Newsletter for Instructors

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

- **The Range of Factors Driving Retail Worker Shortages** **(Chapter 15)**
- **Percentage Rent Leases: A Pandemic-Era Innovation with Potential Staying Power** **(Chapter 7)**
- **A New Retail Service for New Retailers** **(Chapter 7 & 16)**
- **Does Amazon Rely Too Much on Consumers to Drive its Innovations?** **(Chapter 5 & 12)**
- **Is the Time Ripe for a New Wave of Unionizing by Retail Workers?** **(Chapter 5 & 15)**
- **Kroger Delivery Services, in a Town without any Kroger Stores** **(Chapter 9)**
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Retail Tidbits

- **Are Chatbots Taking Over as the New Personal Shopping Assistants?**
- **Why Warby Parker is Adding More Stores**
- **Can AI help Improve Online Grocery's Erratic Substitutions?**

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The Range of Factors Driving Retail Worker Shortages

George Anderson, "Does Retail Have an Answer for Its Jobs Problem?" Retail Wire, June 22, 2021; Abha Bhattarai, "Retail Workers Are Quitting Their Jobs at Record Rates for Higher-Paying Work: 'My Life Isn't Worth a Dead-End Job'," Washington Post, June 21, 2021

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

The challenges associated with working retail are well known: long and sometimes inconsistent hours, having to deal with rude or unpleasant customers, and low wages that make it hard to cover the bills. But for many workers, retail was all they knew, or it was the only option open to them. Those lock-in factors that had long kept stores staffed pretty much crumbled during the COVID-19 pandemic though, initiating a novel setting in which the cost–benefit equation of working retail has changed radically.

Accordingly, retail workers are quitting their jobs and moving into alternative employment in record-setting numbers. In April 2021 alone, nearly 650,000 retail workers gave notice—an astounding number that is higher in this sector than any other in the economy. Overall, 2.7 percent of workers quit, according to the U.S. Labor Department, the highest rate in history. And those numbers come on top of the hundreds of thousands of jobs that were eliminated (temporarily or permanently) when various retailers could not survive the pressures of the pandemic.

The pandemic might not be the fundamental or underlying cause of these departures, but it represents a catalyst, such that the conditions retail workers faced during its peak made the problems of retail jobs even more salient. Many workers noted that their employers expected them to work even longer hours, sometimes without providing personal protective equipment. Others cited the prevalence of abusive customers who refused to abide by mask mandates. With the recognition that their employer was showing a lack of concern for them, employees decided there was little reason to keep showing loyalty to their employer.

At the same time, new job opportunities in other job sectors that also were hard hit by the pandemic's consequences gave workers additional options. Various former retail workers shifted into other service sectors, such as banking, marijuana dispensaries, and insurance industries. Furthermore, the expansion and embrace of remote work possibilities enabled some to dive into work-from-home employment, which represented a particularly appealing alternative to being forced to perform essential labor on the frontlines.

But perhaps the biggest factor is the money. Retail workers earn low wages, such that average annual income is less than $28,000, and the average hourly rate is $13.13. The stresses of the pandemic prompted many workers to recalculate what their time and efforts were worth, and those values proved insufficient. In response, many big retail chains have committed to raising their starting hourly rates to $15, but even that raise keeps workers below a living wage in many regions. The stimulus payments that low income workers received also gave them a little breathing room, enabling people to take a step back and consider a range of options.

Even if financial considerations represent the immediate, primary source of labor shortages in retail, financial solutions likely are not sufficient to reverse the trends completely. That is, assuming retailers decide to pay $18 or $20 per hour, workers who have survived the pandemic might find it reasonable to issue some further demands. People need relatively stable schedules, guaranteed minimum and maximum hours, safe working conditions, career advancement opportunities, training, the right to stay home if they are sick, and maybe even some benefits like health insurance. But are retail employers ready to offer these incentives to staff their stores?

Discussion Question:

1. **What are the best options for retailers when it comes to attracting and retaining employees? Are higher wages sufficient?**
2. **Can the retail sector afford to pay higher wages? Can it afford not to pay them?**

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Percentage Rent Leases: A Pandemic-Era Innovation with Potential Staying Power

Esther Fung, "Covid-19 Rent Breaks for Retailers Are Becoming the New Norm," The Wall Street Journal, June 15, 2021.

Use with Chapter 7, "Retail Locations"

As we discussed previously in these abstracts ("A Different Kind of Buyer's Market: Retail Tenants Still in Business Demand New Lease Agreements from Landlords," October 2020), the coronavirus necessarily prompted some innovations in retail leasing operations. Without sufficient sales to maintain their brick-and-mortar stores, retail tenants demanded relief from landlords.

One of the options that the partners came up with altered the way rent would be calculated. Rather than a fixed monthly fee, the landlords allowed their retail tenants to pay a percentage of their sales as rent. If a retailer suffered drastically diminished sales, at least it could avoid a situation in which its revenues were simply insufficient to cover rent. The thinking was that once sales rebounded, tenants would go back to paying rates in line with their pre-pandemic, fixed rents. It represented a gamble for landlords, whose income dropped, but it also was a necessary risk. The alternative was the loss of tenants completely, and a small rent payment is better than none. If they could help keep the businesses afloat, they ultimately could return to traditional leases and look forward to steady income in the future.

But that isn't exactly how the experiment has developed. For both sides, the appeal of percentage rate leases have proved lasting. Many retailers continue to struggle with sales, and as some legacy brands have exited the market, new operators are looking for ways to decrease their start-up costs and risks. Thus they continue to request such concessions.

For the landlords, the benefits are less clear, but here again, their acceptance of such leases might reflect a lack of choice. Occupancy rates have not rebounded to their pre-pandemic level, meaning that property managers have a lot of space to rent and not enough renters to fill it all. This supply-and-demand imbalance leaves them with little option other than to agree, within reason, to the conditions that tenants request. Some operators continue to insist that the percentage payment option must remain a temporary one, such that they agree to one-year percentage-term leases and warn tenants that they will revert to fixed rates soon.

Some retailers also are perfectly happy to go back. A percentage-rate lease requires them to monitor, track, and share sales data constantly, an effort that can be cumbersome, especially for smaller firms. Other companies never wanted the variable rates in the first place; for Apple for example, a fixed rate is nearly always going to be less expensive than a rate that is based on store sales.

Discussion Questions:

1. **Will percentage-rate leases become a permanent fixture of the retail rental market, in your opinion? Why or why not?**
2. **What other ways might retailers exert their increased power over property management firms? What additional demands might they make?**

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A New Retail Service for New Retailers

Anne Kadet, "It's Expensive to Open Stores in NYC. Help Is Here," The Wall Street Journal, June 22, 2021

Use with Chapter 7, "Retail Locations," and Chapter 16, "Store Layout, Design, and Visual Merchandising"

A new retail brand, launched with a novel idea, a determined founder, and a fun online presence can go pretty far these days. But what happens when it wants to go beyond digital channels and establish a physical, solid presence? For that step, great product ideas and social media savvy are unlikely to be sufficient; the retailer needs expertise in location scouting, permitting requirements, contracting for renovations, negotiating leases, and hiring and managing sales staff, at a minimum.

That's a lot for a single, small, start-up retailer. But there are a lot of these retailers, suggesting a niche that a savvy service provider could fill. And so, meet Leap. Based in New York, the firm promises retail clients that it will find them a great location, suggest ideas for designing and laying out the store, and even staff their stores with its cadres of retail employees. Furthermore, Leap offers its clients the option to rely on its data analytics software and checkout systems, meaning that they can leverage cutting-edge, convenient technology options that likely would be out of their individual price range.

Beyond these active forms of support, Leap also will front a new retail operator the funds to open a store. In New York City, where most of its clients work, the costs to open a storefront can be $150,000, and in many cases, that's on the low side. Historically, brands might have put all their working capital into opening the store, leaving them without enough resources to fill it with sufficient inventory and well-trained staffers. By providing this initial capital, Leap makes it possible for the clients to keep investing in their own critical capabilities and maintain enough inventory on hand to ensure that the launch is successful.

In return for these extensive, expert forms of assistance, Leap takes a substantial fee. Because its clients use its checkout software, it gains the first access to sales revenues. From these monies, it first subtracts the operating expenses (e.g., rent, insurance, paychecks for staff), with a 10 percent surcharge. Then it takes its separate fee, which can range from 5 to 20 percent of total sales. Then the retail brand receives the remainder, as its income.

Leap is confident it earns its keep. Even with all these fees, working with Leap is less expensive than opening a store independently for many clients. Furthermore, by leveraging the economies of scope offered by the service-wide use of various resources, including data analytics, the retail clients gain access to more sophisticated insights and abilities than they would likely develop on their own. Finally, the hassle costs that Leap eliminates can be extreme. None of its retail clients ever have to worry about finding, hiring, and training employees—an effort that demands substantial time and attention for most retail operations.

The common source of the employees, layout design, and checkout software also might pose a risk though. These distinctive brands reached the point of success where they could even consider opening a storefront because they offered something unique and different. But if all new retailers become simply variations on a Leap theme, they might lose their individual appeal.

Discussion Question:

1. **Is it a good choice for the Louvre to create its own ecommerce site?**
2. **What other nontraditional retailers similarly might enter the market in response to COVID-19 restrictions?**

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Does Amazon Rely Too Much on Consumers to Drive its Innovations?

Brian X. Chen, "Buyers of Amazon Devices Are Guinea Pigs. That's a Problem," The New York Times, June 16, 2021

Use with Chapter 5, "Retail Market Strategy" and Chapter 12, "Developing New Products"

Companies come up with new ideas through a variety of sources: in-house experts and designers, competitors' moves, and consumers' demands. Most of them take these initial concepts and develop them carefully, using sometimes decades of testing to ensure they are ready to be introduced to the market. But Amazon, which is both a retailer and a manufacturer of devices, takes a unique approach by essentially outsourcing the testing phase—not to a specialized firm but rather to customers.

As part of its business strategy, Amazon aims to introduce novel, unprecedented technology products frequently and constantly. For example, the Echo Look was a camera designed solely for users to take pictures of the clothing in their closets and give them feedback about which combinations made for a nice outfit. No other company had introduced such a tool, making it truly innovative. Many adopters appreciated the value that it provided, enabling them to put together stylish looks more efficiently and confidently. But those users never grew in numbers, such that Amazon pulled the Echo Look from the market after just a couple of years, junking the entire project. Even consumers who wanted to keep relying on it were instead forced to throw out the no longer supported devices. (Amazon suggested they recycle the devices, though without revealing where they could do so.)

In a way, the decision makes sense: If an innovation doesn't spark widespread adoption, it often is the best choice for the firm to halt production quickly, rather than continuing to spend money on an innovation that is never going to be successful. But for consumers, this continued and repeated practice by Amazon, such that it touts novel devices but then kills them quickly, can be frustrating and unsatisfying. The retailer has convinced them that a new innovation is great, and then it refuses to allow them to keep using it.

Such practices also are unusual relative to conventional approaches to innovation. Samsung took years to design its Frame TV, even though the only real innovation it represented was its ability to display art on blank screens when people were in the room but not necessarily watching the device. That is, the innovation was not particularly radical; it remained a television, just with some new functionalities.

The radicalness of its innovations is one of the justifications Amazon offers for its reliance on consumer testing (after purchase) to determine the appeal of its products. It asserts that until users integrate these previously unfamiliar devices into their daily lives, it cannot possibly anticipate the functionality or success of its introduction. Of course, it also earns profits on these early sales. That can mean frustration for consumers who shell out hundreds of dollars for an exciting new device, only to realize that they cannot use it for long.

Another potential concern relates to the risks involved in the advanced but largely untested technology devices that Amazon focuses on in its innovation efforts. Announcements of its plans to introduce an autonomous, in-house drone, as a security device to detect strangers who might gain access to people's homes, prompted widespread warnings about the privacy implications of such an untested device. The Halo fitness device led experts to raise concerns about its potential for inducing body dysmorphia in users. Testing for such risky outcomes is not part of Amazon's innovation process, so the potential harms to early customers who adopt are notable.

Discussion Questions:

1. **Have you ever bought a novel product, which you liked, and later learned that it would be pulled from the market? How did you respond?**
2. **What factors enable Amazon to rely on consumers as guinea pigs and convince them to buy relatively untested products? Are there any other firms that might do so as well?**

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Is the Time Ripe for a New Wave of Unionizing by Retail Workers?

Richa Naidu, "Retail Workers in Unions Reap Higher Wages Even as U.S. Organizers Suffer Setbacks," Reuters, July 9, 2021; Noam Scheiber, "The Teamsters Consider a New Emphasis on Organizing Amazon Workers," The New York Times, June 22, 2021; Stacy Mitchell, "There's a New Duo that Could Help Rein in Amazon," The New York Times, June 17, 2021.

Use with Chapter 5, "Analyzing the Marketing Environment" and Chapter 15, "Human Resources and Managing the Store"

In the early decades of the twentieth century, the union movement largely defined the work lives of American employees. The impacts of unions were substantial and wide-ranging, instituting safety protections, the 40-hour work week, and prohibitions on child labor. But trends in wider society in the latter half of the century encouraged the growth of larger companies, especially in the retail sector, which in turn worked to consolidate their power over both their suppliers and their employees. The sway of the unions started to fade, and today, less than 5 percent of retail workers are union members.

But tides might be turning again, due to recent societal shifts that suggest the potential for workers to unionize to their benefit. First, the disruptions created by the COVID-19 pandemic have prompted many retail workers to consider alternative options. Retail jobs are tough, and if retailers want to keep their staff, they might be forced to accept the demands that unions promote, such as steady schedules and higher minimum wages. If workers recognize their ability to issue such demands, and further recognize that unions can help solidify the requests in a way that is effective and influential, they might be more willing to join.

Second, recently conducted research has established that even now, when so few people are union members, those retail workers earn higher wages on average than non-unionized workers. They also are assigned more stable schedules and more hours, rather than the part-time and unpredictable assignments that many retail workers face. Policy makers in turn might come to acknowledge the benefits of unions for their constituents. Pushing big businesses to allow union activity (as they are legally required to do anyway) could offer a popular platform, especially for politicians in economically depressed regions, where employment and wage rates limit the development and health of local communities.

Third, recent grassroots unionizing attempts by workers at an Amazon plant in Alabama, though unsuccessful, brought the topic to light and received substantial media attention. When the vote failed, observers alleged that the management of the Amazon plant had engaged in illegitimate, unethical influence attempts, such as overstating the costs of a union membership, understating the potential economic benefits to workers, and implicitly and illegally threatening to fire people who unionized or to close the plant altogether.

Fourth, in a related move, the International Brotherhood of Teamsters, one of the most powerful remaining unions in the United States, has expressed its plans to target Amazon and other large retailers to insist that they allow delivery and freight workers to join its ranks. The Teamsters believe that by appealing to drivers across the country, it can achieve more success at a national level, compared with the single-plant initiative. Such success then would enable it to insist that retailers adopt limits on the hours drivers must work, for example.

At Amazon, Walmart, and Target, three of the biggest U.S. employers, no workers are unionized. Although all three of them recently have raised wages, in response to pressures from workers and policy makers, they actively resist further pressures. They argue that labor unions increase costs and undermine effective hiring practices, meaning that the costs for consumers go up too. But if history is any indicator, the current trends might lead workers to insist on exercising their right to unionize.

Discussion Questions:

1. **Who are the key stakeholders in the debate over unionizing retail workers, and what are their positions on this issue?**
2. **On balance, have unions been helpful or harmful to U.S. labor?**

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Kroger Delivery Services, in a Town without any Kroger Stores

Sue Carlton, "Hey, Tampa Bay, Kroger Now Delivers Groceries Here. But How Does that Work?" Tampa Bay Times, June 26, 2021

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

Competition in the grocery sector features some notable regional specificities. In Florida for example, a substantial portion of the consumer population turns to the homegrown Publix chain for nearly all their shopping needs, making it difficult for other grocers to achieve competitive market shares. But Kroger is the largest grocery retailer in the country, and being shut out of the pantries and refrigerators of so many consumers by a regional competitor isn't something it accepts easily.

In its ongoing attempts to compete more effectively, Kroger found a delicious opportunity when COVID-19 drove increasing numbers of consumers to experiment with and learn about the benefits of online orders and deliveries of groceries. Rather than try to build new brick-and-mortar stores and convince Floridians to forgo their beloved Publix sub sandwiches to shop at Kroger stores, it started building a massive customer fulfillment center outside of Orlando. The centralized location enables it to provide customers living in the Tampa-St. Petersburg metropolitan area, the Jacksonville region, and Orlando with next-day deliveries.

The facility features the latest, most cutting-edge robotic technology, along with control systems originally designed for air traffic control operations. The robots load trucks, which deliver the products to facilities, or spokes, located in Jacksonville and Tampa. From those spokes, vans take the groceries the last mile to customers' homes or vacation rentals.

This latter point is key. As coronavirus travel restrictions ease, Florida anticipates that its robust tourism industry will rebound or even surpass prior levels, as people seek a break from the stress of sheltering at home for so long. Many of these visitors will be far more familiar with the Kroger brand, which is where they shop at home, than with Publix. Thus, they might prefer to be able to order the treats and snacks they know and love to supply their long weekend at the beach or week-long visit to the theme parks. Simply by going online and placing their order, changing only the delivery address, they can persist in their usual shopping habits, without having to learn a new store or consider alternative product options.

Discussion Question:

1. **Can Kroger establish a sustainable advantage as a grocery deliver service in these Florida regions, without physical stores? On the flipside, do physical retailers such as Publix need to enhance their delivery services to compete with Kroger's new offering?**
2. **Do vacationers represent a sufficient target market, or does Kroger also need to convince full-time residents to order from it?**

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Which Retail Sectors Still Require Physical Locations? The Relevance of Luxury and Deep Products

Matthew Stern, "Forget Digital First. Stores First, Digital Second Is the Future of Luxury Retail," Retail Wire, June 23, 2021; Tom Ryan, "Do Stores Need to Take Shoppers on an 'Experiential Learning' Trip to Succeed?" Retail Wire, June 24, 2021

Use with Chapter 3, "Multichannel and Omnichannel Retailing"

There's no doubt that digital channels represent a retail reality. But for some sellers, a fully digital presence is never going to be sufficient. According to several insights and real-world examples in recent months, the key to determining when brick-and-mortar, in-person experiences are most critical might reflect the types of products being sold.

For example, luxury retailers begrudgingly entered online markets, but they have found that their need to maintain high-end enclaves to display their luxury wares are still critical to maintaining their positioning and competitive advantages. Some predictions indicate that 25 percent of luxury sales will occur online by 2025. Yet the chief financial officer of the LVMH group—which owns such famous luxury brands as Christian Dior, Louis Vuitton, and Tiffany's—has asserted strongly that he believes luxury growth can only occur through stores that provide a true luxury experience.

Experiences are similarly important for "deep" products, defined as those that require extended, in-depth examination before customers will feel comfortable buying them. (They might also be called experience products.) When retailers promote deep products, such as cosmetics, they can effectively encourage consumers to visit their stores. In turn, research shows that these visitors buy more, both during that visit and in subsequent purchase occasions online. It appears that by giving them a means to undertake "experiential learning" about these deep products, in-store interactions leave consumers more engaged and excited about their product purchases.

For retailers, these combined findings suggest a new method for defining their omnichannel strategy. If their products evoke strong engagement, because they are expensive, deep, luxurious, or experiential, the retailers should continue to provide shoppers with stores that allow them to interact with those products.

Discussion Question:

1. **What other types of products might fit these categories and similarly require the availability of brick-and-mortar stores to keep consumers engaged?**
2. **Do these recommendations necessarily suggest that non-luxury and shallow product retailers can eliminate their physical channels? Why or why not?**

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Retail Tidbits

Are Chatbots Taking Over as the New Personal Shopping Assistants?

Tom Ryan, "Will Chatbots Take Over as Personal Shopping Assistants?" Retail Wire, June 24, 2021

They might not work very well. They might misunderstand commands. But the promise that chatbots will get better and make people's lives easier underlies recent survey results that say that nearly everybody wants them. The U.S. respondents to the survey cited customer service and product search capabilities as key functions that they turned to chatbots to achieve; 70 percent noted that they used chatbots frequently for such purposes. In response, more retailers are making these tools available. The Zoey chatbot that assists David's Bridal shoppers enables them to make appointments for fittings, chat with a live stylist, or check their order status. At H&M, both virtual assistants and live chats are available at any time through a Google messenger link, enabling shoppers to learn about item availability and store locations or hours. Although about one-third of the survey respondents also said they had experienced difficulties getting chatbots to understand their requests, they also believed that improved voice recognition and natural language processing technologies would overcome those hurdles in the near future.

Why Warby Parker is Adding More Stores

Charity L. Scott, "Warby Parker Founders Explain Why They Are Adding 35 Stores After Pandemic," The Wall Street Journal, May 29, 2021

Warby Parker made a name for itself largely by disrupting the eyewear market with an effective online channel to sell its in-house designed eyeglasses. But it also had expanded its reach over its short and profitable history, branching out into physical locations to support its continued online sales. In early 2020, it had about 135 showrooms—all of which were forced to shutter their doors when COVID-19 hit. In the first few weeks of the pandemic, buying more glasses was not a priority for nervous consumers, such that sales dipped both online and offline. Then as Zoom meetings became a constant presence, people returned to online purchases, using Warby Parker's unique augmented reality app to see how new frames might give them the professional, distinctive look they hoped to achieve during their virtual meetings with colleagues. Thus, whereas last year was the worst in the company's history, in terms of revenues and profits, its recent turnaround has been strong enough that it has announced plans to open 35 new brick-and-mortar locations. The company also offered replacement jobs to all its COVID-furloughed workers (though some chose not to return). The company has determined that sales in online and offline channels are about evenly split, but the vast majority of customers who visit stores start their search online. Thus, even as it opens new stores and showrooms to allow consumers to get the actual feel of the glasses on their faces, it continues to rely primarily on the online channel as its main mode of interaction with shoppers.

Can AI help Improve Online Grocery's Erratic Substitutions?

Tom Ryan, "Can AI Solve E-Grocery's Erratic Out-of-Stock Substitutions?" Retail Wire, June 28, 2021; Mark Price, "Popular Online Grocery Services Often Include Hilarious Substitutions During the Pandemic," Miami Herald, May 20, 2020

Imagine you place a grocery order for delivery, asking for almond milk, a dozen oranges, and a can of tuna fish. The service fulfilling your order has bad luck though, and all of those items are out of stock, so it decides to substitute. It picks up coconut milk, a dozen tangerines, and a can of tuna-flavored cat food. If you're like most customers, you might accept the milk and citrus fruit, but cat food isn't going to fly—especially if you don't have a cat. The example might seem absurd, but similarly unacceptable replacement items have been shared frequently by posters who join social media groups with names like, "That's It: I'm Grocery Substitute Shaming." But finding a good resolution to in-store stockouts is particularly challenging for the hired shoppers choosing items for clients rather than for themselves; you know whether you'd rather substitute the almond milk with soy, whereas a worker employed by the store or a delivery service can only guess, limited by their own cognitive biases and limitations. That's where technology comes in: Walmart has been working with a new artificial intelligence (AI) tool that can gather massive amounts of data about which kinds of substitutions cause customers to complain, as well as which ones appear acceptable. According to early reports, the substitutions chosen by the AI—on the basis of hundreds of variables, such as brand, price, size, prior consumer choices, and inventory levels—have increased customer acceptance of the substitutions by 95 percent. Because the technology can include more decision factors, it can produce a more satisfactory resolution to a stockout problem, then continue learning from each customer's reaction to each substitution to improve its performance the next time. It might be AI to the rescue, keeping kids from finding a tuna fish cat food sandwich in their lunches.

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