



RETAILING MANAGEMENT

Levy|Weitz|Grewal

Newsletter for Instructors

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

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Asos Warns Customers It Is Getting Stricter on Returns

Ben Sillitoe, *Essential Retail*, April 4, 2019

Use with Chapter 6, “Financial Strategy”



Hashtag moments are both a boon and a bane for fashionable brands. The phrase refers to consumers' desire to access fashionable and hip products, take pictures of themselves wearing or using them, and then posting those pictures to social media, in their effort to enhance their self-image or reputation. For cool brands, this motivation can be invaluable, because posters seeking to become influencers actively work to obtain the latest offerings.

But the trend also has a downside. As savvy social media users know, the images posted for public consumption often are less than realistic. Accordingly, some aspirational influencers purchase fashionable brands,

tuck away the tags, and snap a picture wearing the great “lewk,” then package everything back up and return it for a refund. That is, they wear the apparel only for the picture that they post, without maintaining ownership of the items for any longer than it takes to pose for and click a good shot.

For retailers like Asos, such activities wind up being expensive and challenging. Returns are inherently expensive for retailers, because they require a reverse logistics system, take up valuable human resource efforts to receive and check the products, and potentially diminish the price that the returned items can fetch, if they can no longer be sold as new.

Therefore, Asos recently alerted customers who had signed up to receive notifications from the company that it would be getting tougher when it came to returns. For most shoppers, it promised little difference: As long as they return unwanted items within 28 days, they can get a full refund. If they return after that time but within 45 days of purchase, they can have a store credit. But if it identifies “serial returners,” such that they constantly and repeatedly return products, it will clamp down and potentially deactivate the account. Without specifying what it means by serial returners or when return activity begins to appear suspicious, Asos warned shoppers that it was aware of the practice of buying for hashtag moments. The updated return policy also was posted on its website.

Asos noted explicitly that the change was unlikely to affect most of its customers. Yet a recent survey in the United Kingdom revealed that approximately 10 percent of respondents admitted to buying products just to wear one time, so that they could post a picture on social media. Thus it may be affecting more people than anticipated.

Discussion Questions:

1. What is Asos doing to reduce excessive customer returns?
2. How would this strategy affect the financial ratios discussed in Chapter 6?
3. If you were consulting with Asos about its customer return problem, would you advise it to adopt this new policy? Why or why not?

Amazon Tests Pop-Up Feature Touting Its Lower-Priced Products

Jay Green, *The Wall Street Journal*, March 15, 2019

Use with Chapter 3, “Multichannel and Omnichannel Retailing,” and Chapter 14, “Retail Communications Mix”

Imagine you need batteries. You’re a modern consumer, so of course, you turn to Amazon to order them and have them delivered to you. When enter your search criteria, the site returns several options, and you click on 24-pack option offered by your preferred name brand, say, Energizer. But before you can put it in your cart, a pop-up message appears on screen, promising a lower price on a similar product—namely, private-label Amazon batteries. You can click to ignore that offer, or you can switch to it. What do you do?

Amazon is betting that, at the very least, you consider the cheaper option. It tested this prediction recently, in a limited experiment that imposed such pop-up ads on several product pages. Some of the affected products were national brands, like Energizer batteries and Glad trash bags. Others were offerings from smaller companies, like a sleep aid sold by a Canadian supplement company called Nested Naturals.

Asserting that the experiment was not a form of advertising, but rather an effort to determine the best way to help consumers find lower-priced offerings, Amazon carefully limited the span of the test to selected products and only some consumers. That is, some customers shopping for Energizer batteries might not have seen the pop-up window, while others did. In line with its reputation for closely guarding its strategic choices though, Amazon would not confirm how many brands were subjected to the experiment, how it chose which consumers would see the pop-up offerings, or whether touting the alternative had any effects on sales of the targeted products. It also claimed that not all the lower-priced options were Amazon-branded products, though without clarifying which other brands were featured in the pop-up windows.

For sellers on Amazon, the experiment likely appears somewhat threatening. Several national brand manufacturers declined to comment, but the CEO of Nested Naturals acknowledged concerns. The experiment implies that it will need to find a way to compete directly with Amazon, as both a retailing giant and its primary channel to reach customers. Noting that approximately 85 percent of its sales came through Amazon, the executive cited the company’s “stomach of steel” when it came to working with Amazon. It has little choice but to continue selling through the site, so it must put up with such “sneaky” tactics.

Other tactics and tests have raised similar concerns. For example, Amazon ran a short-lived test of some sponsored advertisements on registries that appeared as if consumers had selected certain items to request for their baby or wedding shower. The settings made it nearly impossible to determine if expectant parents were actually requesting that their friends purchase large diaper packages or if the promotion was sponsored by Kimberly Clark.

Overall, these tests and experiments reinforce Amazon’s existing reputation: It is an innovative retailer, willing to try lots of different things to meet its customers’ needs more effectively. It also is an aggressive competitor, willing to leverage the power it wields over the suppliers that appear on its site to ensure it dominates them, even as they continue to need it.



Discussion Question:

1. What is Amazon doing to compete with branded manufacturers that also sell their products on its site?
2. Is this strategy ethically defensible?
3. What should these name brand manufacturers and sellers do about it?

Hot Topic Is Still Hot

Paula Mejia, *The New York Times*, April 6, 2019

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

For young people seeking to establish their identities, clothing has always been a critical consideration. Wearing a particular style, brand, or color combination can signal publicly who the person seeks to be, and retailers that can help shoppers establish their preferred image will always be in vogue. But the meaning of identity has greatly shifted; young consumers today reject being pigeonholed as just one thing and instead seek to communicate their varied, diverse interests and fandom preferences. Fortunately for them, Hot Topic seemingly has figured out a way to keep up and support whatever obscure, niche reference they might want to make with their apparel.



Once known as the retail home for goth lovers, Hot Topic’s assortment, store layouts, and marketing communication all have shifted in recent years. That is, several decades ago, the stores were purposefully dark and a little frightening looking, as if shoppers were leaving their suburban mall and entering a dungeon. The primary color scheme on offer was black, and clothing featured elements such as metal studs and chains. In stores, the music was loud, angry, and rough; Nine Inch Nails received heavy rotation.

A time-traveling goth teen visiting Hot Topic today thus might be surprised to find SpongeBob plushes, My Little Pony dolls, and Care Bears t-shirts. The modern iterations of the stores highlight wide ranges of clothing, accessories, and gear, in bright colors. Even the store logo has changed, from a fiery red, gothic-inspired font to a black, unornamented style. There are still Metallica t-shirts and studded belts to be found, but they are mixed in with diverse product offerings, reflecting the niche interests that young shoppers express.

This retail evolution stems from a few key trends. First, as noted, modern consumers exhibit far more diversity in their preferences and demands. In the past, people might have felt compelled to maintain a single reputation (e.g., a metal fan would never admit publicly to liking some country music too). Today, the growth of online fan communities has meant that consumers feel comfortable acknowledging all their varied interests, because they know they have the backing of thousands of other fans. The stores reflect this diversity, leading one observer to compare the product assortment to “the inside of a teen’s mind”—rapidly changing, constantly considering alternative options, and dynamically growing.

Second, Hot Topic knows that customers want to cite specific sources of entertainment in their clothing, so it actively and widely pursues licensing deals with an array of branded concepts. This strategy started early, when its “Vote for Pedro” shirts, inspired by the movie *Napoleon Dynamite*, became a cultural phenomenon. Approximately 75 percent of the items available in Hot Topic stores are fan gear, which the store sells for less than the originators of the content. For example, an Arianna Grande “Sweetener” shirt is available on her website, but young shoppers likely prefer to get it at Hot Topic, where it costs substantially less; the average cost across all its products is about \$12.

Third, though it has a website and mobile channel, Hot Topic is still primarily a brick-and-mortar retailer, and that’s on purpose. For suburban teens, attending a ComicCon or getting tickets to a concert in a nearby city might be inaccessible, even if deeply desired, goals. Hot Topic offers an alternative, a nearby meeting space in which they can encounter others with similar interests and indulge in expressions of fandom that might be frowned upon in other, more conventional social settings. Accordingly, and in contrast with the trends affecting many retail chains, it has opened more physical stores, reaching 676 locations in a recent count.

In this sense, being a niche brand—albeit one that spans a vast range of niches—has enabled Hot Topic to shift and adjust to attract a new generation of shoppers. Even as it appeals to virtually everyone who represents youth culture, it allows them to express their unique identities.

Discussion Questions:

1. Describe Hot Topic’s target market. How is it different from or similar to its target market in the 1990s?
2. Describe Hot Topic’s merchandise strategy. How is it different from or similar to its strategy in the 1990s?

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Whole Foods Cut Prices. It Saved Us 5 Cents

Zach Wichter and Karen Weise, *The New York Times*, April 3, 2019

Use with Chapter 13, “Retail Pricing,” and Chapter 17, “Customer Service”

It seems as if everybody is paying attention to the prices at Whole Foods. Since its purchase by Amazon, with an announcement that also touted the arrival of lower prices, the grocer has been subject to close scrutiny, as shoppers and analysts attempt to determine if it has lived up to its lower price promise. Such scrutiny is enhanced each time the company announces price savings, such as a recent assertion that it would be achieving lower price points on scores of fresh produce offerings and other items, and these savings would be especially notable for Prime members.



A recent experiment suggests the reality is not quite as promised. When reporters purchased the exact same basket of goods, from the same Whole Foods store, one week apart (once before and once after the announced price cuts went into effect), the total bill was precisely the same. However, the price of LaCroix water decreased, while the price of strawberries increased, and because these items are taxed differently, the amount paid differed by 5 cents. That is, the purchase price was the same, but the tax charged varied by this minimal amount.

The journalists admitted that they did not make use of any Prime membership deals, which may be where Whole Foods is focusing most of its pricing initiatives. A similar experiment, with a matching basket of goods, but obtained using the Prime Now delivery service, revealed a price dip of about 2.5 percent after, relative to before, the announced price cuts.

The focus on giving Prime customers the best deals likely is strategic. Amazon’s data show that Prime customers buy more at Whole Foods, and the membership fees that these consumers pay may help offset some of the cost pressures that Whole Foods (like every other grocery chain) faces in the modern market. If it can convince shoppers, especially Prime members, that its prices are coming down, it may be able to limit the effects of its long-standing reputation as a higher-priced retailer—even as its prices continue to remain approximately 15 percent higher on average than competitive grocery offerings.

Discussion Question:

1. What is the difference between Whole Foods’ stated pricing strategy and its actual pricing strategy?
2. Which service gap is widening with regard to Whole Foods’ pricing strategy?

Inside the Secretive, Long-Term Collaboration Between Sonos and Ikea

Mark Wilson, *Fast Company*, April 8, 2019. See also Caroline Jansen, "Ikea, Sonos Reveal 1st Products in Collaboration," *Retail Dive*, April 9, 2019

Use with Chapter 11, "Managing the Merchandise Planning Process," and Chapter 12, "Buying Merchandise"



Ikea designs and produces its own products to sell, basing its design initiatives on its detailed insights into what customers want. But when it realized that customers wanted more tech-oriented options, it also recognized that it needed some expertise that it lacked in-house. Thus, it entered into a collaboration with the high-end audio company Sonos to start developing an entirely new line of items, unlike anything else available on the market.

The collaboration began several years ago, but the two partners were determined to take their time, to ensure the end product was just right. They kept the partnership secret and carefully experimented with various options and ideas.

The first two items, sold under the brand label Symfonisk, hit Ikea stores recently: a floating bookshelf with embedded speakers and a lamp whose base integrates the sophisticated speakers that Sonos is known for marketing. Both products are relatively simply in appearance, but that look belies the complex and detailed design requirements associated with bringing them to market.

In particular, the demands and elements motivating the two companies' design perspectives differ. Ikea seeks a visually appealing look to the furniture and accessories it sells. Sonos is interested mainly in providing the highest quality sound. Thus when designing the floating bookshelf, Sonos had to figure out where to place the physical speakers so that the acoustic vibrations would resonate appropriately and provide clear sound. For the lamp, the challenge was figuring out how to integrate all these heat-producing components within a base and avoid overheating.

Beyond the design challenges, the collaboration required careful consideration of pricing. Sonos speakers fetch a premium price, signaling their quality and good reputation. But Ikea insisted that even Sonos's lowest price point, at \$150, was way too high. The two firms had to find a way to get to the price at which the first two products were introduced: about \$180 for the lamp and less than \$100 for the bookshelf.

An easier aspect of the collaboration pertained to the two companies' similar views on the importance of furniture and other in-home pieces for creating a sense of place. They seek to enable consumers to build the exact atmosphere they desire in their living spaces, and combining appealing furniture with functional musical speakers goes far in that direction.

These two products are just the first entries into the Symfonisk line; both partners anticipate further introductions in the future. At the same time, Ikea continues to develop other tech-integrated products, such as a bedside table with a charging station integrated into it. But while the Swedish retailer feels confident in its own furniture design skills, it seeks help when necessary, to ensure everything that comes out under its brand aegis lives up to its customers' well-established expectations.

Discussion Question:

1. What type of brand applies to the new merchandise developed in collaboration by Ikea and Sonos?
2. How will these new products fit into IKEA's current merchandising strategy?

Department Stores Make a Bid for Relevancy

Caroline Jansen, *Retail Dive*, March 27, 2019

Use with Chapter 2, “Types of Retailers,” and Chapter 5, “Retail Market Strategy,” Chapter 7, “Retail Locations”

The introduction of a concept offering usually is associated with the automotive or fashion industries; manufacturers let their designers go wild and come up with the most innovative ideas possible. Even if the cutting-edge designs never make it to the mass market, they can get people excited about the ideas and possibly inform some less radical innovations that will appeal to a broader audience. For retailers, faced with a challenging market environment, concept introductions are taking on new importance, as a means to experiment with seemingly radical ideas, to learn which ones evoke the most response, as well as which ones hold promise for wider introductions.



Consider, for example, Nordstrom Local, a showroaming experiment by the luxury retailer; the multiple versions of pop-up stores being tested throughout the nation by Macy’s; or Barney’s New York, with its recent introduction of a storefront that stocks only products made from cannabis, called The High End. Reviewing these concept introductions, a panel of retail experts offered their opinions on what would work—and what would not. Their comments largely can be summarized in three main themes.

First, change is inevitable and massive. According to Charles Dimov, a Vice President of Marketing at OrderDynamics, because the retail sector is constantly subject to change, “Continually adapting, learning and improving is the only way to stay relevant in retail.” Similarly, the President of the Global Collaborations consultancy Camille Schuster asserts that “Being nimble, experimenting, and constantly changing are requirements for today’s marketplace. There is no one formula for success. There is no formula that will work for a long time. With experimentation that occurs often and quickly, retailers can identify changing consumer trends, different geographic preferences, technology use, and respond accordingly.”

Second, department stores themselves need to take a different tact if they hope to survive. The author Mark Ryski believes they will have no choice but to get smaller, reduce their number, and become more specialized. Neil Saunders, a managing director at Global Data, instead proposes that department stores should do more things: add more services, develop exclusive brands, invest more in stores, and adopt a flexible approach to store design so that they can maintain both conventional and unconventional formats, as required. With a more general recommendation, Lee Peterson of WD Partners calls for a “complete re-think” of what department stores are and what they should be.

Third, companies might want to shift focus altogether, because “the department store has no key place in customer lives,” according to the President of Protonik Doug Garnett. He notes that consumers show their preference for alternative formats: discount retailers such as Costco or specialty retailers like Old Navy. Min-Jee Hwang, the Director of Marketing at Wiser Solutions, asserts that “multi-channel, app-centric shopping” is the way to go; in contrast, Georgianne Bender, of Kizer & Bender, cautions that “an app is not a store window.” In her view, the key demand for department stores is to develop a viable, strategic plan to change how shoppers experience their visits to stores.

Thus even among the experts, we find both consensus and disagreement. The best way forward for department stores remains somewhat unclear. In this sense, the concept of concept stores appears promising, as a way to test out various options to identify what will truly work best.

Discussion Questions:

1. What are department stores doing to revitalize their business?
2. What do the “experts” think about these strategies?

Walmart Is Rolling Out the Robots

Sarah Nassauer and Chip Cutter, The Wall Street Journal, April 9, 2019. See also Caroline Jansen, "Walmart Adds Nearly 4K Robots to Stores," Retail Dive, April 10, 2019

Use with Chapter 15, "Human Resources and Managing the Store"

The expanded introduction of robots to perform in-store and logistics operations suggests both opportunities and threats to the workers who currently do those jobs. Walmart's announcement that it would be adding approximately 4000 robots throughout its stores brought made both types of potential outcomes vibrantly clear.

On the one side, the robots are doing repetitive, unskilled work that many employees dislike, such as cleaning floors and monitoring inventory. Today, human employees drive floor-scrubbing machines up and down store aisles; after the robot rollout in approximately 1,500 stores, these employees can skip this task and perform other maintenance duties instead. Automatic conveyer belts in distribution centers also mean that it only takes half as many workers to unload trucks, such that the center can get more products unloaded and inventoried more quickly.

On the other side though, the replacement of workers with machines inevitably raises fears of job losses. If fewer workers are needed to clean, review inventory, or move products through distribution centers, Walmart might hire fewer people or even lay off some current workers. As the robotic technology spreads and takes on more tasks, these risks grow, implying the potential for a radical shift in employment trends. According to one external study, there is virtually no chance that retail sales jobs will continue to be staffed primarily by human workers. In this sense, the mechanization of retail might appear nearly inevitable, and Walmart's introduction of robotic workers is the next step along this path.

Naturally, Walmart highlights the upsides and downplays the downsides. In particular, it notes that the greater efficiency created by the robotic functionalities support its efforts to increase workers' wages. Starting workers currently earn \$11 per hour, but moves by competitors such as Target, Costco, and Amazon suggest that if it wants to compete for good workers, Walmart will need to raise those wages even higher. Furthermore, it insists that by eliminating redundant, boring work like floor scrubbing, the robots actually make workers' jobs more enjoyable, because they can devote more time to other projects and tasks. In particular, they might be able to interact more closely and personally with shoppers, which would provide the added benefit of enhanced service levels. Finally, Walmart predicts that rather than reducing its payrolls, it will need to hire more people to facilitate its growing online commerce operations. Thus it hopes to expand workers' skills sets, by giving them more meaningful jobs to do.



Discussion Questions:

1. What are the advantages and disadvantages of substituting robots for humans at Walmart?
2. Take a side and defend it.

Retail Tidbits

Macy's Debuts "Story" in 36 Stores Nationwide

Daphne Howland, Retail Dive, April 10, 2019. See also Daphne Howland, "What's the Story with Macy's?" Retail Dive, April 11, 2019

Use with Chapter 17, "Customer Service"

Macy's has had its share of well-publicized struggles, but the storied retailer is not going anywhere without a fight. In a recent effort to ensure its relevancy and solidify its reputation as an appealing destination, it purchased Story, an innovative retail concept that puts the retail experience at the center of its efforts. Story, started as a single store in New York, designs its rotating assortments according to a particular theme or narrative. One month, the focus might be "Love," and the next, it changes to "Good." Thus every few weeks, the entire product assortment would change, along with the store's décor, lighting, and layout. When Macy's purchased the venture, it also brought Story's founder on board to design the rollout of this concept in Macy's stores. The first theme, "Color," is defining the initial introduction in 36 Macy's stores across the country. It features a visual "Lite-Brite experience" and rainbow-colored entrance tunnel. After entering, consumers encounter a Crayola station that allows children to color patches to be added to Levi's jeans; a MAC cosmetics area with various color palettes to allow shoppers to create their own makeup combinations; and a children's brand called Primary that markets clothing in (you guessed it) primary colors. The Story section accounts for about 1500 square feet in these stores, but Macy's hopes that shoppers attracted to the rotating, exciting experience also will venture beyond those boundaries and visit the rest of the offerings, even if they have little to do with the focal Story theme.

Why Amazon Is Expanding Shipping and Logistics Services

Suman Bhattacharyya, Digiday, April 8, 2019

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

In a recent abstract ("Amazon's Pitch to Woo Shippers: Fewer Fees than FedEx, UPS"), we described the retailer's entry into logistics operations, in its effort to take over the delivery of the products it sells to customers. Recent reports add that these operations continue to expand, making the shipping arm an increasingly prominent reality and consideration for other logistics providers. In particular, Amazon paid visits to some of its sellers located in Los Angeles, New York, and Chicago with offers to allow them to leverage its shipping capacities. Rather than sending their goods to a fulfillment center, by using FedEx or UPS, these sellers could sign on with Amazon to have the orders that come through its site picked up from their own facilities and shipped directly to customers. The option offers greater efficiency, as well as more confidence that the items will arrive on time, because both Amazon and the seller actively seek to provide this benefit to buyers. Furthermore, the option promises a potential means to increase the personalization of their offers. For example, if a seller knows that a particular shipment is going straight to a specific customer, rather than being held in a fulfillment center, it might add a personalized note or promotion that could enhance that shopper's loyalty to the seller itself. The expansion of Amazon's logistics operations thus appears likely to persist, and we will keep watching to see where it goes next.

Anchors Away: Why Grocers Are Heading to the Mall

Krishna Thakker, Retail Dive, April 11, 2019

Use with Chapter 7, “Retail Locations”

It’s finally happening, what retail industry observers have long predicted: The grocer is going to the mall. In the vast spaces vacated by traditional anchor tenants like JCPenney, Sears, and Macy’s, supermarket chains are finding promising new locations for their expansion. The large spaces offer plenty of room to stock a broad array of grocery offerings, especially the prepared or premade dinner options that are quickly expanding product lines, as well as support novel concepts like curbside pickup for online or mobile orders. In New Jersey, a Wegmans store in a former JCPenney location offers shoppers not just 70,000 grocery products but also a burger bar, Mexican cantina, and coffee shop, spread over two floors. The rent for the anchor store locations tends to be relatively low; mall operators are somewhat desperate to get tenants back in these spaces, because a big empty store does little to attract shoppers. Taking the innovation one step further, some grocers also are looking at the viability of grabbing smaller store locations within malls; a recently opened Aldi in the Chicago-land area sits in between a Kohl’s and a Sears. Such decisions appear largely driven by the size of the store that the grocery retailer seeks to open, in that some big names love the vast square feet of an anchor location, but others prefer to open a smaller storefront in a convenient location for their customers. Despite these hopeful and promising expansions, some analysts suggest caution though, noting that shoppers seeking to buy a new pair of shoes or replenish their cosmetics—traditional, largely hedonic motivations to head to the mall—might not be interested in combining that trip with the necessary but utilitarian chore of buying toilet paper too. That is, the goals of grocery shopping and mall shopping tend to differ, so the question of whether consumers will want to combine those trips remains open.