avoid the predatory practices that historically have marred other attempts to reach these consumers.

The lending companies, with names such as Zebit and Affirm, grant consumers retail credits that they can use to make purchases of product available through retailers such as Walmart, Urban Outfitters, and thousands of others. The consumers receive the products immediately, and the retailer receives the full payment for the product purchased. Thus the lenders take on all the risk of nonpayment, charging considerable interest to the buyers to do so. For example, to obtain an Apple Watch through Zebit (which calls itself the "Amazon for the under-served"), a consumer would pay $549 over time, far more than the $399 retail price.

Notably though, the companies claim that they make these excess costs clear and obvious to buyers. They explicitly acknowledge that their prices are higher than are available elsewhere. In addition, they list the amount of interest that borrowers will pay in dollar amounts, rather than percentage terms, to help them understand the financial commitment they are making. Such efforts set the current lenders apart from conventional rent-to-own lenders, which have long been criticized for their predatory and unethical practices, designed to trick and lock consumers into unaffordable, expensive contracts.

The lenders also claim that their analytics enable them to predict with more accuracy which consumers are more or less likely to pay them back. To establish these predictions, they require borrowers to provide extensive personal information. Accordingly, Zebit's default rate is about 15 percent, far lower than that for conventional subprime loans.

Discussion Questions:

1. **Why are some lenders and their retail partners targeting shoppers with lousy credit?**

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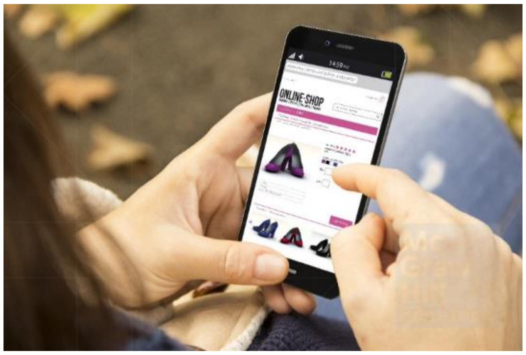
Target Updates App After Pricing Dispute

Corinne Ruff, Retail Dive, February 12, 2019

Use with Chapter 13, "Retail Pricing"



Dynamic pricing offers great promise. It ensures that consumers get the lowest price if they are willing to sacrifice some convenience, but it also allows retailers to earn the most revenues when their offerings are in high demand. But dynamic pricing also creates some great risks, especially for omnichannel retailers. If a consumer recognizes that the retailer is charging different prices in various channels, without any clear justification for doing so, the outcome might be anger, frustration, and even allegations of unfair practices, as Target recently discovered.

Prompted by some consumer complaints, an investigative journalist at a local television station tested the pricing of 10 items listed on Target's app and how they changed, depending on the person's location. The investigation showed that when users came into close proximity of a Target store, the prices listed on the app increased. Once those users were in the store, the prices climbed even higher, for 4 of the 10 items tested.

The change likely reflected Target's attempt to use lower prices to encourage in-app purchases, while charging higher prices in stores to customers who might be unable to resist the lure of bringing home the latest Dyson vacuum model—one of the products for which the price changed in the journalistic experiment. But the pricing practice also likely is a result of Target's long-standing price-matching guarantee, which it uses to ensure it can compete on price with Amazon. That is, when shoppers are using mobile or online channels, it needs to make sure its prices are the same as Amazon's. When shoppers are in stores, they may be less likely to check Amazon's price, so Target can list a higher price in that channel.

The report and continued consumer complaints prompted Target to announce some changes though. It will continue to use dynamic pricing—and it likely cannot afford to do otherwise—but it plans to provide more information about how those prices are determined. Each price tag will specify if that price applies in stores, through the app, or on Target.com. Furthermore, every price will feature a link to the text of Target's price-match guarantee. By providing such information, Target hopes to give consumers a greater sense of control, as well as head off complaints about unfairness before they even arise.

Discussion Question:

1. **What is the conflict between pricing transparency and dynamic pricing in omnichannel retailing?**
2. **As a potential Target customer, are you satisfied with its new policy regarding dynamic pricing and its price match policy? Why or why not?**

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Men Ditch Suits, and Retailers Struggle to Adapt

Suzanne Kapner, The Wall Street Journal, March 25, 2019

Use with Chapter 12, "Buying Merchandise"

When it comes to office wear, the trends are inescapable: Once businesspeople were expected to wear only tailored suits. Then came casual Fridays, khakis, the rejection of stockings, and the removal of ties. Today, the traditional official office uniform for men in business settings no longer exists, such that in small start-ups and massive corporations alike, sweatshirts and jeans are often the norm. For consumers, the challenge is to figure out what to wear; for retailers of men's suits, the challenge is to figure out what to suggest for them.

At retailers such as Jos. A. Bank and the Men's Wearhouse, the shift has prompted a reorganization and realignment of the merchandise assortment. Rather than nearly exclusively selling suits, dress shirts, and ties, these chains now feature khakis, jeans, and sports coats, as well as button-down shirts that do not require ties. Those more casual items take prominent positions in stores, whereas the formal, tailored suits have been moved to upper levels or the back of the store.

Those moves reflect a clear necessity, as sales of men's suits have continued a precipitous drop. The market has shrunk by approximately 8 percent in just the past four years, and there are no signs that this contraction will stop or reverse, especially considering evidence that more and more employers are relaxing their dress codes. Even at Tailored Brands, which owns the Jos. A. Bank line, executives are not required to wear suits to work, and its chairperson often arrives in jeans and a Patagonia jacket.

But the sartorial flexibility also means that retailers have an opportunity to provide a valuable service to customers, who might be unsure if a particular shirt is appropriate to wear or not. By giving them fashion advice and assistance, the retailers might be able to reinvent their offerings and ensure that none of their shoppers show up to work looking slovenly.

Furthermore, they insist that suits will never disappear completely. Fashion-forward shoppers enjoy trying the latest profiles and patterns, worn in modern and creative ways. For example, one sales clerk demonstrated for a young shopper how to combine a suit with fashionable sneakers to create a trendy, dressy, but still comfortable look. Furthermore, there will always be events like weddings and other ceremonial celebrations that require men to own at least a suit or two. If a retail brand can gain a shopper's trust, by helping him pick out the right style for work, that brand also is likely to gain his business when he needs to buy a suit for an upcoming interview or graduation ceremony.

Discussion Question:

1. **What is a major trend in men's office attire?**
2. **How should this trend influence merchandise assortments?**
3. **As a person either currently working in an office or soon to be doing so, how do you feel about this trend?**

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Amazon to Shut All U.S. Pop-Up Stores as It Rethinks Physical Retail Strategy

Esther Fung, The Wall Street Journal, March 6, 2019. See also "Amazon to Close Pop-Up Stores, Focus on Opening More Books Stores," Reuters, March 6, 2019; Esther Fung, "Amazon, Long Seen as a Threat to Malls, Is Now a Hot Tenant," The Wall Street Journal, March 5, 2019; Heather Haddan and Esther Fung, "Grocers Brace for Another Blow from Amazon," The Wall Street Journal, March 3, 2019; Esther Fung and Heather Haddan, "Amazon to Launch New Grocery Store Business," The Wall Street Journal, March 1, 2019

Use with Chapter 2, "Types of Retailers," Chapter 3, "Multichannel and Omnichannel Retailing," Chapter 5, "Retail Market Strategy," Chapter 7, "Retail Locations," and Chapter 11, "Managing the Merchandise Planning Process"

The recent and ongoing evolution of Amazon's experiments with omnichannel retailing, as it moves out of cyberspace and into various physical spaces, offers remarkable insights into the state of retailing today. Testing out different structures, designs, and channels, Amazon is pushing the boundaries of what omnichannel means and how it can be established.

The early days of Amazon are familiar to virtually every consumer. As a young upstart, promising to ship books in response to orders placed online, Amazon was different from anything else in the market at the time. Although it took some years to grow, the convenience of getting books and some other entertainment media (e.g., compact discs) in the mail provided a foundation for its growth and emergence as a retailing juggernaut.

The expansion started with increased product lines, to the point that today consumers can find virtually anything they could desire through Amazon. Its website also grew in reach and sophistication, while it transformed into a platform that would enable various sellers to link up with millions of potential buyers. It added services. It introduced Amazon Prime. It created a mobile app. It started producing content for its streaming channel. In this sense, its expansion was vast and substantial, but it largely remained focused on electronic channels.

By around 2014 though, Amazon determined that it wanted to be in physical proximity to shoppers. Consumers had largely adopted online and mobile retail channels, but some of them still prefer brick-and-mortar stores, whether for all their purchases or for specific consumption situations in which they feel uncomfortable buying online. For example, U.S. consumers spend about $1 trillion on food and consumer products each year, but they make less than 5 percent of those purchases through digital channels. Amazon aims to be all things to all shoppers, which meant that it needed to find a means to access these buyers too.

It has played around with several options for doing so. In particular, over the past few years, it has opened 87 pop-up stores in the United States, in varied locations and sites, such as within Kohl's stores, in separate storefronts in malls, and with kiosks in Whole Foods Stores. Some of these pop-ups have been around for years; others opened just a few months ago.

The pop-up experiment primarily aimed to gather and give information. That is, Amazon sought to obtain new and expanded data about how people interacted with its products, like Echo and Alexa-enabled devices, as well as which items they sought out from the pop-up stores. At the same time, the physical spaces enabled it to share information with consumers about new offerings, including services and products like its tablets.

It now appears that it is satisfied with the information gained and granted; Amazon recently announced that it would be closing all 87 pop-up stores, even those that it opened just a few months prior. The announcement suggests a revised approach to physical locations, as affirmed by Amazon's other new developments.

For example, following its purchase of the Whole Foods grocery chain, it plans to continue stocking Amazon-branded products in the stores. But rather than a separate kiosk or section within the store, these products will be positioned more generally within the assortment available throughout the stores. At the same time, Amazon has hinted that it hopes to open more Whole Foods locations in coming years, suggesting that the offerings will remain widely available. Kohl's similarly indicated that, though its agreement for Amazon stores-within-stores would come to a close, it planned to continue stocking the brand's products.

At the same time, Amazon has signaled its plans to open a distinct grocery store chain, with stores located mainly in urban areas. The first targeted markets include Los Angeles, Washington, DC, and Chicago, and the stores reportedly will be smaller than conventional supermarkets but larger than convenience stores. In addition to finding the right sized spaces, Amazon reportedly is seeking leases that will not restrict what it can sell in the stores, implying that in addition to groceries and beauty products, it may attempt to stock health care or technology offerings. This Amazon-branded chain would offer lower price points than Whole Foods and likely would not maintain the same focus on organic and local items.

Beyond grocery, Amazon also is opening what it refers to as "4-star stores," whose assortment plans are totally novel: They are defined by customer rankings on Amazon's mobile and online channels, rather than any traditional market analyses. If something averages more than 4 stars in the customer reviews posted online, it is qualified to be stocked in these stores. Of course, it continues to experiment with cashierless stores too, in its line of AmazonGo storefronts.

All of these versions of physical locations have distinct space requirements, putting property managers on high alert. For example, mall operators have expressed interest in attracting Amazon stores, whether as anchors or as destinations within the mall, in an attempt to lure shoppers back to their campuses. Noting the similar effect of Apple stores, which draw an attractive customer segment, the varied expansion plans of Amazon stores are offering new hope to mall operators. Amazon already has rented vacant spaces in several malls to serve as fulfillment centers, but initiating retail operations would be even more profitable for mall owners. Furthermore, owners of existing, vacant grocery store locations reportedly are promising retrofitted and renovated spaces if Amazon would be willing to open a Whole Foods, an AmazonGo, or one of the new grocery stores in their properties.

Even as all these novel expansions come raining down, there's still a sense of history to be found. Among its experiments with groceries, entertainment content, health-related products, and services, Amazon also is playing around with the idea of opening physical bookstores—the very retailing concept that it started to disrupt at the very beginning of its reign as the dominant actor in modern retailing.

Discussion Questions:

1. **What type of a retailer is Amazon?**
2. **With which store formats is Amazon experimenting? Which are working, and which are not?**
3. **Where is Amazon locating its stores? Which do you believe are the best locations? Why?**
4. **Choose one of Amazon's retail formats, and examine its assortment. Describe the store's depth and breadth. What, if any, adjustments would you make to the assortment? Defend your answer.**
5. **Describe Amazon's plan to start a new grocery store business. Perform a SWOT analysis for this new venture.**

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Sears Went into Bankruptcy—But Its Lavish Rewards Program Won't Quit

Suzanne Kapner, The Wall Street Journal, April 2, 2019

Use with Chapter 10, "Customer Relationship Management"

Retail loyalty programs are designed to keep shoppers coming back to the same stores, making repeat purchases, and remaining loyal. At Sears, the loyalty program, called "Shop Your Way," has achieved these outcomes; members call it their favorite program, deal-sharing sites cite it as the best program running, and users love the offerings it provides. But for the troubled merchandiser, the real question is, At what price?

Sears already has entered into bankruptcy reorganization proceedings, and it continues to struggle to keep afloat. A key challenge has been its inability to attract shoppers, who instead prefer the low prices of Walmart, the fashionable image of Target, and so on. Thus fewer people shop at Sears. Yet for those that remain, it provides what is widely considered the most generous loyalty rewards among all the national chain retailers.

In particular, shoppers earn a point for every $100 they spend in Sears or its sibling company Kmart. Then they can earn a point for every Uber ride they take. Points rack up when they purchase from partnering companies like Ulta Beauty and Expedia. If they link their credit cards to their Shop Your Way account, consumers can earn points on virtually any purchase, even those made at competitor chains. On top of these various opportunities to earn points, Sears frequently issues "free money," giving away points to attentive shoppers who click on the offer when it appears in their email inboxes.

Then each point they earn is worth $1 in Sears stores. Considering how quickly the points can accrue, through so many different channels, price-sensitive shoppers often can find ways to walk out of the store with bags full of items, without ever paying any actual money for them. One frequent shopper showed off a receipt, indicating that her purchases should have cost her $150, whereas by applying her points, all she wound up paying was $18.

Beyond direct payments, the loyalty program offers added-value benefits for the most frequent shoppers, which it designates VIP Platinum members. They can receive up to four oil changes per year at a discounted cost, as well as the services of a personal shopper. And then they get an added bump in their point totals during their birthday month.

The high costs of such a program to Sears seemingly would add to its woes, though executives insist that they still find value in it. Participating in the loyalty program means that customers give Sears information about what they purchase and when. When they redeem their points, it also indicates to the retailer that they appreciate the marketing effort and are closely engaged with its stores.

Yet a challenge, for both the retailer and its customers, is the diminishing access to the program benefits, resulting from the reality that it continues to shutter vast numbers of stores. Savvy shoppers do not try to redeem their points on Sears' online store, because doing so does not count toward the minimum purchase they need to make to receive free shipping. Instead, they want to visit an actual Sears store. But there are only about 200 of those left throughout the country (down from more than 2000 stores just a few years ago). Thus even if they want to stay loyal, some customers have found that it's impossible. The store simply isn't there for them to shop.

Discussion Questions:

1. **What are Sears' loyalty program benefits?**
2. **Is it a good program for Sears? Why or why not?**

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Retail Tidbits

Calvin Klein Says Designer Fashion Is Over

Vanessa Friedman, The New York Times, March 7, 2019

In the fashion industry, the power of the halo effect has remained nearly unquestioned: Fashion brands introduce cutting-edge, daring looks during runway shows, attended by celebrities and influencers. Then these high-fashion options cascade down, encouraging everyday consumers to purchase more accessible products, simply to have some form of identification with the sophistication of the runway and the famous people who dare to wear the over-the-top styles. But according to Calvin Klein, the high fashion Collection that it has introduced each season actually has transformed into an unsustainable marketing expense that does not provide sufficient returns. Noting the growing casualness in apparel, the company has decided to shut down the Collection line completely, and it will not post any entries to upcoming fashion weeks. Instead, it identifies its denim offerings as its highest-end line. Rather than advertising in glossy fashion magazines with edgy models, it will pour more of its marketing budget into celebrity endorsements from popular stars like Kylie Jenner and Justin Beiber, who will model the latest jeans styles in mass market advertising channels. The change is a substantial one; Calvin Klein's brand reputation has long relied on its association with glamorous gowns that might appear on red carpets. By establishing and maintaining a vision of sophistication and luxury, the company was able to convince regular consumers to pay extra to have the brand name embroidered on their jeans and underwear. It is gambling that they will continue to do so, even without a luxury link or the clear communication of the company's vision of high fashion on the runway.

Will Marie Kondo De-Clutter Retail?

Tom Ryan, Retail Wire, February 12, 2019

The KonMari cultural phenomenon—in which tidying expert Marie Kondo shows people how to keep their homes tidy and clutter-free—has taken on new life with the airing of a dedicated show on Netflix. Kondo encourages the homeowners she visits to eliminate any items in their homes that do not "spark joy," and then organize the remaining items into explicitly dedicated containers, tucked inside drawers and cabinets. The implications for retailers thus appear mixed. On the one hand, the tidying initiative could spell trouble for fast fashion retailers, as consumers come to embrace the idea that they do not actually need so much stuff. Such a philosophy resonates with sustainability efforts and the prioritization of experiences over products, two norms that already are spreading in modern consumer culture. Together, these consumer trends could reduce purchases in general and diminish impulse purchases in particular, if people start asking whether a quick buy is really going to spark joy for them. On the other hand, for retailers such as The Container Store, Kondo is a boon. The company posted massive sales growth immediately after the show first started airing, suggesting that viewers are taking the recommendations to heart and gathering up more containers to keep themselves and their remaining possessions in tidy, organized shape.

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