Newsletter for Instructors

November
2021

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- **Do People Really Need a Special Apple Polishing Cloth? Their Behavior Suggests They Don't Care About the Logical Answer** **(Chapter 4)**
- **La Niña, Hurricanes, and Snowbirds: How Various Uncontrollable Factors Combine to Drive Sales in Particular Regions** **(Chapter 4)**
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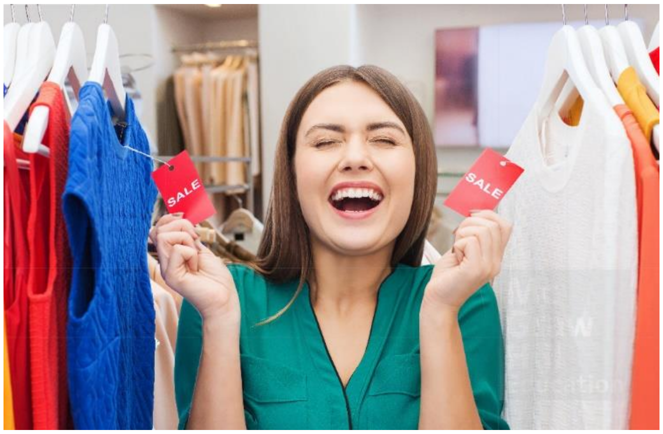
Another Type of Long-Haul Damage: The Lingering Supply Chain Challenges of COVID-19, Part II: Discount Shoppers

Sharon Terlep and Austen Hufford, "Why It's Easier to Find Expensive Appliances than Cheaper Ones," The Wall Street Journal, October 4, 2021; Nelson D. Schwartz and Coral Murphy Marcos, "Higher Food Prices Hit the Poor and Those Who Help Them," The New York Times, October 27, 2021; Suzanne Kapner, "Shoppers Find Discounts Are in Short Supply this Holiday Season," The Wall Street Journal, October 25, 2021

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



For the segment of shoppers determined to find deals on the products they buy, whether in their everyday practices or when they go to invest in durable goods, the effects of the COVID-19 pandemic on supply chain operations continue to be prominent. Consider three broad examples, related to food, holiday shopping, and appliances.

First, both low income people and the social services in place to help them are struggling mightily with food costs. The prices for staple pantry items such as peanut butter have risen from about $13 per case to an average close to $19. Sources of fresh protein, such as eggs, beef, and fish, are being subject to average price increases of approximately 15 percent. For low income consumers on tight budgets, such increases make it impossible to stretch their food dollars far enough to feed themselves and their families at all, much less with these sorts of fresh and healthy options.

The sources of such price increases are multiple, including the rising prices of logistics. For example, delivery by refrigerated trucks used require about $3000 per truck, before the pandemic; today, those delivery costs have reached $10,000 on average. Furthermore, shutdowns at various meat processing plants due to infections disrupted these supply chains so dramatically that production levels still have not made up for the gap.

At the same time as prices have risen and food supply chains have been disrupted, many more people have confronted financial instability and turned to social services, such as food banks, for help. Thus for example, the Oregon Food Bank received requests from 1.7 million people in 2020, more than twice the number who sought assistance in 2019. Faced with more demand, limited supply, and higher prices, nonprofit groups find themselves unable to meet their commitments to aiding people, with little hope for a resolution in sight.

Second, consumers across the income spectrum become deal-seekers around the holiday season, having been primed by years and years of sales promoted by retailers seeking to get them to buy gifts for everyone they know. But those sales are unlikely to be available this year, or if they are, they will not be as dramatic as in the past. According to one prediction, whereas holiday season discounts previously ranged around 10–30 percent, shoppers should expect deals (if they find them) of closer to 5 or 15 percent.

Here again, the reasons for these developments are multiple and closely related to supply chains. Because the bottlenecks created by COVID-19 have continued to keep products from flowing freely, many popular brands simply do not have inventory to sell. One web tracker identified a 172 percent increase in the number of out-of-stock messages appearing on retail sites across the Internet. With such a limited supply, the retail brands' goal is to earn the best margins on the products they have, rather than lowering prices to move more inventory.

There is a potential bright spot for risk-taking deal seekers though. Because of delays in the supply chain, some seasonal items are likely to appear in stores later than they normally would. In these cases, retailers might be willing to offer deals on last minute decorations or gifts, to avoid having leftover holiday trends cluttering up their already messy inventory operations even further.

Third, when it comes to big ticket purchases like appliances, most consumers search for deals too, unless they are explicitly willing to pay more for high-end options. In the COVID-19–created supply chain context, those big spenders might be the only ones able to make any purchases. Due to the difficulties getting parts and raw materials for their products, most appliance manufacturers (as well as carmakers) have trimmed their production lines, focusing mostly on the most expensive models, on which they can earn higher margins. Whirlpool announced this strategy, noting that it had to prioritize building products at higher price points to be able to cover the increasing costs of the materials it purchases. Chevrolet stopped making inexpensive Malibu sedan models, even as it ramped up production on more expensive SUV models.

Beyond the cost factor, some of these limitations reflect the state of the global supply chain. Inexpensive Weber grills generally are manufactured in China, and getting them shipped to U.S. markets has proved difficult. But the more expensive grills get produced in the United States, so the company can make these versions more readily available to U.S. consumers—again, as long as they are willing to pay for the higher-end model.

These examples continue to reveal just how pervasive the implications of the COVID-19 have been, and will continue to be, for nearly every member of every supply chain, all the world over. But the risks for consumers already living with income insecurity appear more pressing. It's one thing to cut back on Christmas presents. It's another to be forced to go hungry.

Discussion Question:

1. **What are the prospects for low income or bargain shoppers with regard to the ongoing supply chain effects of COVID-19?**
2. **Consider the various actors engaged in these different, conventional supply chains. What responsibilities does each of them have for resolving these challenges?**

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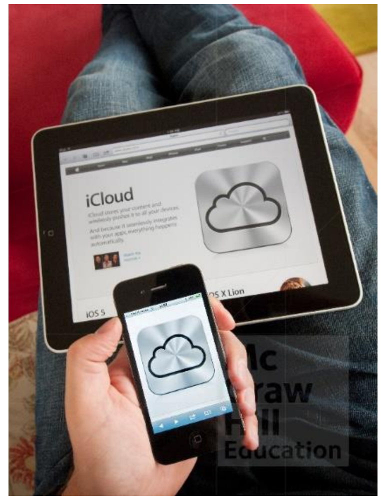
Do People Really Need a Special Apple Polishing Cloth? Their Behavior Suggests They Don't Care About the Logical Answer

Daisuke Wakabayashi, "Apple's Most Back-Ordered New Product Is Not What You Expect," The New York Times, October 29, 2021

Use with Chapter 4, "Consumer Buying Behavior"



Let's start with the question in the title: Do people need the new Apple Polishing Cloth? The answer actually is simple: No, they don't. The Polishing Cloth, even if made of a microfiber blend that effectively cleans screens without risk of scratching them, does not claim to do a substantially better job than other microfiber cloths. And for most consumers, the tail of a shirt or even a paper towel would be sufficient.

But despite these logical arguments against buying the Polishing Cloth, since making it available for individual sale in mid-October 2021, Apple has confronted massive demand. The cloths are on back-order until at least January, but people have joined waitlists to receive one or a few, once they become available. For this privilege, they are paying $19—more than twice the price of comparable microfiber cloths that are readily and widely available in the market.

So what explains this behavior? Why are consumers willing to pay more to wait to receive a cloth that has no discernible advantages over other options? Part of the reason is the inducement created by the brand itself. Apple's strong reputation for innovation and close connection to many users' self-image means that for some people, anything Apple introduces is something they will consider buying.

Furthermore, due to its strong brand positioning, Apple can charge high prices for its products, which creates a sort of spending draft: If a consumer already is shelling out thousands of dollars for a laptop, plus several hundred more for an iPhone or an Apple Watch, what is $19 more to spend to keep the screens on those devices clean and easy to read? Seemingly, Apple learned of this motive by tracking people's prior behaviors. That is, it first introduced the Polishing Cloth as an add-on, provided for free anytime consumers purchased its $6000 display monitor. But those consumers asked to purchase more, leading it to identify a niche market that quickly spread to include other segments of customers too.

Yet another rationale for this seemingly irrational behavior is people's personal attitudes toward new products. One YouTube influencer initially scoffed at the idea of buying such a cloth, but then realized that he also was worrying about being the only person without this accessory—that is, fear of missing out or FOMO. Rather than risk this uncomfortable state, he bought two of the square cloths while he still could, then featured them prominently in his video feeds.

Thus, even though the new product is not a technology-enabled gadget or smart device, like most of Apple's offerings, it still reflects the brand's core meaning. It is something novel, expensive, and cool, with a high price that people seem happily willing to pay.

Discussion Questions:

1. **Is the Apple Polishing Cloth a luxury product? Justify your answer.**
2. **Would you consider buying an Apple Polishing Cloth, once they become available again? Why or why not? What does your answer say about your own consumption behavior?**

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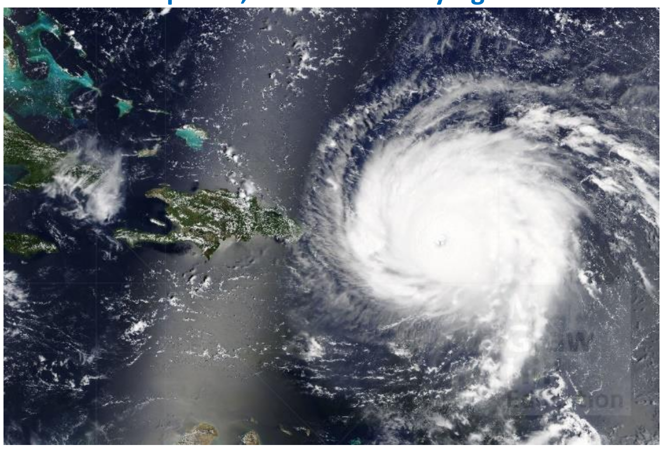
La Niña, Hurricanes, and Snowbirds: How Various Uncontrollable Factors Combine to Drive Sales in Particular Regions

Bernadette Berdychowski, "How Tampa Bay Holiday Sales Could Get a Boost from the Weather," Tampa Bay Times, November 16, 2021

Use with Chapter 4, "Consumer Buying Behavior"



Lots of uncontrollable elements influence retail sales; lately, we've been focused largely on the unpredictable and vast effects of the COVID-19 pandemic. But other factors, while still uncontrollable, exert their varying effects nearly every year, such that retailers cannot forget to account for them when predicting their sales performance.

In the Tampa Bay region for example, weather is a critical consideration. When the La Niña weather phenomenon arises during a particular year—which means that the jet stream shifts to the north—the northern United States experiences a colder winter, whereas the southern states encounter warmer, drier climates. Although La Niña arose in 2020, it appears more prominent for 2021, which leads to several related phenomena.

For example, hurricanes become a bit less likely. In 2021, Florida was exposed to substantially fewer big storms, compared with most annual counts over the past decade or so. In turn, people did not feel driven to spend as much on storm supplies like generators, emergency kits, or hurricane shutters. Such supplies can quickly get expensive, especially when the region is threatened by multiple storms, right in a row. This simple shift left local residents with more disposable income available for other types of purchases.

Because La Niña tends to drive temperatures up, Tampa Bay residents also can keep using their pools or engaging in outdoor activities, well into the winter months. In turn, they continue buying things like pool floats and bicycles, whereas such purchases essentially disappear in the north, where consumers instead are stocking up on parkas and warm boots. But once Floridians become accustomed to warm settings, even a temporary, minor dip in temperatures can drive a near buying frenzy for sweaters, as retailers noted during a week in which several days showed temperatures below the average for the region.

Those appealing temperatures also draw more tourists, including the region's regular visitors colloquially known as snowbirds. Whereas coronavirus restrictions and fears kept many people at home in 2020, they increasingly have been resuming their travel habits. These older, often retired adults spend several winter months in the warm climates, prompting their purchases of daily household supplies, décor to decorate their Florida condo, and new bathing suits—as well as services specific to this generational cohort, such as health care.

Thus, even if La Niña is not fully predictable, by reflecting on its diverse influences on other weather phenomena, buying trends, and consumer behaviors in previous years, retailers can establish somewhat improved predictions of what its effects will be on their sales in the current season.

Discussion Question:

1. **What implications does a weather phenomenon like La Niña have for retailers in other regions in the United States? For example, if it leads to colder winters in the north, how should retailers respond?**

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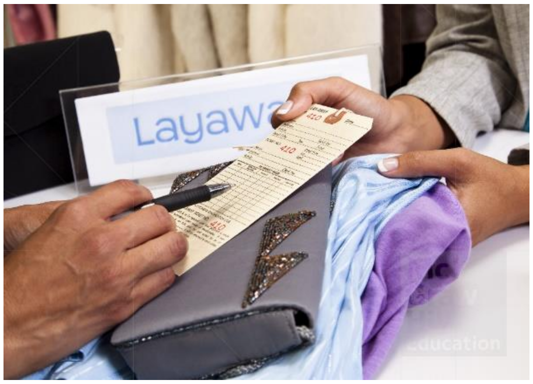
A Modern Form of an Old-Fashioned Payment Method, Reimagined as a Novel Retail Appeal

AnnaMaria Andriotis, "Amazon Is Doing It. So Is Walmart. Why Retail Loves 'Buy Now. Pay Later'," The Wall Street Journal, September 16, 2021

Use with Chapter 6, "Financial Strategy"



For retailers that aim to attract, acquire, and retain the largest pool of customers possible, a key prerequisite is making it easy for plenty of people to purchase from them. Thus they locate in readily accessible locations, establish online and mobile channels, and so forth. But perhaps even more essentially, these retailers need to offer a wide range of options for customers with varying payment preferences. A lot of attention thus gets paid to tech-savvy consumers who demand cutting-edge digital wallet capabilities. But another large consumer segment requires more fundamental payment options.

That is, even as retailers extend and innovate with technologically sophisticated methods to purchase goods, they also are providing a new version of old-fashioned layaway plans, in the form of buy-now-pay-later options.

Historically, layaway offered an appealing means for people to purchase expensive, durable goods such as appliances or large consumer electronics. For consumers without several thousand dollars on hand (i.e., most of them), but an immediate need for a new refrigerator for example, a retailer's layaway plan gave them a way to access the products they needed right away, but pay for those items over time. The interest rates were usually reasonable, so it made sense for consumers to embrace these plans.

The expanded uses of credit cards made such options largely obsolete; most people could just charge a big purchase. But then again, credit cards do not cover everyone, including an estimated 53 million U.S. adult consumers who have not established traditional forms of credit scores for themselves. As a result, they do not qualify for credit cards and confront challenges when they need to make very large purchases—or even smaller but still seemingly unaffordable ones, such as new clothes or cosmetics. As one frequent buy-now-pay-later consumer explained, paying for $200 worth of work clothes for a new job is much easier when the costs are spread over several weeks, rather than doing so upfront, before her first paycheck has cleared.

In addition to expanding their market to larger numbers of consumers, retailers such as Macy's note evidence that shoppers who rely on buy-now-pay-later options spend more per shopping trip than if they had to pay cash. This payment method also allows consumers who rely mostly on cash purchases, and lack access to conventional credit cards, to conduct transactions online. In turn, retailers such as Macy's, Amazon, and Bed Bath and Beyond all have added buy-now-pay-later buttons to their online and mobile checkout pages.

Another key difference is notable in this contemporary version of layaway, compared with historical forms. In the past, each individual retailer offered its own version of a layaway option, meaning that it was responsible to collect the periodic payments and liable for any defaults. But specialized buy-now-pay-later providers are far more common today, such that retailers contract with companies such as Klarna, Afterpay, or Affirm Holdings. These companies accept the risk of delinquent payments, but because they work with a substantial number of retailers, they have access to more information to gauge credit risk. A customer who fails to provide the full payment for a purchase from Walmart thus might find themselves unable to use the buy-now-pay-later option for a different purchase from Amazon—two retailers that both rely on Affirm to maintain their plans.

Noting ongoing financial constraints and challenges for regular customers, both retailers and banking industry actors have indicated their plans to expand and build out additional buy-now-pay-later options. Although many of these plans charge minimal or no interest, such that they earn their revenues by imposing late payment fees instead, some of them feature interest rates that reach as high as 30 percent. Thus the payment plans represent helpful, sometimes necessary routes to purchase, especially for low income consumers, but they also create a potential risk of exploitation of some of vulnerable buyers.

Discussion Questions:

1. **For which kinds of retailers are buy-now-pay-later plans most appropriate? For which kinds are they less appropriate? How do these categories reflect the retailers' financial strategies?**
2. **Consider the potential for abuse in this market. What consumer protections should be implemented, as buy-now-pay-later plans expand in number and reach?**

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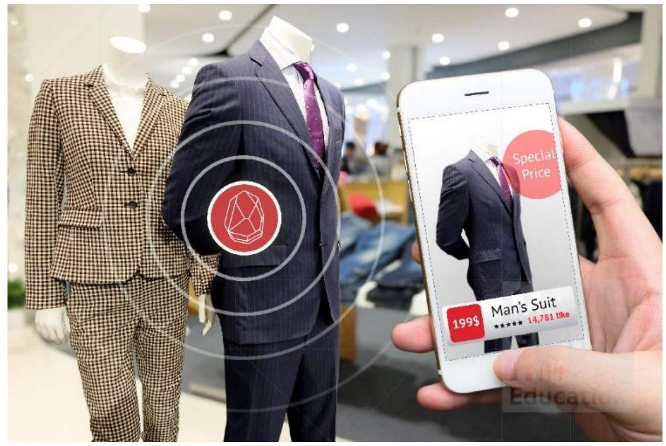
The Ethical Considerations of Dynamic and Personalized Pricing

Cleber Ikeda, "What Do Retailers Owe Customers When It Comes to Personalized Pricing?" Retail Wire, November 9, 2021

Use with Chapter 6, "Financial Strategy"



When, why, and how is it ethical to charge different prices to different customers? These questions are prominent and pressing for retailers that hope to take advantage of people's varying willingness to pay, so that they can earn the best profit margins and avoid leaving money on the proverbial table.

Some forms of personalized pricing are clearly ethical and widely accepted by consumers. Someone who wants a dishwasher delivered and installed in their kitchen pays more than another shopper who carries a box containing the appliance from the store, loads it in their truck, drives home, and installs it themselves. Both retailers and consumers find such a price difference acceptable and reasonable. Furthermore, consumers generally accept basic supply-and-demand concepts, such that they recognize they might have to pay more for a limited edition version of their favorite sneakers. But other forms of personalized prices are clearly discriminatory and legally prohibited, such as redlining in housing markets or higher banking fees charged to minority or low income consumers.

Somewhere in between though, retailers allegedly have tried to adapt dynamic pricing methods that charge more to people who live in (wealthier) zip code areas or to online shoppers who are browsing from a Mac versus a PC, based on broad evidence that people with more money will pay more. The so-called pink tax refers to the higher prices often charged for the same products when they are marketed to women rather than men. Are such practices ethical?

Perhaps even more important is another question: Whether they are considered legal and ethical or not, will such practices undermine consumer trust? Even if a wealthier customer has the ability to pay a higher price, realizing that they have paid more than another buyer, for no other reason than their tax bracket, is likely to evoke irritation and reactance. Thus from one perspective, transparency is key. It is up to retailers to tell consumers why they are being charged a particular price and what input informed that price decision.

Such transparency is obviously the more ethical choice, with positive implications for consumer trust. But it also seemingly might undermine the retailer's strategy; a seller might not want to risk telling a buyer that she or he is paying more than other buyers, for fear of losing the sale.

There are not currently clear or decisive answers to these questions, despite the powerful need to resolve them. As artificial intelligence and machine learning technologies make it increasingly easy for retailers to change their prices, rapidly and for each consumer, dynamic and personalized pricing tactics logically should become even more common. Thus, even if the answers are not clear, the discussions need to continue.

Discussion Questions:

1. **Select a controversial form of dynamic or personalized pricing, and argue both for and against its ethicality. What factors inform each side of the argument?**

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The Pursuit of Common Prosperity in China and its Implications for Alibaba

Raymond Zhong, "A Chastened Alibaba Tones Down Its Singles Day Retail Bonanza," The New York Times, November 10, 2021; Yihan Ma, "Alibaba's Gross Merchandise Volume on Singles Day from 2011 to 2021," Statista, November 12, 2021

Use with Chapter 1, "Introduction to the World of Retailing"

Like a lot of holidays, Singles Day was created as a marketing stunt: On November 11 (or 11/11, such that the date consists only of ones), single consumers in China embrace being without a romantic partner by buying gifts for themselves. Although only introduced in 2009, Singles Day has rapidly grown into one of the biggest shopping days of the year in China, with particularly prominent benefits for Alibaba, the dominant online retailer that first came up with the idea for promoting the day as a shopping bonanza.

For years, Alibaba has momentously announced its sales figures for Singles Day, and year after year, those numbers have grown exponentially, reaching an estimated $74 billion in 2020. But in 2021, the holiday and its associated marketing took on a different character, reflecting external influences that are altering the retail environment for Alibaba and thus for retailers across China, as well as throughout the world.

In particular, following about a decade of massive economic expansion and growth, China's central government has adopted a different attitude, shifted priorities, and new regulations when it comes to retailing. Soon after President Xi Jinping announced a national goal of common prosperity, achieved through equitable wealth distributions, new regulations and policies went into effect as well. For example, online retailers may not block links to competitors' sites, nor may they overwhelm consumers with marketing messages in the days leading up to Singles Day. Whereas Alibaba once represented an ideal version of China's market liberalization efforts, it recently was compelled to pay a $2.8 billion fine, as punishment for its antitrust and anticompetitive practices.

These new regulations have meaningful implications for not just the giant Alibaba but also the smaller retail operators that compete with or post their products for sale on its TMall site. Seemingly reflecting its embrace of the common prosperity ideal (e.g., it added this phrase to its own corporate responsibility statement), Alibaba reportedly has increased the support, assistance, and guidance it provides to small retailers and merchants on its site, as well as reducing the fees required to appear on TMall.

Such efforts are visible; it is harder to identify, quantify, or track another way in which Alibaba still controls competition in the retail market. That is, it decides which products to display to consumers who search for certain items, and according to some merchants, it still tends to direct them toward its own products for sale, rather than alternatives available from the smaller sellers. Such allegations may sound familiar to students of Amazon, which similarly has been criticized for pushing its own branded products, to the detriment of products offered by other, smaller retailers that appear on its product pages.

In parallel with its claims of greater fairness, Alibaba is embracing other versions of corporate responsibility, such as environmentally conscious consumption. It has established new routes for buyers to return shipping and packaging materials for recycling. If they buy more energy-efficient versions of products, consumers also can receive vouchers from Alibaba for future green purchases. Thus the retailer's public actions have changed, in response to regulatory and institutional pressures. Do those visible changes also mean a revision to its actual practices and strategies?

Discussion Question:

1. **How do differences in the countries and economies in which retailers operate affect their operations?**
2. **When subjected to institutional requirements, such as the drive for common prosperity, how should retailers respond? Is Alibaba's response sufficient, in your view?**

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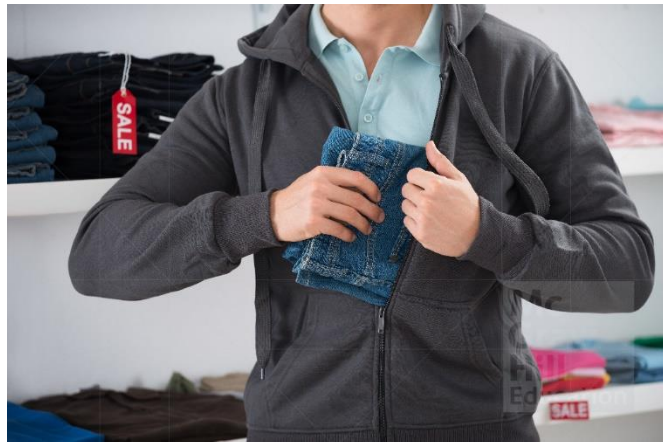
Crime Rings in Retail: Growing Concerns Over Robberies

Sapna Maheshwari, "Robberies Are Becoming an Increasing Concern for Retailers," The New York Times, November 26, 2021; Joe Hernandez, "80 People Stormed a California Nordstrom Store and Stole Merchandise," NPR, November 22, 2021

Use with 13, "Retail Pricing"



Retail shrinkage often gets attributed to relatively mild or nonviolent issues: poor inventory practices, mistaken discounts, and so forth. But as a spate of recent criminal incidents show, the threats of outright theft and organized robbery operations have moved front and center for many retailers, highlighting the need to remain vigilant and careful.

According to a recent National Retail Federation survey, 69 percent of retailers indicate that they have been victimized by purposeful robbery attempts, often by organized groups determined to commit the crime. A remarkable security video, taken in November 2021 outside a California Nordstrom store, shows scores of thieves swarming the entry simultaneously. Once inside, they assaulted and pepper sprayed the retail employees on duty, grabbed up as much merchandise as they could carry, and fled before law enforcement officials could arrive. Although three members of the organized crew were apprehended, an estimated 80 criminals succeeded in their efforts.

For Best Buy, criminal theft represents a key factor that the retailer blames for declining and lower-than-expected profits. In addition to hiring more security personnel, it has begun experimenting with placing QR codes on the cases in which it locks up expensive merchandise as a potential solution. Honest consumers can scan the codes and take their electronic orders to the checkout line to retrieve their purchases. Thus, store employees do not need to risk unlocking cases and potentially leaving the valuable products unguarded as they do so—a key vulnerability if thieves are organized and determined to snatch and grab such items.

Beyond these examples, many retailers note not just the increasing number but also the greater violence displayed by thieves, putting retail employees at great risk. In the San Francisco Bay area, reports of large-scale robberies have involved attacks on pharmacies, cannabis dispensaries, and jewelry stores, reflecting the wide range of retail sectors that are confronting this grave risk.

The causes of this intensification continue to be debated—the struggling economy, social exclusion, growing disrespect for authority—but for the retailers, determining the causes is less immediately pressing than finding solutions to protect not just their inventory and profit margins but also, and most importantly, their employees.

Discussion Question:

1. **What other solutions might retailers adopt to deal with the increasing threat of robberies?**
2. **How should retailers adjust their pricing to account for the greater losses resulting from criminal robberies?**

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Retail Tidbits

Will Meta Mean More Stores?

Mike Isaac, "To Build the Metaverse, Meta First Wants to Build Stores," The New York Times, November 5, 2021

Acknowledging that the predictions are preliminary and might never come to fruition, some observers claim that the next big move by Meta, the newly rebranded Facebook parent company, might be a surprising one: It will open a bunch of physical retail outlets. That direction may seem strange for a company determined to establish a metaverse, but it also reflects the current reality. Before consumers are likely to embrace virtual and augmented reality fully, they need to understand these new forms of interacting with content and products. To introduce people to novel, technologically sophisticated innovations, in-person demonstrations often can be the best option. Reports suggest that the retail outlets will be run by Meta's Reality Labs, but they are unlikely to look like laboratories. Instead, the stores allegedly will be designed to be welcoming, without any hint of judgment. The key terms used to describe the design goals accordingly include "curiosity" and "connection." On offer would be existing products, such as Oculus headsets and Portal devices, but also potentially new product introductions, such as voice-activated, Ray Ban–branded sunglasses that can capture images and videos and that are reportedly in development currently. Even as they offer such detailed predictions though, the informants repeatedly caution that Meta ultimately might decide the stores are not necessary. What do you think: Will stores be the difference in getting people to enter the metaverse willingly, by paying for products and services that enable them to do so?

Fitness Fighting: Lululemon Complains of Copycat Products by Peloton

Johnny Diaz, "Lululemon Sues Peloton, Accusing it of Patent Infringement," The New York Times, November 30, 2021

When Peloton and Lululemon broke up—that is, legally terminated their existing cobranding relationship—it seemed like a polite, conventional split between two retail operations that wanted to go their own ways. But just a few weeks later, Lululemon fired off a cease-and-desist letter to its former partner, insisting that it stop selling five products that it claimed were copied from Lululemon's existing designs. The breakup just got uglier from there. Peloton brought in outsiders, asking a U.S. district court to prevent Lululemon from spreading such allegations. Not to be outdone, Lululemon filed formal suit, officially alleging that Peloton had stolen designs for several leggings, tights, and sports bras, introduced only after the partnership ended. This description might sound similar to the breakup of a personal relationship, when each partner tries to get their "couple friends" to take their side, but the implications are far more wide-ranging, especially in the massive yoga and exercise market. The reputations of both companies (each of which has made some controversial moves in the past that attracted negative press) are central to their value and ability to appeal to consumers. If one of them cheated, or the other lied about that cheating, consumers are likely to pick sides and cut the offending party out of their lives altogether.

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