RETAILING MANAGEMENT

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Newsletter for Instructors

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

- **Borrow a Pattern, Pay the Source: Can Strategic Pricing, Design, Marketing, and Value Assessments Save Endangered Wildlife? (Chapter 14)**
- **Identifying the True Value of Products and Pricing Them Accordingly (Chapter 14)**
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Retailing Tidbits

- **Is the bias against Gen Z workers deserved?**
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Borrow a Pattern, Pay the Source: Can Strategic Pricing, Design, Marketing, and Value Assessments Save Endangered Wildlife?

Rebecca Mead, "Should Leopards Be Paid for their Spots?" The New Yorker, March 21, 2022; Caroline Good, Dawn Burnham, Tom P. Moorhouse, and David W. Macdonald, "Connecting the Spots: Leopard Print Fashion and Panthera pardus Conservation," Journal for Nature Conservation, Vol. 61 (June 2021), https://doi.org/10.1016/j.jnc.2021.125976

Use with Chapter 14, "Retail Pricing"

For activists determined to protect and maintain threatened and endangered animal populations, creativity often is key. When existing methods stop working, they need to come up with new ways to convince governments, corporations, and, perhaps most important, individual consumers to alter their behaviors so that they avoid actions that harm wildlife—and potentially even create more benefits for them.

Consider a recent proposal: Every time a fashion designer borrows a pattern that appears naturally on an animal to produce a design on fabric (think leopard- or giraffe-print clothing, lizard skin–like boots, feathers added to a hat), it should be required to pay a fee to a group dedicated to the protection of that animal. As another facet of the proposal, teams that use animals as their mascots could donate to the protection of endangered and threatened species such as lions, bears, eagles, timberwolves, tigers, dolphins, panthers and wildcats, coyotes, or sharks. Or they might contribute to local animal shelters or zoos if they adopt a less threatened species as their mascots, like bulldogs, cardinals, bulls, penguins, or rams.

Based on analyses of historical fashion trends, the leopard print might be the most relevant source of such contributions. It showed up in ancient art, such as in renderings of Cleopatra; became a punk standard when Debby Harry of the band Blondie sported a skintight leopard jumpsuit in concerts; and today is worn by such arbiters of style as Kate Middleton, the Duchess of Cambridge. Whereas many of the early outfits featured actual pelts of slaughtered cats, such that they have disappeared from an estimated 75 percent of the areas in which they historically lived, today's more conscious fashion imprints leopard patterns—their spots are formally called "rosettes"—on a wide variety of fabrics, for a vast range of products, including shoes, shirts, dresses, and bags.

Noting this persistent and widespread popularity, a group of scholars, with backgrounds in conservation and art history, oddly enough, have proposed a market-based solution to help save leopards in the wild. They refer to a royalty, similar to the ones paid to artists each time their creative production gets played, cited, or used. A royalty of, say, 1 percent of the sales price of each fashion product sold, emblazoned with leopard rosettes, easily would produce millions of dollars that could go to conservation efforts.

To encourage acceptance of such royalties, another creative idea suggests ensuring that people who wear leopard prints also feel a strong bond to the animals. The nonprofit group Panthera already has undertaken a campaign to do so. Its Leopard Spotted initiative asked fashionable people posting selfies of their leopard-inspired outfits on Instagram to include a hashtag that cited the endangerment faced by leopards in the wild. The same group partnered with Hermes on leopard-themed fashion show, the proceeds of which included a sizable donation to its conservation efforts.

The idea may seem unusual, but its potential benefits also make it seem eminently viable. Consumers might pay a little more, but they can gain a warm glow and the promise to continue living in a world in which leopards (and other endangered species) exist in their natural habitats. Nonprofits would gain resources to support their efforts. Governments might promote safari tourism by promising greater access to awe-inspiring animals in the wild.

And fashion designers could build positive reputations for supporting conservation causes—an objective that is particularly pressing, considering their historical reputation for decimating animal populations to create their products. When Oleg Cassini dressed Jacqueline Kennedy in an actual leopard-skin coat and pillbox hat in 1962 for example, women rapidly followed suit, leading to the sacrifice of an estimated half a million cats. He later expressed grave regret for the choice, and fashion houses have largely shifted to animal prints on sustainable fabrics. But the reputation persists, and paying a small royalty might offer a way to address historical harms, as well as appeal to consumers who love the animals themselves, as much as they do their patterns.

Discussion Question:

1. Would a royalty like this work? Why or why not?
2. What other applications of royalties could be adopted? For example, should the use of palm tree patterns require a royalty paid to forestry conservation efforts?
3. How could fashion designers leverage these ideas to appeal more to consumers?

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Identifying the True Value of Products and Pricing Them Accordingly

Nick Romeo, "How Much Do Things Really Cost?" The New Yorker, April 2, 2022; True Price, https://trueprice.org

Use with Chapter 14, "Retail Pricing"

The prices of consumer products generally are based on the costs required to produce them, plus some margin so that the actors in the supply chain all can earn sufficient profits to survive. That's a basic economic premise. But these costs generally exclude a range of externalities—that is, external forces that also represent costs that are indirect and thus not charged to any particular member of the supply chain.

Common examples of externalities include damage to the environment; if a producer drains the water table, it represents a cost to consumers, the land, and future potential uses, but that company does not have to include such costs in its accounting, nor does it usually pay directly for them. In turn, consumers rarely see evidence of externalities in the prices they pay and even may remain ignorant of them in general. Other environmental outcomes resulting from manufacturing processes include climate change and rising sea levels, but externalities also might be social in nature, such as threats to people's safety, as created by production methods that rely on child or slave labor.

Due to these externalities, the prices that consumers pay for the products they buy everyday, especially at their grocery stores, arguably do not reflect their true costs. If, for example, the market price of apples actually accounted for the costs associated with land and water use to maintain orchards, the labor exploitation of migrant pickers, and the carbon emissions created by the trucks that transport the fruit, consumers would be paying much more than they do currently.

In an effort to raise awareness of these costs, as well as encourage retailers and consumers to accept higher prices for more responsibly sourced products (because doing so would mean lower costs, from a wider or global perspective), one nonprofit organization called True Price has developed an algorithm to calculate more realistic versions of the costs for producing consumer goods. With these calculations, it has approached various retailers to ask them to post true prices alongside their regular prices, and then let consumers choose what to pay.

This strategy gives consumers more information; if the difference between the true price and the regular price is quite small, it implies that the production process is less detrimental. For example, a responsible, fair trade company does not incur the same labor cost externalities as an exploitive manufacturer. Thus, the price gap between its true price and the regular, market price for its products is smaller, compared with the gap for products sourced less responsibly. Consumers then can use this information to engage in more responsible purchasing.

The algorithm also promises to help producers that seek to achieve more sustainable methods. For example, a Dutch chocolatier that sought a truly sustainable approach to sourcing cocoa from the Ivory Coast and Ghana applied True Price's algorithm to determine how well it was addressing 14 different externalities in its supply chain, including different forms of pollution, low wages, and child labor. As the analysis showed, the labor concerns were pressing; the two countries from which it obtained cocoa employed an estimated half a million children in cocoa fields. In response, it actively worked to build out and expand its labor monitoring systems, such that within four years, the chocolatier was able to reduce the true price gap substantially, on its way to achieving a null gap.

A key challenge for this approach is finding the best way to calculate the costs of externalities that are often vague and undefined. How much is the cost of subjecting children to backbreaking labor? How can anyone put a price on rising sea levels? These questions have prompted international efforts, with lots of estimates available that might be combined to reach some consensus. For example, one collaborative effort determined that, after adding in social and environmental externalities, the U.S. food system represents costs of $3.2 trillion, even though consumers only spend $1.1 trillion on food each year.

Furthermore, defining absolutely precise costs might not be necessary. If the initiative and algorithm can help retailers and consumers recognize the difference between what they pay and the actual costs involved in producing the items they buy, they gain a more accurate sense of what constitutes a reasonable price. They also have more choice; for many people who want to engage in sustainable consumption, a lack of clear evidence about which option is more responsible makes this effort exceedingly difficult. Offering more sustainability information, as well as detailed suggestions for how to make supply chains less costly from environmental and social perspectives, has substantial value too.

Discussion Questions:

1. List some externalities that increase the true costs of one particular supply chain for a product you buy regularly.
2. If faced with a regular price and a true price in a store, which one would you choose to pay?
3. Should governments and retailers embrace the True Price initiative? Why or why not?

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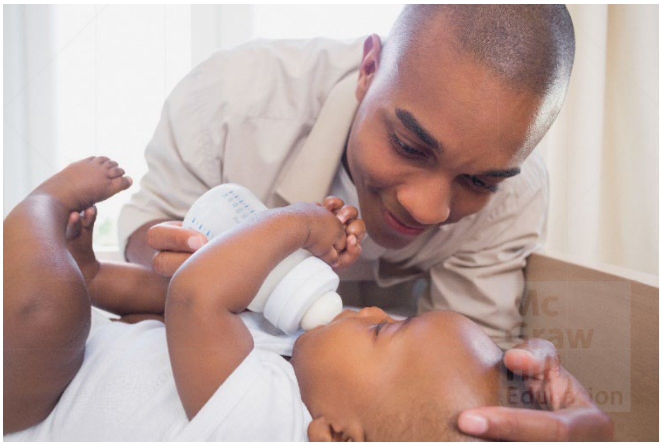
Oh Baby: The Formula Supply Chain Is Enough to Spark a Tantrum

Jennifer Maloney and Sharon Terlap, "Baby Formula Is Hard to Find. Brands and Stores Are Divided Over Why," The Wall Street Journal, January 12, 2022; Sharon Terlap, "Baby-Formula Shortage Prompts Rationing at Target, Kroger, Walgreens, and CVS," The Wall Street Journal, April 12, 2022

Use with Chapter 10, "Information Systems and Supply Chain Management"



For certain segments of consumers (i.e., parents of very young children), baby formula is a clear necessity. They develop strong preferences for certain brands, especially as they learn that switching among different products can cause severe stomach upset for babies. The brand connections also tend to be emotional; the product is something they give to their adored and defenseless babies, who rely wholly on responsible adults to care for and feed them. But despite these powerful drivers, consumers' brand loyalty is being put severely to the test by ongoing supply chain issues in the baby formula market.

In particular, parents have been expressing serious stress about their (in)ability to procure enough formula, due to shortages and limited supplies over the course of many months. Recent estimates indicate that the shortages are intermittent, but on average, the largest U.S. retailers were suffering out-of-stock rates of 20 percent on baby formula. For parents, who could not predict with any certainty whether their preferred brand or formulation (e.g., powdered versus premixed) would be available on a given day, such stockout rates are completely unacceptable.

The reasons for these shortage are widely contested among the members of the product supply chain. Retailers claim manufacturers simply are not producing enough. One Walmart spokesperson called out nearly all the major producers by name, asserting that "It's really an industrywide challenge across the main suppliers: Abbott, Reckitt and Nestlé." But the manufacturers, giving as good as they get, lay the blame directly on retailers, which they accuse of having inefficient logistics, shipping, and stocking policies. According to the confident assertion of an industry group spokesperson, "There is no shortage in manufacturers' supply of infant formula."

Yet another party to the shortage might be consumers themselves. When they hear even vague rumors of shortages, many parents immediately seek to stockpile enough for their own children. If their local stores are out of stock, they turn to online retailers and subscription services, as well as boutique producers. As one organic baby formula start-up recognized, in describing the vast increase in the number of orders it was receiving, all it takes is "one post on a Facebook moms group to send some into a panic."

Nor were parents' fears assuaged at all when the learned of a product recall, over concerns about contamination by bacteria, by Abbott Laboratories, which produces the Similac, EleCare, and Alimentum brands. It voluntarily recalled all formula produced by a Michigan facility from retail shelves, after several babies grew ill and even died. Although it ultimately claimed that the strain of bacteria that sickened the children was not found anywhere in the production facility, the recall already had had a nationwide impact, in terms of both supply and consumer confidence. Most major retailers adopted the same response: They imposed three- or five-can limits on daily purchases, both in stores and online.

Such daily limits conflict with the reach of the market, which was worth $4.3 billion in 2021 alone. They also conflict with consumers' preferences: Parents demand sufficient confidence that the food they put in their babies' bottles is safe and consistently available. These days, the formula supply chain seems unable to meet either of those standards.

Discussion Questions:

1. How can the different members of the supply chain overcome debates about who is responsible for shortages and find ways to address them?
2. Are purchase limits on necessary products like baby formula legitimate responses by retailers to stockpiling by consumers? What other solutions might retailers adopt?
3. How might marketers discourage consumers from stockpiling baby formula?

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Is Being a “Meme Stock” Enough to Save Bed Bath & Beyond?

Cara Lombardo, “Chewy Co-Founder Ryan Cohen Takes Large Stake in Bed Bath & Beyond, Pushes for Changes,” The Wall Street Journal, March 6, 2022; Caitlin McCabe, “Bed Bath & Beyond Stock Price Soars More than 60% on Ryan Cohen’s Stake,” The Wall Street Journal, March 7, 2022; Jinjoo Lee, “Bed Bath & Beyond’s Diamond Hand Sparkle Could Wear Off,” The Wall Street Journal, April 13, 2022

Use with Chapter 6, “Retail Market Strategy”

Over the most recent ten quarters, Bed Bath & Beyond has failed to achieve its predicted revenue levels in seven of them. The pandemic has been particularly challenging for the company, creating supply chain issues that left it unable to keep products in stores. But according to analysts, the retailer did not do itself any favors with its reactions. They point to slow shifts to reorient existing supply chains, as well as a strategic attempt to reduce clutter by dramatically limiting the number of products in stores, as evidence of its inability to weather the storm and maintain a competitive position.

A conventional view thus has predicted its death knell, but an unconventional investor’s decision to buy up a lot of Bed Bath & Beyond shares might be enough to silence the ringing. As one of the founders of the Chewy online pet supply store, Ryan Cohen demonstrated his retailing acumen. But he gained even more fame with his investment in GameStop, the chain of video game retailers, and the outcomes of that move.

For whatever reason, Cohen’s investment in GameStop sparked a buying spree among mostly inexperienced stock market players. People who had never invested before bought shares of GameStop, sparking the popular notion of a meme stock—that is, one that people invest in because it is being widely discussed and shared on social media, not on the basis of any of the conventional motives for investing (e.g., predictions of future growth, strong fiscal signals, high promised returns). But regardless of the rationale (or lack thereof), the frenzied buying of GameStop stock increased its valuation exorbitantly, allowing the struggling retailer to survive and keep operating.

The Cohen effect thus might offer promise for Bed Bath & Beyond too, though a few differences imply that a GameStop-level resurgence is too much to hope for. First, Cohen joined the board of directors at GameStop, a move he has declined to undertake at Bed Bath & Beyond, citing his existing commitments. Second, the meme stock bump that it earned after Cohen announced his purchase was both weaker and shorter in duration than the one for GameStop. Third, the positioning and offerings of GameStop and Bed Bath & Beyond differ in relevant ways. Arguably, the inexperienced investors who loved the idea of investing in GameStop were more emotionally connected to a gamer resource than to a store known for a vast array of boring household necessities and questionably necessary gadgets.

Moreover, Bed Bath & Beyond’s strategic positioning has not changed, even as the losses continue. It keeps insisting on developing a stronger private-label assortment, which might sound good but also requires the retailer to design, establish, and maintain sufficient supply chains for those products, which bear its brand name. Such a capacity is clearly questionable, based on recent events. It has acknowledged that it has lost an estimated 5 million customers over the past couple of years. If it cannot keep customers, can it be trusted to attract and keep investors?

Discussion Questions:

1. What is a meme stock? Can you think of any other examples?
2. Are meme stocks valuable, in the long run? How long can a retailer survive on such a reputation?
3. How should Bed Bath & Beyond restructure its supply chain to ensure sufficient supplies to its stores?

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Retailing Tidbits

Is the bias against Gen Z workers deserved?

Tom Ryan, "Do Gen Z Workers Deserve to Be Called Entitled?" Retail Wire, April 26, 2022

Age discrimination is illegal. Usually the enforcement of these laws involved older workers, but what happens when a manager or store (or industry) expresses negative and stereotypical views about younger workers? A Dollar Tree manager found out recently, when she posted a handwritten sign announcing her store's temporary closure and blaming the problem on Gen Z employees who "don't know what work means," then pleading for job applications from "Baby Boomers only!" (She was fired, in case there was any question.) But when the sign appeared and spread throughout social media, many of the responses exhibited similarly biased attitudes, painting all young employees with a broad brush of laziness, lack of work ethic, and disloyalty. But just like most stereotypes, facts don't support those ill-informed beliefs. Rather, the work attitudes of Gen Z align closely with those of the Millennial generation, including a prioritization of finding a job that made them happy and aligned with their moral and ethical beliefs. They require more flexible approaches to work, to the extent that 36 percent of Gen Z and 42 percent of Millennial workers surveyed indicated they would take a pay cut to have a job that allowed them better wok–life balance. These objectives are not empirically or demonstrably problematic; employers can attract dedicated workers if they provide such flexibility and ensuring employees' well-being. But they do differ from the core beliefs of Baby Boomers, most of whom would refuse to be unemployed, even if it meant taking a job they hated. In the end, neither side has a monopoly on the right way to work—though the Dollar Tree manager clearly shows how not to do it.

How Walmart+ uses discounts to promote subscriptions

George Anderson, "Will a Bigger Gas Discount Drive Walmart+'s Subscriber Numbers Higher?" Retail Wire, April 28, 2022; Joe Osborne and Antonio Villas-Boas, "Walmart+ Is Walmart's Cheaper Alternative to Amazon Prime—Here's What You Get for $98 a Year," Business Insider, April 28, 2022; Elissa Sanci, "Everything You Need to Know about Walmart+," The New York Times, April 28, 2022

In what it widely assumed to be its response to Amazon Prime, Walmart introduced its Walmart+ subscription in 2020. The service promised next- or two-day shipping on most items, as well as subscriber-only discounts and promotions. In these offerings, it seemed little different from Amazon Prime. But several distinctions have been bolstering the spread and popularity of Walmart+. For example, the discounts it offers include prescription medications, making it especially valuable for people who might struggle to get to a local pharmacy. The price difference is also notable: $98 per year for Walmart+, compared with the $139 annual fee for Amazon Prime. Perhaps the most influential distinction though is one that has gain importance in response to current economic developments and the rising prices of gas. That is, subscribers to Walmart+ enjoy discounts that recently increased to 10 cents per gallon when they buy from fuel maintained by Walmart and Sam's Club maintain throughout the country. The number of available stations recently jumped to 14,000, due to a new alliance with Exxon-Mobile. For consumers who have been hard-pressed to keep up with the expense of filling their cars, such a discount likely is enough to alter their behavior; as Walmart's own consumer research showed, 91 percent of its customers complained about gas prices, and half of those planned to change how they drove and purchased as a result. Still, changed behaviors due to higher gas prices also might include people staying home more in the evenings, rather than going out to the movies. On that front, Amazon Prime still maintains an advantage, because Walmart+ cannot provide the wide range of entertainment offerings that come with a Prime membership.

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