Newsletter for Instructors

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Retail Tidbits

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Retail Divide Widens as Shoppers Seek Value and Convenience

Suzanne Kapner, The Wall Street Journal, August 21, 2019. See also Suzanne Kapner, "Nordstrom Did So Much Right, But It's Still in Trouble," The Wall Street Journal, August 18, 2019

Use with Chapter 2, "Types of Retailers," and Chapter 5, "Retail Market Strategy"

It's all about the value, friends.

Whether shoppers find value in the deals that a retailer offers, the convenience it provides, or the unique offerings it makes available, value remains the key determinant of retail success. What changes over time is how consumers define that value. In today's market, the definition appears to prioritize discounted offerings that are readily available, rather than mid-market retail profiles that sell pretty much the same thing as everyone else.

Consider recent reports about which retailers are doing well and which are struggling. The best performers include Target, Walmart, and TJX (the parent company of T.J. Maxx). Those reporting dwindling sales and profits include Nordstrom, Kohl's, and Macys.

In the former group, consumers find valuable deals and convenience. For example, modern shoppers appear to prefer store locations with dedicated parking lots, whether stand-alone or in a strip-mall–type layout, so that they can park and run in, rather than wend their way through a mall to get to the store. Once they do so, they want to find a range of goods, available at deep discounts. To support these preferences, Target continues to expand its product assortment to enable shoppers to get everything they need in one stop. If people also can have fun shopping, even better. Thus T.J. Maxx stores offer them the feeling of a treasure hunt and the excitement of finding a deal that is not guaranteed to still be there the next time the shopper visits.

In contrast, Nordstrom reports decreases in both its sales and profits, despite seemingly succeeding on nearly every predictive measure available: It has a great web presence. Customers express great affection and loyalty toward it. It is not overleveraged, nor does it maintain too many stores that cost too much. It even expanded into off-price retailing successfully, through its Rack and HauteLook arms. Yet many Nordstrom stores anchor dwindling mall retail spaces, and as shoppers increasingly avoid the mall, they might be avoiding Nordstrom too.

Kohl's has stand-alone stores too, as well as a novel partnership with Amazon that allows shoppers to return items purchased through Amazon to Kohl's stores. And yet it too has posted dwindling sales and revenues. Thus, it is all about the value, but determining precisely which offers consumers will find valuable remains an ongoing question. These varying outcomes for competitive brands offer a compelling and remarkable picture of just how challenging modern retail success can be, even when a retailer seemingly does everything right.

Discussion Questions:

1. **What types of retailers are doing well, and what types are struggling? Why?**

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From Coworking Spaces to Backyards: The Next Generation of Showrooming

Caroline Jansen, Retail Dive, August 26, 2019

Use with Chapter 2, "Types of Retailers," Chapter 3, "Multichannel and Omnichannel Retailing," and Chapter 4, "Customer Buying Behavior"

Direct-to-consumer retailers like Warby Parker, ThirdLove, and Casper have greatly disrupted retail, reaching buyers in unconventional and convenient channels, such as through targeted advertising in social media feeds. Yet even as consumers increasingly embrace the idea of interacting with a brand like they do their friends and followers on Facebook or Instagram, they also acknowledge their need to check out certain types of products in person, before they can be convinced to buy them.

Consumers buying eyeglasses or bras, for example, can easily ship a poorly fitting option back to the company that shipped it to them. But if they are buying mattresses or couches, that return option is far more challenging. In response, direct-to-consumer brands like the furniture companies Burrow and Fernish are finding creative locations in which to install their products to give consumers a place to test them out.

Fernish works with a real estate developer, providing the furnishings for new construction, so that potential homebuyers can get a sense of how nice its couch looks in the model home's family room. Burrow instead focuses on coworking spaces, furnishing the chairs on which modern workers can come to get their job tasks done. It also experimented with installing pieces in popular local coffee shops, but it soon determined that the risk of spills and crumbs was too great, with negative repercussions for the appeal of the products for people actually sitting on them.

Another furniture retailer evidently worries less about such presentation issues, because it allows regular people to keep its products in their yards, in exchange for their agreement to let other potential buyers visit their yards to see and interact with the products. Outer, citing Airbnb as a model, contracts with hosts and pays them a flat rate. The hosts get to use the outdoor furniture, but they also might agree to an open house, during which other Outer clients come by to check out how the furniture has stood up to the sun and weather conditions in real life.

These creative and innovative approaches have some other risks too. Moving the showroom out of the company's control means that the customer's experience might not be ideal. Hosts working with Outer are not required to speak positively about the brand. The staff at a coworking space does not receive training about how to answer questions about Burrow's desks or chairs. Accordingly, some retailers avoid these alternative channels and simply add brick-and-mortar options to their online offerings. Casper, the mattress provider, plans to open approximately 200 physical stores, for example.

But whatever form the move takes, it appears that once these disruptive, direct-to-consumer retailers start enjoying some success and appeal to a broader audience, they need to rethink the very retail structure that made them disruptive in the first place. They need to disrupt, but they also have to acknowledge some traditional demands that consumers continue to make.

Discussion Question:

1. **Why do some Internet-only retailers open physical stores or seek alternative physical spaces in which to display their products?**
2. **In which step in the buying process are physical locations most important?**

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Welcome to the Promoconomy

Jill Krasny, The New York Times, August 20, 2019

Use with Chapter 14, "Retail Communications Mix"

As anyone who has received a remarkable retail discount offer on their social media feed can tell you—and let's be clear, that's nearly everyone who uses social media these days—it can feel nearly impossible to resist the lure. A free pair of workout socks if I buy a pair of leggings? Sign me up. A 20 percent discount if I give you my email address? Sure, why not?

The appeal is calculated and based on extensive analytics of what interests people have, as demonstrated by their online behavior. Although the analyses have grown far more sophisticated and detailed today, the underlying notion is nothing new. Retailers have always tried to issue discounts and promotional offers that they believe will be most appealing and compelling to buyers. What is different today is the kinds of information they use to design those offerings, the metrics they use to define who gets which offer, and the implications for consumers and their privacy.

In particular, many retailers rely on online marketing firms to help them gather insights about how and why particular shoppers buy. For example, Bluecore owns technology that allows it to determine individual consumers' discount affinity, that is, whether they actively seek out promotional sales before they agree to buy. Other retailers purchase data from brokers, which gives them access to people's general profiles, email addresses, and purchase history. Thus if a shopper previously has bought cruelty-free cosmetics from one company and provided contact information, a hair care company might purchase that information from a broker and target the consumer with shampoos that have not been tested on animals. Still others rely on direct requests: If shoppers agree to provide personal information, such as their email address, Instagram handle, or birthday, they get discounts.

With these data, retailers can target their discount offers with amazing precision. Thus two shoppers, exhibiting slightly different discount affinity, even if they seem similar on most other measures, would likely receive different solicitations. The retailer only sends a buy one, get one free offer to the consumer who is unlikely to buy anything without a promotion. The other consumer would never know of such an offer.

As a result, many consumers have decided that it is worthwhile to offer up their information to save a few bucks. In this modern "promoconomy," in which consumers anticipate that nearly everything should be available at a promotional price, exchanging personal details for a discount has come to seem normative. But as several academic research studies show, that normalization has some troubling potential consequences. If consumers undervalue their personal data, assuming it means nothing to share their email address or birthday, they expose themselves to unethical behaviors by ill-intentioned actors that might purchase and aggregate those data to commit fraud.

Perhaps even more worrisome are the implications regarding the meaning of privacy in a promoconomy. According to a University of Pennsylvania marketing professor, getting accustomed to the idea of giving up information can be habit forming. A person who finds it normal to share these details with promotion-offering retailers also might think it's reasonable to share their behaviors and preferences with government agencies. But the idea of governments tracking or monitoring citizens' behaviors runs directly contrary to the ideals of an open, democratic society in which people have the right to privacy.

In this sense, the idea that people prefer to buy things at a discount is really no big deal; of course they do. But the implications associated with modern versions of ubiquitous, targeted, compelling promotions may be far more worrisome than might be predicted at first glance. In a promoconomy, can democracy survive?

Discussion Questions:

1. **What new types of communications are retailers using?**
2. **What are the privacy issues arise from these new types of marketing communications?**

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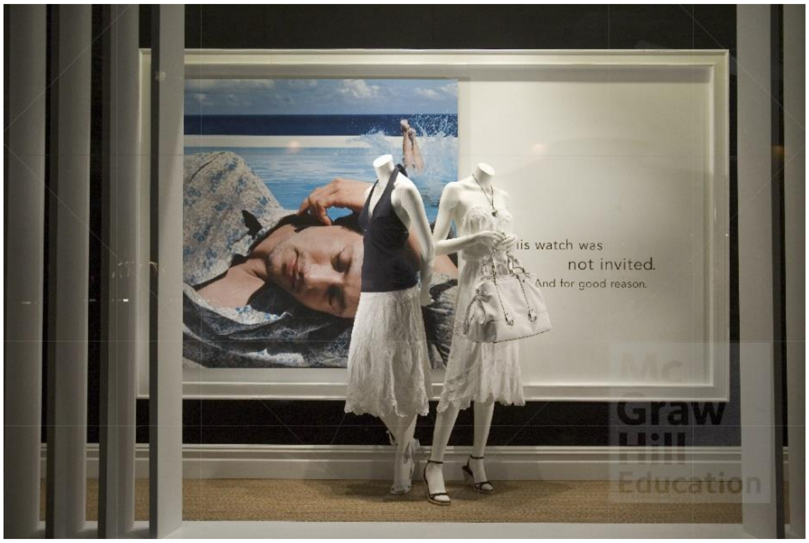
Banana Republic Will Launch Apparel Rental Next Month

Daphne Howland, Retail Dive, August 16, 2019

Use with Chapter 2, "Types of Retailers," and Chapter 5, "Retail Market Strategy"



Joining a growing crop of retailers, Banana Republic is the latest to enter the rental clothing market. With the assistance of a dedicated retail rental platform called CaaStle, retailers such as Bloomingdale's, Ann Taylor, Express, and now Banana Republic offer shoppers the option to pay a monthly fee and receive set number of items at a time, which they can wear and return as they choose.

At Banana Republic, the rental service, called Style Passport, costs $85 per month, and subscribers receive three items at a time. Currently available only for women's apparel, it plans to add men's wear sometime soon.

This move, and similar ones by other retailers like Urban Outfitters, reflect several retail trends. In particular, consumers appear less interested in owning products than in having a rotating selection of always-up-to-date fashions that they can trade in and out at will. Furthermore, some buyers regard rental options as more sustainable than purchasing and wearing out clothing every year or so.

Such sustainability claims might be questionable, considering the increased demand that shipping rental products back and forth create for logistical resources (e.g., fuel for delivery trucks) and more packaging. Moreover, the competition in this sector is strong and growing, including not just traditional retailers moving into the rental space but also well-known names in the clothing rental industry, such as Rent the Runway.

Yet retailers also regard the rental space as a new source of revenue, one that appeals strongly to younger consumers. Rather than allow these consumers to get accustomed to other brands and offerings, Banana Republic hopes to outfit them for every occasion, whether by making a sale or ensuring a timely delivery.

Discussion Question:

1. **Which retailers are in the apparel rental business?**
2. **Why are rentals appealing to retailers? To consumers?**
3. **Under what circumstances, if any, would you use participate in the rental market?**

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Why Lululemon's New In-Store Restaurant Will Succeed, While Others Will Fail

Chris Walton, Fortune, July 31, 2019

Use with Chapter 2, "Types of Retailers," and Chapter 5, "Retail Market Strategy"

In their search to appeal better to consumers and thereby get them to visit their stores, one option for retailers is to provide a new service, namely, food services. But the addition must make sense and create some form of differentiation to provide actual added value; instead, some retailers appear simply to be dipping their foot into the highly competitive restaurant industry, with little hope of success.

This article offers a direct comparison of two retail experiments to prove the point. As the exemplar, it refers to Lululemon's new Fuel restaurant, opened in its new, 20,000-square-foot store in Chicago's hip Lincoln Park neighborhood. It is a Lululemon store—people can browse plenty of leggings, yoga mats, and related accessories—but it also hosts yoga classes, along with the restaurant. Accordingly, it offers a range of product and service options that go well together, promising consumers the convenience of stocking up on workout gear, taking an exercise class, and grabbing lunch all in one place. The menu also aligns with Lululemon's brand identity, featuring smoothies and healthy food options, many of which are available in convenient takeout forms too. For busy professionals, such an offering resolves time pressures and desires to live healthy lifestyles, all in one convenient location. Thus, the experiment appears likely to succeed, not just in ensuring the restaurant stays open but also potentially in increasing sales of workout gear from that location.

Just down the road, in the Oakbrook suburb of Chicago, Crate & Barrel has opened the Table at Crate, a 100-seat restaurant that is decked out with Crate & Barrel dishware, flatware, and furniture. The company expressed hopes that opening the restaurant would get people to visit the retail location more often, but that prospect may be less likely. In particular, offering food along with furniture options does little to increase convenience, because consumers are unlikely to want to go furniture shopping with any great regularity. That is, visiting the Table at Crate probably cannot do much to relieve people's daily time pressures, because they do not perceive a need to visit a Crate & Barrel everyday, unlike their perception of the need for daily exercise. Moreover, the menu is not particularly unique to or evocative of Crate & Barrel's brand, such that diners could likely find similar offerings at plenty of other restaurants in the crowded Chicago-area gustatory scene.

Without a strong value offering, link to the brand, or compelling reason for patrons to visit, restaurants as retail services thus may be unlikely to provide the benefits that retailers seek from them. As with any strategic move, the primary goal needs to be benefits for consumers, together with a recognizable and meaningful alignment with the brand.

Discussion Question:

1. **Should Lululemon and Crate & Barrel establish restaurant operations to sell food in their stores? Why or why not?**
2. **Name two other stores that might benefit from selling food, and two others that would not. Justify your answer.**

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Mall Retailers Are Getting Smarter About Back-To-School

Joan Verdon, Fortune, August 28, 2019. See also Adrianne Pasquarelli, "It's Never Too Early, Apparently, for Back to-School Campaigns," Advertising Age, July 15, 2019

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

Back-to-school season isn't what it used to be. Whereas once there were a few weeks in the year in which parents and school-age children got themselves ready for the entire year, spending their clothing budget on sweaters and outerwear in August, today those consumers prefer a longer timespan and far more flexibility in how and when they spend their clothing dollars. Retailers have responded to this shift in two main ways.

Some of them start advertising earlier and earlier. Not long after kids finally get used to the idea of summer break, they start seeing calls for them to get ready for the impending school year, as early as mid-July. Noting retail predictions for the year that suggest little growth in the back-to-school market, retailers that rely on purchases of pens, pencils, paper, backpacks, calculators, and so forth have to find alternative means to bump up their earnings. In their efforts to get consumers primed and ready to spend, they started advertising school-related specials and promotions earlier than in most prior years. Office Depot highlighted school supplies, in advertising and in stores, by mid-July. If parents can grab a case of crayons, enough to cover any needs their children might have, at a deep discount because they buy it so early, that might be sufficient inducement to make the sale.

But another option is to extend the inducements later, after school actually starts. Especially for fashion clothing retailers, this extension can be beneficial, because it helps them meet young consumers' demands for the most popular styles—information that they might not have before they see what everyone else is wearing during the first week school is back in session. Noting the desire to be on the cutting edge of fashion among its target market, American Eagle launched a new design collaboration with Lil Wayne, introducing a streetwear line called AE ⍰ Young Money, that aimed to get kids excited and outfitted in the rapper's inspired line of hoodies, jeans, and shorts.

In general, retailers have begun promoting traditional shopping occasions and seasons (e.g., Halloween, Christmas) earlier and earlier, in the recognition that customers enjoy these offerings. A pumpkin spice lover is happy to see the flavor on store shelves in August, even as others might complain about retail efforts to hurry autumn along. By the same token, by keeping back-to-school season alive well after school has been back, retailers can avoid some of the drastic markdowns they previously have used to move kids' winter clothing off their sales floors by September, because they know there is still a market of people who need to buy them. overall have fallen as well. At CVS, which removed tobacco products altogether, those sales have disappeared.

Discussion Questions:

1. **How and why have the seasonal buying patterns for back-to-school changed for mall retailers in recent years?**
2. **List some key reasons that shopping seasons, such as back-to-school, seem to move earlier and extend longer every year.**

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Can the Internet Save the Department Store?

Christopher Mims, The Wall Street Journal, July 27, 2019

Use with Chapter 1, "The World of Retailing," Chapter 2, "Types of Retailers," Chapter 3 "Multichannel and Omnichannel Retailing," Chapter 5, "Retail Market Strategy," Chapter 11, "Managing the Merchandise Management Process," and Chapter 17, "Customer Service"

The question asked by the title of this article is misleading, because what it reports on is not a department store or the Internet. Rather, it describes a new retail format, one that challenges and even upends the traditional distinction between retail channels and seeks to offer all the benefits, with none of the downsides, of each of them.

The result of such a combination is experience marketplaces: physical retail stores that feature offerings initially introduced by online sellers, combined in rotating displays that are not limited to any particular product category or usage situation. In Neighborhood Goods stores for example, shoppers might browse through fashionable clothing, accessories, and home goods, as in a conventional department store, but also find vitamin supplements, trendy beverage options, and sophisticated electronics systems.

Each of those products is manufactured and sold by a separate brand, so in that way, the new format appears similar to store-within-a-store designs. But it isn't that either. With those designs, retail stores like Best Buy faced the threat of showrooming. They might give up valuable floor space to display Dyson vacuums or Nest thermostats, but then earn no revenues if the shopper were to test the product in store, go home, and order it from the manufacturer's website. In contrast, the many popular brands that appear in experience marketplaces such as b8ta—another experience marketplace that highlights consumer electronics—pay rental rates that are untied to their in-store sales, so any product sales benefit both partners, regardless of the channel in which they sell.

Integrating some of the benefits of online shopping, the experience marketplaces avoid any chance of stockouts, because even if the store shelf runs out of a particular product, the checkout system is inherently linked to the manufacturer's website. Thus, whether because of a stockout or to reflect the consumer's preference, a request for an item immediately leads to an online purchase and delivery to the shopper's home. The checkout process also is more similar to online processes than in-store settings, such that shoppers simply scan the bar codes on products to have the purchase price deducted from their account with the store's app. But again, these innovative retail designs are not identical to online stores either; they offer in-person experiences like cafes, exercise classes, and product demonstrations that online sites cannot match.

These combinations of valuable benefits have led some observers to predict that the new model soon will become the dominant one. The experience marketplaces will allow consumers to touch and feel product options, but they also will expand to become key marketing channels. According to recent research, when consumers can see products displayed physically, they also buy more of them virtually. That is, physical product displays act like advertising for online purchases, and the experience marketplaces combine those effects in one place.

Accordingly, various experience marketplaces have expansion plans in place, entering more and more cities across the United States. Unlimited by traditional forms of growth either though, they also have indicated the likelihood that they will license and sell their software, data algorithms, and inventory management strategies to other retailers that seek to open similar marketplaces. The experience is the key, and in the near future, the experience of retail might be totally omnichannel, yet all in one place.

Discussion Questions:

1. **Describe this new retail format, which combines physical retail with Internet-first retail strategies.**
2. **What are the advantages and disadvantages of this retail innovation for retailers, suppliers, and consumers?**

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Disney Stores Headed to 25 Target Locations

Kimberly Chin, The Wall Street Journal, August 25, 2019. See also Ben Unglesbee, "Target and Disney Partner to Open 25 Toy Shops," Retail Dive, August 26, 2019

Use with Chapter 7, "Retail Locations," and Chapter 11, "Managing the Merchandise Planning Process"

Citing their common focus on families and desire to help them enjoy shopping, Target and Disney have entered into a partnership that will put dedicated Disney mini-stores into scores of Target locations, with the promise of more to come. The stores-within-stores each will stock about 450 Disney-licensed toys, apparel items, and gifts.

For Target, the agreement provides unrivaled access to a popular brand and its beloved characters. Many of the items that will appear in the stores-within-stores previously were available only at Disney stores. Thus at Target, people can find items that are not available elsewhere, a value offering that matches Target's frequent collaborations with other big name brands to provide limited edition product designs.

For Disney, the deal greatly increases its retail channels. It currently maintains about 300 stores, so adding 25 or more represents a vast expansion. The addition also moves its products outside of mall locations, where most of the dedicated Disney stores are located. By timing the opening of the shops to coincide with major film releases, such as Frozen 2, the corporate brand also gets a new and compelling way to market its entertainment products.

Both retail operations consider these additions particularly compelling in the toy market that remains following the bankruptcy of Toys 'R Us. Target has actively sought to replace the once dominant retailer as the first option for toys and games. Disney needs a new way to get its branded items to consumers across the country. These well-aligned goals also have prompted the two companies to agree to situate a Target store at the entrance of Walt Disney World in Orlando, Florida.

For consumers, Disney shops in Target stores also suggest great promise. The attractive and fun displays—designed with constantly playing movies and music, selfie opportunities, and interactive displays—should appeal to parents, who are desperate to keep their children entertained while they shop for more practical items at Target.

Discussion Questions:

1. **Why is Target putting Disney stores in its stores?**

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Store Brands Cut into Big Food

Micah Maidenberg and Jaowon Kang, The Wall Street Journal, July 28, 2019. See also Andria Cheng, "Why Target Is Making Its Biggest Private-Label Bet on Grocery," Forbes, August 20, 2019

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

The numbers don't lie when it comes to growth in the private-label grocery market. For both chains that have long relied on their private labels and those new to the game, consumers' preferences for private-label options are clear, so they are working hard to meet those demands and enjoying success as a result.

The benefits of private labels are varied and substantial. A good private label, unavailable anywhere else but the retailer's stores, can prompt customer loyalty to both the products and the stores, such that they only visit that retailer's stores for all their needs. They also give the retailer greater control and higher revenues, by eliminating the need to share any profits with a name brand manufacturer.

Furthermore, customers appreciate these offerings, which provide substantial value, in terms of both their good quality and their relatively low prices. Thus Kroger, Walmart, and Albertsons all have increased the number of private-label products they stock on shelves, by approximately two times in some cases. They accordingly earn much more of their profits from selling their own brands; for example, Kroger earned $22 billion from sales of its private-label products last year, compared with $15 billion just a few years prior.

Whereas all these grocery store chains have long sold private labels, such that they currently are expanding an existing strategy, Target is a notable newer entrant. Its product assortment is known for designer options for clothing and housewares that shoppers cannot find elsewhere, but it only relatively recently has sought to establish its position as a key source for private-label groceries. Its new Good & Gather brand will feature approximately 2,000 grocery products. The introduction reflects Target's recognition that its excellent recent performance largely relies on purchases from everyday customers, not those visiting the stores for special shopping or life events (e.g., holidays, back to school). Noting that groceries account for only about 20 percent of its sales, Target is determined to provide more offerings to shoppers who visit regularly, in an attempt to become their regular source for food and beverages too.

In response to these increasing, strategic efforts by retailers, manufacturers confront a new market that imposes significant pressures on them. Many are responding by cutting prices; Kraft Heinz cheeses cost less in stores today, as does Jif peanut butter. If they fail to follow the lead of lower priced private labels, they risk sales declines, as Hunt's learned when it kept the prices of its canned tomatoes the same and suffered a noticeable loss of sales.

Discussion Questions:

1. **Describe the private-label grocery trend.**
2. **What are the advantages and disadvantages of retailers using private-label products?**

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Major Fashion Companies Sign Pact Vowing to Reduce Industry's Environmental Impact

Andria Cheng, Forbes, August 23, 2019. See also Cally Russell, "Could This Be How We Make Fast Fashion Sustainable?" Forbes, August 27, 2019

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

Even if it is not legally binding, the Fashion Pact recently signed by dozens of fashion companies suggests that changes in the production of clothing are coming soon. The pact demonstrates the (de)signers' commitment to diminish the negative environmental impacts associated with the fashion industry, which currently contributes substantially to water pollution, carbon emissions, and water conservation concerns.

In detail, the Fashion Pact sets ambitious goals, including carbon neutrality by 2050 and strict reductions in both single-use plastics and micro-plastics by 2030. Furthermore, it calls for new ideas for reusing and recycling used clothing, as well as for encouraging suppliers upstream to develop more responsible farming practices for growing the raw materials they use. Noting the companies' strong influences on cattle ranchers, cotton growers, and so forth, the pact suggests that fashion brands should explicitly leverage their power to demand improved agricultural conditions, with less waste and pollution.

The signees include well-known fashion names such as The Gap, Nike, Nordstrom, Chanel, H&M, and Burberry; the initiative is led by Keurig, which is perhaps best known in this sector for its ownership of Gucci.

Yet a nonbinding pact that focuses on production might not be sufficient to mitigate the environmental damages associated with the fashion industry, because much of those problems pertain to what consumers do with clothing once they are finished with it. The fast-fashion sector encourages constant turnover of relatively inexpensive clothing items, many of which are constructed with micro-particles of plastic that enter the water supply once washed. In addition, one estimate suggests that half of all fast-fashion apparel items get thrown away within a year of being purchased, winding up in landfills.

The Reformation fast-fashion brand claims it has a solution, in that it produces less of each item, even as it embraces the rapid production processes that its competitors use. Thus, it still sends products to its stores twice per week, but it sends fewer of them. In addition to claiming that the process is more sustainable, the company founder acknowledges that it improves retail profitability, because people are willing to spend a little more for the more exclusive items.

Discussion Questions:

1. **What are the advantages and disadvantages of fast-fashion inventory systems from retailers' perspective? From consumers' perspective?**
2. **What are some retailers doing to reduce the environmental impact of their fast-fashion inventory and practices?**

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The Rise of Hand-Me-Down Inc.

Suzanne Kapner, The Wall Street Journal, August 16, 2019. See also Suzanne Kapner, "On Second Thought, Traditional Retailers Make Room for Used Clothes," The Wall Street Journal, August 16, 2019 Suzanne Kapner and Micah Maidenberg, "J.C. Penney Branches into Used Apparel as Sales Tumble," The Wall Street Journal, August 15, 2019 Suzanne Kapner and Aisha Al-Muslim, "RealReal's Revenue Soars as Its Loss Widens," The Wall Street Journal, August 13, 2019

Use with Chapter 2, "Types of Retailers, Chapter 6, "Financial Strategy," Chapter 13, and "Retail Pricing"

It may be a relatively new phenomenon, but the second-hand fashion market already has undergone multiple shifts, highs, and lows, as various players attempt to stake their claim and demonstrate their dominance. Across both new and well-established retailers, operating mostly online or in physical stores, second-hand fashion customers are becoming a critical and potentially profitable target market.

Although arguably, second-hand clothing has always been available—as any younger sibling can attest—the contemporary version of the market is distinct in its claims of high quality and high fashion. For example, the online resale site the RealReal lists only the most respected names in haute couture. Shoppers thus can find true luxury brands, available for much lower prices than they would find in conventional department stores.

Reflecting this quality element, the most effective second-hand retailers offer some guarantee that the products are free of defects or flaws—not unlike the way that automotive dealerships promise that they conduct inspections of any used cars on their lots. Such efforts can add to the costs of dealing in second-hand goods, as can the reverse supply chain. That is, to gather their inventory, second-hand retailers like threadUP and Poshmark often rely on individual consumers willing to part with luxury items they no longer wear. Receiving items from thousands of individual providers, then checking each of them, is a far more labor- and time-intensive process than placing bulk orders for clothing from professional suppliers.

Yet despite this concern, the lure of the market appears irresistible to many retailers. Even JCPenney, the embattled discount retailer, is trying its hand at a version of the second-hand experiment. In partnership with threadUP, it will stock the shelves of 30 stores with used clothing and accessories. Notably, Macy's initiated a similar partnership with threadUP a few days after the JCPenney deal was announced.

Patagonia is selling used outerwear too, though it claims the impetus is its long-standing dedication to sustainability. It actively encourages customers to bring back their used jackets and gear, by offering them a trade-in credit, then refurbishes the items and puts them up for sale as part of a distinct product line it calls Refurbished. Eileen Fisher does something similar, through its Renew line, which is available in 67 stores and the company website. Levi Strauss markets its used products as uniquely appealing because they are vintage and reportedly hires employees to visit yard sales, resale websites, and flea markets looking for used offerings they can purchase and reinsert into the supply chain.

But for some sellers, the shift to second-hand has had some troubling implications. Michael Kors has suffered diminished sales of its new products, which its parent company's CEO attributes to the glut of branded handbags and accessories that sell through online resale sites. Accordingly, this label does not have any plans to build its own second-hand system.

That choice might seem even more reasonable when considering some recent performance metrics. The RealReal, even as it keeps earning higher and higher revenues, also acknowledges that it loses money on its operations. In particular, the increasing competition from traditional retailers have prompted lower prices paid for its high-end, luxury apparel.

Still, consumer trends imply that the second-hand market cannot be ignored. Forecasts predict a doubling of second-hand sales in the next several years, and millions of people are expressing their preferences for such items, whether out of environmental concerns or in an effort to access luxury products at a more affordable price.

Discussion Questions:

1. **Why are retailers of second-hand and rental goods on the rise?**
2. **Who are the main players?**
3. **Why are traditional retailers getting into the second-hand business?**
4. **How would you expect the financial ratios discussed in Chapter 6 to differ for a mall retailer versus a second-hand Internet retailer?**
5. **How does the demand for second-hand products affect demand for new merchandise found at traditional retailers?**
6. **Do you buy or rent second-hand merchandise? What about your parents? Why or why not?**

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Retail Tidbits

Kroger Expands Express Store Pilot with Walgreens

Jeff Wells, Retail Dive, August 21, 2019

Earlier this year, we told you about a novel partnership between Kroger and Walgreens (see "TidBit: Kroger to Sell Groceries in Walgreens Stores"), in which Kroger planned to install Express sections in a selected number of Walgreens locations, as a sort of test run. The test proved successful, and thus the partnership is expanding in multiple ways. In a simple sense, it is expanding in terms of the number of Walgreens locations that will host Kroger Express stores. But in addition, the number and types of products stocked by Kroger Express is growing, to include more of Kroger's private-label offerings. At the same time, Walgreens is starting to put its drugstore products, such as over-the-counter medications and personal care items, in some select Kroger stores, to see if the beneficial partnership can work both ways. Beyond product sharing, the two retail chains serve as pickup locations for each other. At this point, that service mainly involves grocery shoppers placing their orders online with Kroger, then picking up their purchases at a conveniently located Walgreens. Foreseeably though, this collaboration could work the other way, such that the two companies could radically increase the number of locations in which their products and services are available, without having to build any new stores.

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