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:

- **Bullwhip Effects and Just-in-Case Inventory Management in COVID-Era Supply Chains (Chapter 10 & 13)**
- **Speeding Up Fast Fashion—by Stealing Ideas and Intellectual Property? (Chapter 2 & 6)**
- **How Golden Goose Applies Luxury, Service, and Sustainability Concepts to Sell Sneakers (Chapter 6)**
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Bullwhip Effects and Just-in-Case Inventory Management in COVID-Era Supply Chains

Liz Young, "Large Retailers Are Getting Hit Hardest by Overstocking," The Wall Street Journal, July 8, 2022

Use with Chapter 13, "Buying Merchandise" and Chapter 10, "Information Systems and Supply Chain Management"

When consumers struggled to find access to goods that they needed and wanted during the COVID-19 pandemic (e.g., toilet paper, office supplies, exercise equipment), the retailers that failed to keep the items in stock took the brunt of the blame—even if the fault really should have been shared throughout the supply chain. But in the face of consumer frustration and expensive stockout encounters, retailers worked to ensure sufficient supply of the key items by buying more than they anticipated selling.

Now many of those goods are readily available from upstream in the supply chain, flooding the retailers with plenty of stock. But in many cases, consumer demand for them had slowed; now that most gyms have reopened for example, people likely perceive less need to buy expensive in-home exercise equipment, which is drastically different from the powerful demand they expressed during pandemic lockdowns. Thus, due to their dedicated efforts to avoid understocking, the retailers face the new problem of overstocking. It is a classic example of a bullwhip effect, in which excessive demand forecasts lead to overproduction and inefficient supply chains.

Overstocks are especially expensive and unwieldy for retailers. They must find somewhere to store the inventory, and if they aim for a fashionable image, they need to get rid of it quickly so that they can get in new items to appeal to consumers. Such challenges are particularly pressing for large, general merchandise retailers, whose business models require them to sell seasonal products and clear them from shelves, in time to bring in new seasonal merchandise.

But even as they risk being overwhelmed by stocks of certain items, retailers struggle to maintain sufficient stocks of other products. International supply chains continue to suffer various limitations and constraints, such that retailers lack confidence that they can attain the items they need, whenever they need them. Such confidence is essential to just-in-time supply chain structures, which only procure the minimum amount of items needed, at the moment they are needed. Because such confidence does not exist—supply chains simply cannot guarantee these days that they can get the needed items to retailers on time—many retailers have adopted just-in-case approaches. They buy more than they anticipate needing, in the hope that at least some of the order will arrive, on time, to satisfy some portion of consumer demand.

Due to these conflicting states across product lines, quantitative measures that aim to signal a retailer's health or efficiency are proving insufficient. For example, the ratio of inventory to sales normally provides a gauge of a retailer's efficiency. If this ratio is low, it means the retailer is selling most of its inventory, which is a good thing. But today, due to the oddities and disruptions that continue to mark contemporary supply chains, retailers can earn a low inventory-to-sales ratio while still suffering both overstocks and stockouts in different sectors. They might completely sell out of some items, and would prefer to order more if they were available, but they have a massive oversupply of other items. Neither of these outcomes is efficient or desirable for retailers.

On balance, it appears that large retailers' procurement and supply operations are out of sync with consumers' buying behaviors. The ongoing challenge will be to determine not just how to make them match better today, but also to predict whether and how consumer demand is likely to shift again in the near future.

Discussion Question:

1. What is the bullwhip effect, and why is it appearing in modern retail operations?
2. Is a "just-in-case" strategy effective for large retailers? Why or why not?
3. What methods could retailers use to predict future consumer demand more effectively?

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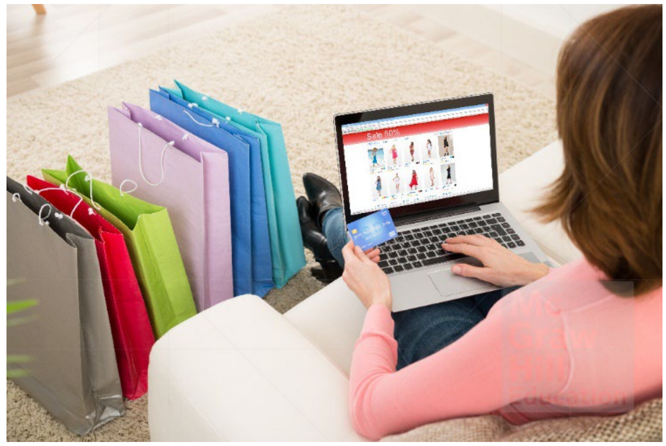
Speeding Up Fast Fashion—by Stealing Ideas and Intellectual Property?

Dan Strumpf, "China's Fast-Fashion Giant Shein Faces Dozens of Lawsuits Alleging Design Theft," The Wall Street Journal, July 3, 2022; Miriam Gottfried and Charity L. Scott, "Shein Valued at $100 Billion in Funding Round," The Wall Street Journal, April 4, 2022

Use with Chapter 2, "Types of Retailers," and Chapter 6, "Retail Market Strategy"



The fast fashion retailer Shein has a clear and effective business model, which has enabled it to make great inroads into this market within just a few years of its founding. Although it is based in China, it does not sell its products there, seeking to avoid the intense competition in that market. Rather, it appeals to an international clientele with inexpensive, constantly changing fashions; it introduces about 6000 new products daily on average. Consumers must purchase those product digitally, because Shein has no physical stores, which keeps its overhead low. It relies on a vast web of suppliers, mostly located in China, to get products ready and shipped promptly.

As a result of its efficiencies and drive to be faster and cheaper, Shein has gained remarkable success. After a recent funding drive, in which it obtained about $2 billion in funding, the company was valued at $100 billion—more than its fast fashion competitors Zara and H&M combined. This status marks its remarkable and rapid growth, especially compared with its 2020 valuation of $15 million.

Thus, its business model seems to be working extremely well. Except … to be faster than anyone else and constantly source new ideas, Shein appears to be crossing some ethical boundaries when it comes to intellectual property.

In the past three years, it has been subject to more than 50 lawsuits alleging copyright infringement—and that's just from rightsholders who have the resources to bring suit. Hundreds of individual creators and artists have complained to Shein, asking that products featuring their designs be removed from its site. In many cases, Shein agrees to comply, and it has settled a lot of lawsuits out of court. But in other cases, it denies any infringement, or it assigns the blame to its third-party suppliers, pointing to its existing ethical codes and review procedures as evidence that it complies with intellectual property laws.

In a sense then, the feature that contributes most to Shein's success also might represent the greatest risk to its survival. By sourcing and offering so many products, so quickly, it may be impossible for the retailer to keep track of every item that suppliers add to its inventory. But for artists, both struggling and famous (e.g., Nirvana LLC sued to get Shein to take down clothing featuring its album covers), such explanations are insufficient. Because consumers can get versions of their work for cheap prices from Shein, those creators have less chance to sell their own work and creative ideas for a profit.

Discussion Questions:

1. What is Shein's ethical responsibility with regard to ensuring the designs it sells do not infringe on copyrights?
2. Do consumers care? That is, if they can get a great price, are they willing to support copyright infringements?
3. Is Shein's business model likely to spread? Why or why not?

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How Golden Goose Applies Luxury, Service, and Sustainability Concepts to Sell Sneakers

Laura Rysman, "Don't Toss those Old Sneakers," The New York Times, July 9, 2022

Use with Chapter 6, "Retail Market Strategy"

If you pay $500 or so for a pair of sneakers, what do you do when the soles wear out? Dispose of them, as you would any other sneakers, or seek to get them repaired, like you might for an expensive pair of dress shoes? The fashion retailer Golden Goose hopes to convince you to prefer the latter option, and to do so, it is leveraging insights from luxury retailing, sustainability concepts, and service offerings.

Although sneakers are not its only product, they account for a substantial portion of Golden Goose sales. Crafted by artisans, new products are hand sewn and stitched, and buyers can request customized designs, colors, patterns, and embellishments to be added. The production process—inspired by luxury shoe makers from the nearby Veneto region of Italy—takes considerable time, so in addition to paying around $500 per pair, consumers also must wait their turn for their sneakers to be ready.

But over time, shoes wear out. Thus, Golden Goose also encourages people to bring back sneakers to its atelier, where, for an additional fee, artisans called Dream Makers will carefully disassemble the shoes, replace the soles and insoles, restitch any tears, clean the fabric, and reattach the foxing around the sole. The repair service is careful not to clean the shoes too well though; Golden Goose embraces an aesthetic of "perfect imperfection" and highlights the beauty of natural wear. For people who don't want to wait for that natural wear to occur, the shop offers a "Lived-In Treatment" for new shoes, at a cost of around $70.

Although the company prioritizes its connections to luxury in touting its production process and repair service, it also acknowledges that such efforts represent a step toward greater sustainability. Accordingly, it accepts shoes (and clothing) of any brand, which it will recycle in a partnership agreement with the company ReCircled. Acknowledging that such efforts are unlikely to have a substantial impact in the massive sneaker market—a drop in the bucket, so to speak—Golden Goose has established further, ambitious sustainability goals, some of which include a training initiative to help increase the number of cobblers available to keep repairing shoes.

All of these elements—handcrafted production by skilled artisans, sustainability efforts, expansive service offerings—are expensive to provide, which helps explain the cost of the shoes. But Golden Goose believes this business model also is promising, and it plans to expand beyond its Italian flagship store to open concept shops in Dubai and New York. The rationale, according to the brand's founder, is that even if the company loses money in offering repairs, it keeps customers happy and gets them back in the store, or in his own words: "Someone who feels taken care of will always return, and repairs help keep my products in your life and in your memory."

Discussion Questions:

1. Can such an artisan model be expanded by other brands? To other product lines? What factors would determine its success?
2. How much would you pay for a pair of sneakers if you knew they represented a luxury item that you could keep getting repaired over time?

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Whatever Else Changes, the Hot Dogs Are Still the Same (Price): Costco's Current Pricing Strategy

Tom Ryan, "Should Costco Raise its Food Court Prices?" Retail Wire, July 11, 2022; Jeanna Smialek, "Consumer Prices Jumped Sharply Again in June," The New York Times, July 13, 2022

Use with Chapter 14, "Retail Pricing"

Shoppers at Costco know they can rely on good bargains throughout the store. But pricing in the current era is noticeably erratic; a recent report noted that consumer prices had jumped 9.1 percent in just one month (June 2022), the biggest jump since 1981. So even if Costco still promises good value and low prices, some items are going to cost more, because procuring them is more expensive than it was before, and the club retailer needs to pass some of those costs on to consumers.

But shoppers can be reassured about one price that will remain the same: the $1.50 hot dog and soda combination. That price has never changed, from the moment the offering was introduce in the mid-1980s. Costco also repeatedly promises customers that it never will. It's a beacon of consistency that signals the company's dedication to ensuring customers can afford to feed their families. Even if the cost to the firm far exceeds the price, it plans to continue using it to draw in loyal shoppers.

Highlighting this consistency is key for Costco, which announced its plans to raise some other prices in its food courts. The price for a soda jumped 10 cents; its chicken bake rose by $1. Beyond its quick service food offerings, and similar to every other grocery retailer today, it has increased the prices for dairy and beef products on its shelves.

But notably, its rotisserie chicken remains priced the same, at $4.99. The ability to keep hot dog and rotisserie chicken prices the same largely stems from its supply chain design; Costco owns both poultry and hot dog manufacturing facilities.

Overall then, shoppers at Costco might see a slight increase in their grocery bills, but that increase likely is relatively smaller than would be the case at other stores. By committing to keeping its prices radically low—in some cases, even lower than its costs—Costco gives shoppers the comforting reassurance and signal that its priorities have not changed, even if a few of its prices have.

Discussion Questions:

1. Are there any conditions in which Costco should raise the prices of its hot dogs? If so, what are they?
2. How does owning some manufacturing facilities help Costco maintain consistent prices? Should it expand its manufacturing capabilities?

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All that Sparkles Is … Temptingly Placed Before Very Rich People in Extremely Unusual Settings

Nazanin Lankarani, "Jewelers Court the Superrich, and it Seems to Pay Off," The New York Times, July 4, 2022; "Global Personal Luxury Goods Market Reaches €288 Billion in Value in 2021 and Experienced a Remarkable Performance in the First Quarter 2022," bain.com, June 21, 2022, "Richemont Delivers Strong Performance for the Year Ended 31 March 2022," richemont.com, May 20, 2022; "Chanel 2021 Sales Exceed $15 Billion," CEO Today, May 25, 2022

Use with Chapter 15, "Retail Communication Mix"

While regular consumers watch their gas pumps, grocery store receipts, and utility bills climb with horror and dread, consumers for whom price is truly no object are having a rather different, far sparklier consumer experience in these strange economic times. The fortunate and rarefied few, for example, may receive invitations to visit a hidden floor in Chanel's Paris flagship store. There, VVIPs (very, very important persons) enjoy the most exclusive of shopping experiences in a "secret space" containing rare archives, unique objects, and deep signifiers of Chanel's storied history. Reflecting a novel attempt to woo the ultra, ultra-rich, "This is a unique tool to offer to some of our specific clients," according to Frédéric Grangié, Chanel's president of watches and fine jewelry.

But hold my champagne, says the French luxury watchmaker and jeweler Boucheron. It doesn't just invite big spenders to visit its most elite spots; it even allows them to move in and take up residence. Boucheron offers the penthouse of its Paris boutique to the customers it refers to as VICs—very important clients—and contracts with a nearby Ritz Hotel to provide concierge service. Guests can stay up to five nights per year to enjoy this "'money can't buy' experience," as described by Hélène Poulit-Duquesne, chief executive of Boucheron. "It is not about money, as the stay has no price, but all about arousing emotion, and experiencing something that will live forever in your memory."

Of course, it's also about money. According to the consulting firm Bain & Company, the personal luxury goods market is expected to hit $322 billion by the end of 2022, up from $283.6 billion in 2021. These gobsmacking figures are driven by the more than 2,660 billionaires currently living, and buying, all around the world, whose collective worth is approximated to be $12.7 trillion. Most of them live in the United States; China ranks second in the number of billionaire residents.

The fancy gambits—penthouses, secret shopping floors, custom experiences tailored to an uber-wealthy consumer's specific wants and preferences—seem to be paying off. Take Cartier. Among other inducements, it plans to bring top-tier customers to the Venice International Film Festival, allowing them to be photographed walking the red carpet, attend movie premiers, and hobnob with movie stars. Cartier's parent company's sales rose by 46 percent between March 2021 and March 2022—similar to Chanel's 50 percent jump in revenue in 2021 from the year before, up to $15.6 billion.

Thus, not only is Chanel (and likely other luxury firms too) "very happy and satisfied with our growth," but in addition, as they continue to appeal to consumers with luxurious, one-of-a-kind experiences, they are "confident in the post-pandemic recovery."

Discussion Questions:

1. Why are companies pursuing high-end customers so hotly?
2. What is the best way to attract the wealthiest customers, beyond providing them products they want to buy?
3. Are such luxury inducements and experiences elements of a sustainable business model?

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Buy Now, Pay Later, Regret After That

AnnaMaria Andriotis, "Shopping With Buy Now, Pay Later Is Easy. Getting a Refund Is Harder," The Wall Street Journal, June 24, 2022; Penelope Wang, "The Risks of Buy Now, Pay Later Programs," Consumer Reports, November 30, 2021; AnnaMaria Andriotis, "Amazon Is Doing It. So Is Walmart. Why Retail Loves 'Buy Now, Pay Later'," The Wall Street Journal, September 16, 2021; Jackie Veling, "What Is Buy Now, Pay Later?" NerdWallet, May 6, 2022; Sabrina Escobar, "Buy Now, Pay Later Comes of Age. Affirm Is the Standout in the Space," Barron's, January 28, 2022; Matt Schulz, "42% of Buy Now, Pay Later Users Have Made a Late Payment," LendingTree, April 18, 2022

Use with Chapter 14, "Retail Pricing"

Buy now, pay later is a pretty straightforward enterprise: Make a purchase today, then pay it off in a series of installments over some set period of time. Unlike layaway systems, instead of waiting to receive the goods until consumers have finished paying them off, the buy now, pay later system allows buyers to take possession of their desired television, appliance, Peloton, or shoes to enjoy while they continue to make payments.

It sounds good, right? But a thorny problem can arise when the consumer, while using the product, grows dissatisfied for some reason, or when—as occurred for Peloton—a recall is issued. In such cases, consumers want a refund, and they are finding that the return process in a buy now, pay later scheme is extremely complex and difficult.

Consider Dr. Hannah Renno, a pediatrician who bought a Peloton on a two-year, interest-free, buy now, pay later plan. She paid off the $5,000 loan before it was due, but then, Peloton issued a recall for the treadmill model she had purchased. Renno's effort to receive a refund took months of effort, as she jumped through various hurdles associated with the payment method. Scores of emails and phone calls got her nowhere. Finally, Renno tweeted at the CEO of the firm that issued the loan (Affirm), which provided a quicker response; a check arrived four days later. The end result thus might have been fine, but it was hardly a best practice experience that led to Renno's strong customer satisfaction with either Affirm or Peloton.

A buy now, pay later loan is offered by a lending company—in this case, Affirm, the biggest player in the buy now, pay later market. The lender charges the manufacturer a fee to provide the convenient service, and it also may collect interest on consumers' payments. But consumers do not generally interact directly with Affirm. Rather, all their communication and interactions involve the company from which they purchased the product, such as Peloton. Then the manufacturer is supposed to communicate with the loan provider, telling it to issue a refund. And then of course, the lender should issue it directly to the consumer.

But that isn't what tends to happen. Whereas credit card companies have developed and established a smooth and streamlined refund process for users, returns under a buy now, pay later plan are far more complex and usually require human intervention, particularly when buyers still owe on the loan, want to return only some portion of an order, or seek a partial refund of the amount they already have paid back. In these situations, the lender and manufacturer together must determine how many of the consumer's future payments should be dismissed, how many previous payments should be refunded, and the remaining balance. Such calculations are even more complicated if the loan involves interest charges. Next, the lenders and manufacturers must negotiate how much of the fee that the manufacturers paid for the lenders' service should be refunded to the company.

Other problems with buy now, pay later systems arise when buyers fall behind on payments and thus rack up fees and interest. These delinquent loans are rising in both number and costs, which represents a troubling issue for all the parties involved, companies and consumers. Such problems are likely to grow in intensity as interest rates keep rising, due to the Federal Reserve's efforts to keep inflation in check.

But for all these cautionary tales, buy now, pay later continues to expand its reach, catching on in various product markets. A recent LendingTree report indicates that an increasing number of U.S. consumers appreciate buy now, pay later plans: 43 percent have used them, up from 31 percent a year ago. However, of those adherents, 42 percent told LendingTree that they have made at least one late payment. And 23 percent say they have regrets for entering into the agreement, suggesting some challenges for the lenders' continued growth.

Discussion Questions:

1. What could be done to make buy now, pay later systems better for consumers?
2. Should consumers use buy now, pay later systems for big purchases? What about smaller ones?
3. Do you think the buy now, pay later market will continue to grow?

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New Study: Play that Funky Music, and Customers Will Buy More Eco-Goods

Tom Ryan, "Can Up-Tempo Music Move Shoppers to Buy More Green Goods?" Retail Wire, July 8, 2022; "Music Is Key to Converting Consumers' Good Intentions to Actual Purchases in Ethical and Sustainable Markets," ScienceDaily, June 29, 2022; Gordon Liu, Morteza Abolhasani, and Haiming Hang, "Disentangling Effects of Subjective and Objective Characteristics of Advertising Music,", European Journal of Marketing 56, No. 4 (2022), pp. 1153-1183. https://doi.org/10.1108/EJM-01-2021-0017

Use with Chapter 5, "Consumer Buying Behavior" and Chapter 17, "Store Layout, Design, and Visual Merchandising"

Pump up the volume—to lure more customers into purchasing ethical and sustainable products? A new study out of the University of Bath finds that about one-third of consumers say they care about brand ethics, but less than 5 percent of them act on those concerns; similar gaps arise with regard to the number of people who assert that they prefer green consumption versus the number who actually purchase green products.

So how can retailers bridge that gap? Let the music play! But not just any old tunes. They need to use "up-tempo, major-mode music." Music theorists could provide much more detail about the differences between major and minor mode music, but for our purposes here, it probably is sufficient to understand that major mode music tends to sound happy, whereas minor mode music sounds more contemplative or melancholy. Tempo refers to speed; an up-tempo song is one that is fast.

By including cheerful beats in advertisements, this research suggests that retailers can diminish the gap between what consumers say they want and what they actually buy (often referred to as the "attitude–behavior gap") by 40 to 50 percent. The study confirms these finding with hypothetical products in two distinct categories—an EcoCar and a reusable coffee mug—for which they showed participants advertisements featuring different music styles, then gauged their purchase intentions. According to the authors, they can "confirm the prediction that positive brand attitudes mediate the relationship between music liking and purchase intention" and that "major mode music strengthens the effect of positive brand attitudes on purchase intention. Additionally, … major mode music with a fast tempo can further strengthen the effect of positive brand attitudes on purchase intention."

Sounds easy! Maybe too easy. If these findings fail to persuade you completely, you would not be alone. Commentators have challenged the notion, often based on their own shopping experiences, such as when one recounted leaving a store in annoyance mainly because it piped in loud, peppy, fast tempo music. Other questions pertain to the design of the study. For example, consumers representing different age cohorts likely respond very differently to the same song; the tempo and volume that a Gen Z shopper finds exhilarating might be grating and unpleasant to their Gen X parents' ears.

If the study can be replicated and confirmed though, it offers a compelling and promising tactic to encourage more responsible purchases of consumer products. If instead the findings cannot be confirmed, retailers will need to find another option. Cue the sad trombone.

Discussion Questions:

1. Why might fast, happy music make consumers more likely to buy "green" products?
2. Based on this summary, are you persuaded by this research? Visit https://www.emerald.com/insight/content/doi/10.1108/EJM-01-2021-0017/full/html?skipTracking=true to access the abstract of the article. Does reading it change your assessment?
3. What else can companies do to get customers to move from saying they care about sustainable products to actually buying those products?

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Young Shoppers Want More Eco-Labels On Clothes

Tom Ryan, "Does Fashion Need to Adopt Eco-Labels to Aid Consumer Purchasing Decisions?" Retail Wire, July 8, 2022; "New Study from Fordham University's Responsible Business Coalition Highlights Potential for Eco-Labels in Fashion," Global Newswire, June 28, 2022; Kaley Roshitsh, "Can Farfetch's Eco-Label Answer Call for 65 Percent of Consumers Amid Industry Setbacks?" WWD, June 29, 2022; Sarah Kent, "Green or Greenwashing: Who Gets to Decide?" Business of Fashion, May 5, 2022; Helena Horton, "Greenwashing UK Fashion Firms to Be Named and Shamed by Watchdog," The Guardian, March 11, 2022; Rachel Cernansky, "Customers Care More About Sustainability Post-Lockdowns. Now What?" Vogue Business, August 5, 2021

Use with Chapter 6, "Retail Market Strategy"

For clothing companies, it's not always easy, or common, being green—which is why shoppers want to know which garments and goods really are being produced in sustainable ways. A new study from Fordham University's Responsible Business Coalition indicates that about half of all consumers indicate their "substantial interest" in eco-labels. That is, they would like to encounter labels that indicate whether the garment is recyclable. Another 33 percent note that they want to receive information about chemical usage, animal welfare, and material usage on the labels.

Furthermore, 65 percent of the 500 consumers surveyed for this study indicated they wanted the eco-labels attached directly to the garments. When shopping online, 44 percent would appreciate a website filter, a sustainability icon, or both, presented visibly and obviously. About one-quarter of respondents asked for a special section of stores on shopping websites, devoted to sustainable brands and merchandise.

An age component informs these findings too. You likely will not be shocked to learn that younger, well-educated, and city-dwelling shoppers care more about eco-labeling than do those who are older, have received less education, and live outside urban centers.

But all consumers might encounter them soon. Some companies already have started developing eco-labeling rating systems. The consumer rating platform Good On You rates more than 3,500 brands, and those ratings are used by well-known companies such as Farfetch, Yoox, Net-a-porter, and Microsoft. In addition, Farfetch and Good On You launched a new transparency tool, called Good Measures, in June 2022.

Yet there also appears to be some reason for suspicion. The Competition and Markets Authority—a regulatory body in the United Kingdom—recently announced that it was launching an investigation into wide-scale greenwashing in the fashion industry, accusing companies of "duping" consumers into spending more money to purchase "sustainable" clothes that were not demonstrably better for the environment. The Sustainable Apparel Coalition, a fashion industry coalition, also announced it was "pausing" its use of a sustainability tool it developed, called the Higg Materials Sustainability Index, after a Norwegian watchdog organization that reviews advertising claims found that many environmental claims were either misleading or outright deceptions.

According to a professor from Fordham, such challenges are just normal bumps along the way toward progress though. Greenwashing is similar to exaggerated nutrition claims, and over time, new regulations get implemented and established to ensure some standards. That is not to say that false claims are acceptable, but rather that it will require a public policy and regulatory efforts to determine appropriate, reasonable criteria for firms to make sustainability claims.

We can only hope that today's generations of young shoppers will not be too much older by the time that happens.

Discussion Questions:

1. Why do young people in particular want eco-labeling on their clothes?
2. Would you trust that eco-labels you see on clothing that you buy today are providing accurate information?
3. How can the integrity and transparency of eco-labeling on clothes be improved? What criteria should be applied?

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