RETAILING MANAGEMENT

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Newsletter for Instructors

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A Target Market that Meows: How Retailers Are Appealing to Pet "Parents" with Expanded Offerings

Use with Chapter 3, "Digital Retailing," and Chapter 6, "Retail Market Strategy"

Unsplash / Jamie Street

If you live with a pet, at some point, you've probably had the terrible experience of finding some injury, illness, or ingestion happening to your beloved furry friend, late at night, when your regular veterinary office is closed. Dogs choke on bones or eat a bag of chocolate wrapped in foils; cats chew on plants that might be toxic to them; and any pet can suddenly and unexpectedly appear ill. Those occasions are stressful and worrisome, and the associated demands have prompted the development of a service innovation that allows pet parents to contact a veterinarian virtually, at any time of the day or night.

Noting the emergence of this novel service (which parallels similar developments in human telehealth service provision), together with the massive growth in the market for pet-related products, various retailers are seeking to become synonymous with pet care for their customers. The U.S. pet market is worth an estimated $124 billion, and about half of that, or $65 billion, involves services for pets. Both of these sectors grew massively during the pandemic, as homebound families added more pets to their households. But the markets also have continued to grow, reflecting consumer trends that lead more and more people to consider their pets' needs just as critical as their own.

Thus, Walmart has added a televet option as part of its Walmart+ subscription service. Those customers who enroll in Walmart+—which represents the retailer's competitive response to Amazon Prime—may also receive a year's free access to Pawp, a virtual vet service. The offer is generous, considering that Walmart+ currently costs $98 annually, and a separate annual membership to Pawp is $99. The offer represents an extension of Walmart's existing pet-focused offerings, including its partnership with Rover, a platform for finding pet sitters; its installation of VetIQ Petcare clinics in some stores to provide in-person veterinary services; and its PetRx collaboration that gives customers access to more than 300 prescription medications for their pets.

Not to be outdone, the online pet retailer Chewy offers free virtual access to veterinarians, for quick questions, during limited hours of the day. If they want an extended visit, Chewy members can pay $20 for a 20-minute, in-depth interaction with a doctor. As an online pet pharmacy, PetMeds already relied on digital connections with consumers, but it also has added a partnership with the Vetlive service to provide telehealth visits.

Such efforts are driven not only by retailers' desire to access the massive and growing market of pet owners but also by the needs of those consumers. Currently, there are insufficient veterinarians to service all the pets in the United States. Especially in rural areas, people might lack access to in-person vets not just late at night but anywhere in their area. For them, virtual visits represent a meaningful and necessary channel.

Yet medical experts also caution that virtual visits cannot replace in-person care. When the patient cannot describe its symptoms, a trained veterinarian generally needs to perform a physical examination to arrive at an accurate diagnosis. But if virtual visits are the only option, for panicked and worried consumers and their unhappy pets, they represent a significant value—which retailers are only too happy to provide for them.

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Discussion Questions

1. What other types of retailers or service providers might compete in this market? For example, should existing veterinary hospitals expand into virtual services? Could Amazon start offering them too, to compete with Walmart?
2. Perform a SWOT analysis of the pet medical services market.

Sources: George Anderson, “Is Walmart Barking Up the Right Tree with TeleVet Service?” *Retail Wire*, May 23, 2023; Kim Souza, “The Supply Side: A $65 Billion Market Draws More Retailers into Pet Services,” *Talk Business & Politics*, April 29. 2023, https://talkbusiness.net/2023/04/the-supply-side-a-65-billion-market-draws-more-retailers-into-pet-services/; Gabrielle Fonrouge, “Walmart Will Offer Pet Telehealth in Latest Bid to Compete with Amazon,” *CNBC*, May 22, 2023

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Virtual Brilliance: Digital Channels for Really Expensive Jewelry

Use with Chapter 4, “Multichannel and Omnichannel Retailing”

Unsplash / Ian Talmacs

When making a major purchase, such as a luxury watch or multiple-carat diamond, it might seem intuitive that shoppers would visit the store to review and obtain the items. But such options became impossible during the pandemic, and the alternative channels that luxury shoppers used when they were locked down proved so effective that they continue to embrace them.

In particular, many fine jewelers have added WhatsApp links to all their product pages on their digital retail channels. By clicking to start a conversation, potential buyers can ask experts for more details about particular stones in stock and engage in personal conversations that allow the sellers to gain detailed insights about the buyers’ needs and preferences. As a sales representative from the luxury London jeweler Hancocks explained, WhatsApp “removes the formality of email and allows you to establish rapport quickly,” such that it allows the retailer to achieve “a better success rate than any other channel, such as email or phone calls.”

The diamond conglomerate DeBeers hosts an appointment-based virtual service on its website, during which up to six potential buyers can review a particular offering. The high-definition cameras give them close insights into the color and quality of each diamond on display. The interaction also gives the company a way to communicate directly with consumers, while also encouraging a bit of competition for the best stones.

The jewelry brand Reza instead relies on advanced virtual reality (VR), such that consumers can have an image of a necklace or earrings projected onto their necks or earlobes. Rather than static images though, the sophisticated VR scales the baubles to fit the consumer and moves with them, so they can see how the earrings would swing if they shook their head, for example.

Although luxury retailers are infamously loath to share many sales figures, estimates indicate that digital channels now account for about 20 to 40 percent of luxury jewelry sales. Yet such a trend should not be taken to suggest that real-world boutiques are disappearing. Many luxury buyers are older and remain late adopters of digital channels. They also likely enjoy the pampered experience involved in visiting a jeweler and being treated like royalty. But omnichannel strategies appear especially important for this market. To reach the wealthiest people in the world, ready to spend vast sums on rare jewelry, luxury retailers need as many channels as they can support.

Discussion Questions:

1. Would you be willing to buy a very expensive watch or gemstone through a digital channel? Why or why not?
2. How should luxury brands in other sectors (e.g., clothing, vehicles, vacations) leverage similar digital channels to reach their customers more effectively?

Sources: Sarah Royce-Greensill, “Digital Interactions Are Just Part of a Jewelry Sale Now,” *The New York Times*, May 26, 2023

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The Romanticism and the Deal: How Online Secondhand Furniture Marketplaces Meet Multiple Needs

Use with Chapter 5, "Consumer Buying Behavior"

istockphoto / JackF

Furniture is a durable product. Even relatively inexpensive dressers, chairs, and beds can last for years. High-end furniture might be expected to remain in people's houses for generations. But people's tastes inevitably change, as do their living situations, such that a lot of perfectly good furniture simply is no longer needed or wanted by the consumers who initially purchased it.

In the past, people might have held garage or estate sales or even just put the pieces out on the street, hoping someone else would pick it up. Today, they often post the items on Facebook Marketplace or Nextdoor, which gives them a means to earn some money back but also give someone else the pleasure of living with their furniture.

For most of the people transacting on these secondhand sites, buying and selling furniture is thus both a hedonic and a utilitarian experience. Furniture-loving site surfers enjoy the thrill of the hunt, updating their feeds regularly to see if a mid-century modern credenza or Eames-inspired chair might pop up for sale. When they are lucky, they identify just the right piece for some corner in their house that needed livening up.

But in addition, they are getting the furniture for far less than it would cost in a retail store. One hunter stumbled upon a closing sale by a local Michelin-starred restaurant, posted on Facebook Marketplace, which was offering a 42-inch walnut table, with a retail value of $3000, for just $500. Three years later, when she realized that she was not using it enough to justify keeping it, she sold the same table to another buyer on Facebook Marketplace for the same $500 price. Both of these interpersonal transactions eliminated any retail overhead. They also provided a further hedonic appeal, in that each buyer learned and could tell the nostalgic, comforting history of the table on which their friends eat dinner when they come for a visit. This interpersonal appeal strongly drives e-commerce marketplaces that involve customer-to-customer transactions. It offers a connection to someone else, or many someone elses, depending on how old the furniture is. Buyers can imagine the provenance of an antique dresser, even if they do not have all the details, and enjoy the history that it appears to embody.

To leverage these types of appeals, sellers should showcase the items they want to sell in actual use, with attractive staging. As academic research has shown, people are more willing to buy and pay more for items that are pictured in real-world settings, surrounded by other beautiful décor. Not only does such a presentation personalize the item, but it also gives buyers a sort of inspiration for how they could use and style the piece in their own homes.

Finally, secondhand markets allow people to feel good about their own consumption. They are saving money, reducing overall consumption, and participating in an actual recycle-reuse cycle. They are meeting neighbors with similar tastes, and ultimately, they are winding up with a piece of furniture that they love—at least for now. And when they stop loving it, they can just post it again, for sale to the next consumer.

Discussion Questions:

1. Can other resale markets benefit from the functions of e-commerce platforms like furniture does?
2. How should sellers determine a good price to charge for their used furniture?

Sources: Alix Strauss, "The Tempestuous Lives of Secondhand Furniture," *The New York Times*, June 17, 2023

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Diversifying the Bridal Dress Buying Experience

Use with Chapter 5, “Customer Buying Behavior”

istockphoto / AYOTOGRAPHY

Just as many conventional wedding traditions have fallen out of popularity (does anyone still do garter tosses?), so has the tradition surrounding shopping for wedding dresses, whether for the bride or their family members. Rather than trying on gown after gown, and standing on a pedestal for their friends to gawk at, today’s brides are more likely to host an online event or in-home party, encouraging attendants and family members to vote on digital options for fabulous dresses while they themselves stay in their pajamas.

Several factors underlie this shift. Couples getting married today tend to be older and more established, such that they may be less influenced by the opinions of their parents and more likely to be paying for the dress themselves. Generationally, these couples also tend to prioritize experiences rather than objects. A great band during the reception or more funds for the honeymoon often are more critical to couples than having an expensive dress they will wear just once.

In response, companies like Azazie (founded by a man who observed his now-wife’s long, frustrating, and time-consuming search for a wedding dress before they got married) offer substantial convenience and personalization. The retailer’s website posts approximately 500 styles of wedding and bridesmaid dresses, available in more than 70 colors, at price points of around $200. The dresses come in a wide range of sizes too, from 0 to 30. On the site, a bride and other interested parties can gather virtually, pick out various options that seem appealing, and vote for favorites. Azazie even provides an at-home try-on party platform with appropriate music and suggestions for party games to allow local brides to interact at home with attendants in trying the dresses. Buyers can either choose a standard size or send in their measurements, to receive a custom fit, and the wait times average around four weeks (compared with three or months at traditional bridal boutiques).

Another outcome of these trends is evident in the struggles of conventional bridal retailers such as David’s Bridal. Entering bankruptcy for the second time since 2019, the chain struggles to appeal to customers who seek less expensive, more convenient options. Although after its last Chapter 11 filing, David’s Bridal sought to reestablish itself by expanding into markets for quinceanera and prom dresses, the efforts have not been sufficient.

Such a simple comparison might imply that the overall bridal market is moving completely online, though some exceptions challenge this oversimplification. In particular, a newly recognized niche market involves the mothers of wedding couples and their search for appropriate formal wear for themselves. The Queen’s Lace, a Cincinnati-area boutique, specializes solely in dresses for mothers and grandmothers of the brides and grooms. The owner, previously a senior vice president of Procter & Gamble, explains that for these mothers and grandmothers, finding something fashionable and attractive has long been a problem, and just like in a corporate setting, the goal is “problem-solving.”

Discussion Questions

1. What other unconventional channels might join the competition for the bridal wear market? Could social media–linked retailers play a part, for example?
2. What other service providers (e.g., caterers, flower arrangers) could use the trends described in this abstract to (re)define their marketing efforts, and how?

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Sources: Jeena Sharma, “David’s Bridal May Have Lost to the Experiential Economy,” Retail Brew, May 12, 2023; Katie Kapusta, “Bridal Shop Focuses on Mothers, Grandmothers,” Spectrum News (Cincinnati), April 4, 2023; Nicole Silberstein, “As Legacy Bridal Retailers Flounder, DTC Brand Azazie Is Selling 5,000 Dresses a Day,” Retail Touchpoints, May 19, 2023

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Why Is Subway Struggling to Find the Kinds of Franchisees It Wants?

Use with Chapter 6, “Retail Market Strategy”

istockphoto / Roger Utting Photography

Franchising can be an effective way for entrepreneurs to establish their businesses, allowing individuals or small companies to build revenue and income with the assistance of the brand owner. Yet another version exists too, in which large, multi-unit operators enter into extensive franchise agreements and run potentially hundreds of stores. These latter types of franchisees are what Subway would prefer to run its stores, but it is struggling to find takers for this offer. What causes such rejection?

Currently, Subway’s franchises are mostly held by small operators, many of which are family owners. But the chain also has closed thousands of stores in the past decade, citing low margins and insufficient revenues earned from those locations. For the small, independent operators, which lack any economy of scale, the franchise agreement might enable them to scrape by, but it does not leave enough extra for Subway to receive the greater profits it would prefer to obtain from each store.

Larger franchisee corporations are a different story. They have vast experience and operational sophistication, and because they own so many stores, they enjoy substantial economies of scale. But these sophisticated and cautious investors appear unwilling to purchase Subway franchises, due to the low margins achieved in each store. Although Subway, which is privately owned, does not disclose sales data, some experts estimate that its annual sales volumes are less than half those of its sandwich competitors like Jersey Mike’s. Furthermore, many of the existing stores (currently run by the small franchisees) require updating and new equipment, which means that new owners would need to invest substantial funds, beyond the cost of buying in to the franchise agreement.

Subway disputes such claims in the promotional material it offers potential franchisees. For example, it notes 12 percent comparable sales growth and strong unit volume. It also continues to enjoy strong brand recognition as a relatively healthy alternative to other fast food options.

But the gap between higher sales volume and lower revenue suggests a potential pricing issue. Subway has long touted its low price offerings, but rising prices for sandwich ingredients likely mean that the “$5 Footlong” is no longer sufficiently profitable. Raising prices might be necessary, though it is unlikely to appeal to consumers who expect a value option.

Another pertinent issue involves predictions of Subway’s impending plans. Some observers believe the chain is planning on selling to private equity investors, which may be why it is so actively seeking secure and well-financed franchisees to join its system now. If investors can be confident that the individual stores are being run professionally and efficiently by a large franchisee conglomerate, they may be more willing to pay a higher price to buy the brand. But for franchisees, such future uncertainty is deeply unappealing, because they do not know what the implications of the sale would be for their agreements.

Thus the chain appears to be facing an impasse for some of its most critical stakeholders, including brand owners, franchise operators, and consumers. Who is likely to be the first to find a way to break it?

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Discussion Questions

1. Answer the question that ends this abstract: Who can break the impasse related to Subway's desire for more sophisticated franchisees, those franchisees' unwillingness to invest, and consumers' price and quality demands? How might they do so?
2. How should Subway respond to this situation? Consider, for example, whether it should raise or waive franchisee fees, raise or maintain retail prices, close or open more stores, and so on.

Sources: Hilary Russ, "Subway Struggles to Get Big New Franchises to Buy its US Sandwich Shops," *Reuters*, June 6, 2023; Josh Kosman, "Subway Clamps Down on Franchisees as Fast-Food Giant Eyes $8B Sale: Sources," *New York Post*, February 26, 2023

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Salt Life: A Brand, a Lifestyle, a Retailer—or a Tattoo?

Use with Chapter 9, "Retail Site Locations"

Unsplash / Joseph Greve

What is the salt life? For the clothing company that has transformed into a lifestyle brand, the answer is clear. Begun as a lark between a couple of surf dude friends, Salt Life has expanded massively, reaching new markets of consumers with its growing product assortment and spreading retail stores.

In the early days, the two friends reminisced about their serious surfing days by describing their lifestyles as living "the salt life." To cement their nostalgia and friendship, they got matching tattoos of the phrase with a distinctive, harpoon-sharp font. Then they started printing the logo on t-shirts and handing them out at local parties around Jacksonville, Florida, where they lived. The casual, comfortable gear promised comfort and a laidback style for people who love the water, such as kayakers, fishers, and beachgoers. A range of themed bumper stickers, featuring mermaids, anchors, sunsets, and other related images, together with the distinctive logo, allowed local fans to emblazon their boats and cars.

Due to the appeal of the brand to consumers who either lived or wanted to live the salt life, spending time in the sun and hitting a local bar after a day at the beach, Salt Life earned steady and increasing sales. It also carefully maintained reasonable price points, seeking to keep t-shirts under $30 and performance gear around $40. Soon, it gained access to several national retail chains, such as Dick's Sporting Goods and Bass Pro Shops. It also sold products through its own website.

As it was increasing the channels through which the offerings were available, Salt Life simultaneously was expanding its product assortment to include nearly anything and everything a sportsperson might need for a day fishing or exploring: sun shirts, beach chairs, ball caps, board shorts, sunglasses, coolers, fishing rods and tackle, and so on. The appeal of the logo was such that various consumers, not just the company founders, adopted it as their own body ink (and those consumers reportedly share pictures of their new tattoos with the company often).

This popularity signaled to Salt Life that it should start opening its own stores. The first one appeared in Jacksonville Beach, followed by others throughout Florida. As the brand gained more steam, it also attracted the attention of Delta Apparel, a national brand that purchased Salt Life with the goal to expand the target market beyond people who have ready access to a beach. It added more apparel for women, and it began researching other locations, beyond the Sunshine State, to add new stores. Currently, there are 23 dedicated Salt Life stores (joining the website and access through other retailers), which reach as far north as New Jersey. In support of its plans to continue opening stores, Salt Life relies on data that identify regions that are home to strong concentrations of people who search for the brand online. New York thus might expect some Salt Life stores soon; the president of the firm notes that "Nassau County has the highest concentration of people searching for Salt Life in the United States."

Discussion Questions

1. Define the target market for Salt Life brand.
2. What other markets should Salt Life consider as it opens more stores? What regions seem promising?
3. Should Salt Life continue to work with other retailers, like Dick's Sporting Goods, or should it concentrate more on expanding sales through its own stores? Defend your answer.

Sources: Maggie Lange, "Salt Life Is Coming to a Beach Near You," *The New York Times*, May 28, 2023; https://www.deltaapparelinc.com/our-brands/salt-life

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Excuse Me, Waiter? No, No, Not the Robot

Use with Chapter 11, "Customer Relationship Management"

istockphoto / Julia Garan

Is the restaurant of the future already here? Various eateries encourage customers to scan a QR code to see the menu, type their orders into a tablet at the table, and even await delivery of their food from a robot server. The appeal of these elements arguably would be enhanced efficiency and accuracy, such that people could be sure to type in whatever menu adjustments they wanted, and they would receive their food quickly. They also seemed particularly effective during the COVID-19 pandemic, by eliminating just one more human interaction that could be contagious.

But diners are tired of it. They have begun voicing their discontent with the cold, impersonal service created by a pervasive reliance on technology. They want actual menus, a restaurant with warm and welcoming décor instead of a computer on their table, and a server who stops to chat and share pleasantries to ensure that their night out is more than just a means to shovel food into their mouths.

Some of these consumer preferences are clear reactions to the limitations imposed on them during the pandemic years. People avoided interpersonal interactions, but humans innately desire such closeness. Restaurants traditionally have offered the ideal site to meet such needs, giving friends a place to gather together and families a location to celebrate one another's achievements. Even, or perhaps especially, for sole diners feeling lonely in a new city, restaurants can guarantee some human interaction and give people a reason to leave the house.

None of those benefits are available from a robot waiter. Nor do QR codes allow for the kinds of interactions that most people seek when dining with friends. Pulling out a phone to scan the code violates basic etiquette demands that friends stay focused on one another, rather than their devices, when dining together. It also can ruin a well-designed atmosphere. Romantic bistros and richly furnished steakhouses work hard to develop a lighting scheme that creates an appealing setting. A room filled with glowing phone screens can tend to ruin the mood.

Thus, patrons are demanding a return to physical menus, and most restaurants are accommodating those preferences. This reversion has benefits for the restaurants themselves, in that most of them note that diners had shown themselves much less willing to order another round of drinks or dessert if doing so required them to rescan the code to look at a different page on the menu.

But some restaurants have embraced the technology-enabled benefits that the pandemic prompted. For fast-service establishments, no contact ordering can help customers get in and out faster; convenience is the key in these settings. If a restaurant's clientele and servers speak multiple languages, a QR code can provide instant translations and thus help people try food from different cultures.

Still, the human element seems resistant to change. Restaurants provide not just food but entertainment and diversion. A night out should be enjoyable beyond the food being served. To ensure such enjoyment and engagement, human service providers are still the special du jour.

Discussion Questions

1. Do you like using QR codes when you go out to eat? Does your answer change depending on the restaurant?
2. How might restaurants more effectively combine the conveniences of technological tools with the warmth of human servers?

Sources: Kim Severson, "Diners Are Fed Up with Minimal Service. Will a Little Warmth Win Them Back?" *The New York Times*, May 30, 2023; Amelia Nierenberg, "The QR-Code Menu Is Being Shown the Door," *The New York Times*, May 22, 2023

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The Vision Pro from Apple: Game Changer or Expensive Ick?

Use with Chapter 14, “Retail Pricing”

istockphoto / PhillDanze

Let’s start with what, according to some users given the opportunity to test out Vision Pro headsets in advance said, is great about Apple’s latest product innovation: image quality, intuitiveness, and comfort.

First, the quality is impressive, as may come as no surprise for a new product introduction by Apple. The high-resolution video images and text (24 million pixels) surpass what are available through mobile phones; they also are far better than the level of clarity offered by competing virtual display goggles like those sold by Meta or PlayStation. The headset carefully tracks users’ eye movements, as well as hand movements and voice commands. Moving around the projection thus is as easy as shifting one’s gaze. The display also supports a range of opacity, such that users can make the virtual simulation completely opaque and become totally immersed, without seeing anything in the real world, or they can increase the level of transparency. Thus if they were using the headset to obtain a digital version of the assembly instructions for a new desk for example, they could see both the instructions in their field of vision but also increase the transparency of the goggles enough that they could watch their actual hands guiding a screwdriver to the right screw.

Second, with intuitive hand movements (i.e., pinches, like on a trackpad), users can move and adjust images on the screen, such as the placement of apps. In game settings, they control movements with just their fingers, rather than relying on external motion controllers, as is the norm for most competing virtual reality goggles. Apple calls the Vision Pro a “spatial computer,” because it enables users to do much of what they currently do on computers without constraints in terms of where they sit; they do not need a monitor in front of them but instead can navigate with just their own eyes and fingers.

Third, the goggles seemingly are quite comfortable. Apple plans to sell them in varied sizes, to match users’ head sizes and shapes. The adjustable strap ensures that Vision Pro devices sit securely on users’ faces, and an over-the-head strap ensures an even weight distribution.

But such enhanced quality and increased comfort offerings also come with some related detriments for the Vision Pro. One of its innovative abilities involves scanning users’ faces, then presenting a realistic simulacrum, in the form of a personal avatar, that others can see while engaged in FaceTime calls. Rather than seeing poor quality, juggled images of their conversation partner, they get a realistic, computer-generated, steady view. The avatar’s mouth movements match the user’s speech, so it really looks like the person is talking to you—sort of.

For many users though, this highly realistic representation of their friends and family induces what has been called the “uncanny valley effect.” When technology mimics humans too much, it makes human users uncomfortable. Thus the avatar was impressive technologically; Apple did a great job. But it also induced the “ick factor,” such that some users dislike the sense of interacting personally with someone else represented in technological form.

Such issues might be possible to overcome. There are consumers who must have the latest, most technologically advanced option—even if it does make their grandmother look like something out of *Blade Runner* and *Minority Report*, which anticipated just such advances. But those consumers also have another hurdle to jump: the price. At an introductory price of $3,500, the Vision Pro is more expensive than competing models and out of reach for most consumers, even (or perhaps especially) Apple fanatics who regularly shell out thousands for the latest version of the iPhone.

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But such short-term price considerations might be too short-sighted. Currently, Apple has not really promoted many innovative uses of its new spatial computer, which aligns with its usual new product introduction strategy. It provides the new device (e.g., iPod, iPad, iPhone), then waits for users and developers leverage the advanced technology to come up with radically new, diverse, and exciting applications.

Discussion Questions:

1. Are “spatial computers” the future? Defend your answer.
2. Can consumers grow accustomed to the new capabilities offered by the Vision Pro, such that they no longer find its uses “uncanny” or “icky”? Provide historical examples of other technologies to support your answer.
3. Is Apple’s high introductory price justified here?

Sources: Brian X. Chen, “A First Try of Apple’s $3,500 Vision Pro Headset,” *The New York Times*, June 6, 2023; Matthew Panzarino, “First Impressions: Yes, Apple Vision Pro Works, and Yes, It’s Good,” *Tech Crunch*, June 5, 2023; Joshua Gans and Abhishek Nagaraj, “What Is Apple’s Vision Pro Really For?” *Harvard Business Review*, June 14, 2023

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Junk Fees: A Pricing Tactic that May Be Checking Out

Use with Chapter 14, “Retail Pricing”

istockphoto / grinvalds

So you’re shopping for a flight home over the holidays. Or you’re looking for a hotel room for a friends’ getaway at the beach. Or, heaven forbid, you’re desperately hoping to have a chance to see Taylor Swift. As a savvy digital consumer, you search various websites and apps, looking for the best deal. A discount airline can get you home for just $97! The Hyatt overlooking the sand is only $225 per night! And the tickets are affordable! What a steal!

But by the time you’ve added all your personal and payment information, the total airline charges are actually $140, the hotel had increased to nearly $300 per night, and those tickets for even the worst seats have jumped way out of your price range. Sound familiar? It has happened to nearly every consumer buying in these industries, and the reason is “junk fees”—extra charges lumped into the final price that rarely are disclosed in the initial offering price, the one that got you to click in the first place.

Junk fees include additional charges for people to select their seats or check a bag on an airline; park their car or use Wifi at a hotel; and simply complete the transaction for concert tickets. These fees go to the airline or hotel or concert venue; they are separate from things like taxes or regulatory fees. The providers also know how much they will be charging in junk fees. They simply choose to make those added costs nontransparent to consumers.

By separating out the main ticket cost from the junk fees, the providers attract more clicks and interest from consumers. Then, they require the registration and transaction process to reach virtually the last step, when the consumer clicks “purchase,” before revealing the fees. For many consumers, having spent time already finding and completing the registration process, the thought of losing all that effort is aversive, so they simply buy at the higher price.

Because of how common those fees have become, it also appears that consumers mostly have grown accustomed to them and write them off as unavoidable. Accordingly, estimates indicate that hotel fees cost travelers $3 billion per year, and the airline industry takes in a whopping $102.8 billion for charging people to get assigned seats and such.

But regulators note that hiding actual costs is not in consumers’ best welfare, and Congress has vowed to impose mandates that service providers disclose all of them. Some famous names that will be affected by such legislation include Frontier and Spirit in the airline industry; Marriott and Hyatt among hotel chains; and Live Nation (which owns Ticketmaster) and Seat Geek in the entertainment sector.

Many of these service providers have reacted to the threat of new legislation with promises to be more transparent in their pricing—though not to lower their overall prices. Furthermore, they have little motivation beyond legal mandates to do so. Many of these companies are still reeling from the difficult times and loss of sales imposed on them during the COVID-19 pandemic. In their attempts to regain revenue, and leverage consumers’ renewed willingness to go out and do fun things, like travel or attending concerts, they will consider nearly any tactic to encourage purchases. They thus have a good reason to promise a low price, based on their confidence that consumers will become sufficiently drawn in by that price to start the purchase process that they will not choose to leave it before buying.

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Discussion Questions

1. Are junk fees a legitimate pricing tactic or an unfair strategy? Could it be considered a bait-and-switch tactic?
2. How do you react when the final price you must pay is much higher than you expected, based on your initial search for a plane ticket, hotel room, or concert ticket?

Sources: Brian X. Chen, “Watch Out for ‘Junk Fees’ When Booking Travel Online,” *The New York Times*, June 15, 2023; Ben Sisario, “Ticket Giants, Under Pressure from Biden, Promise Transparency on Fees,” *The New York Times,* June 15, 2023

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Theater or Factory? Finding the Right Balance at Starbucks

Use with Chapter 16, “Human Resources and Managing the Store”

Unsplash / Ricko Pan

A long-standing recommendation from trade books and popular press articles, as well as reality television, is that top management of any company should spend time working on the frontlines, assembly lines, or shop floor, so that they get a sense of what their employees really encounter. Following a recent real-life application of that recommendation, Starbucks’s relatively new CEO came away with just the sort of insights promised by such efforts. Those insights in turn promise to have implications for stores throughout the global coffee chain.

In particular, Laxman Narasimhan believes that there are too many combinations of cups and lids available. As a result of this variety, the chances of any one lid or cup being out of stock in a store is unnecessarily high. Ensuring appropriate stocking of the approximately 1,500 combinations also imposes significant labor, logistics, and tracking costs. By simplifying these basic packaging elements, Starbucks could both save money and improve customer satisfaction (by reducing stockout risks).

Beyond better matching the available cups and lids, Narasimhan wants to expand Starbucks’s sustainability efforts by innovating more ecologically friendly options. Citing its existing commitment to sustainability, including top innovations that reduce demands for straws, the CEO suggested that further efforts might focus on the cups themselves and how they could be made more efficiently.

But these insights reflect what he calls the “factory”—that is, the back end of operations. Narasimhan also explained his sense that on the frontlines, Starbucks is theater, and the goal of any theater should be to spark connections. He accordingly has initiated two-hour connection meetings for the entire company. During these connection opportunities, local employees and managers will join together to play games, taste test new coffee options, and participate in team-building exercises. Narasimhan hopes to prompt greater connections between employees (which Starbucks refers to as “partners”) and customers. In line with that goal, Narasimhan also introduced a new mission statement for Starbucks, timed to coincide with his ascension to the top of the global firm: “***WITH EVERY CUP, WITH EVERY CONVERSATION, WITH EVERY COMMUNITY—WE NURTURE THE LIMITLESS POSSIBILITIES OF HUMAN CONNECTION.***” The styling, with capital letters, boldface font, and italics, appears purposeful and repeated in various communication channels.

Finally, in addition to asking partners to engage in regular connection meetings and connections with customers, Narasimhan has committed to making his own ongoing connections: He promises to work at least one day a month as a barista in different stores. Signaling his attitude, he offers another interesting stylistic choice. Whenever Narasimhan refers to his job title in writing, rather than capitalizing the acronym, he denotes himself the “ceo.”

Discussion Questions

1. For Starbucks, which is more important to improve: the back end (factory) or the frontline (theater)?
2. Should all CEOs work regularly in frontline or operational capacities? Why or why not?

Sources: Haley Peterson and Gloria Dawson, “Starbucks CEO Worked in Stores and Said He Found Too Many Shortages and 1,500 Combinations for Cups and Lids,” *Business Insider*, May 3, 2023; Gloria Dawson, “Starbucks Is Holding 2-Hour Employee ‘Connection’ Meetings Amid Heightened Tensions with Some Baristas,” *Business Insider*, April 25, 2023; Nancy Luna, “New Starbucks CEO Says He’ll Work a Half-Day Behind a Store Counter Monthly as He Plans to Prioritize ‘Human Connection over Every Cup of Coffee’,” *Business Insider*, March 23, 2023; Starbucks, “A Message from Starbucks ceo: A Revitalized Mission for our Future,” April 24, 2023, https://stories.starbucks.com/press/2023/message-from-starbucks-ceo-a-revitalized-mission-for-our-limitless-future/

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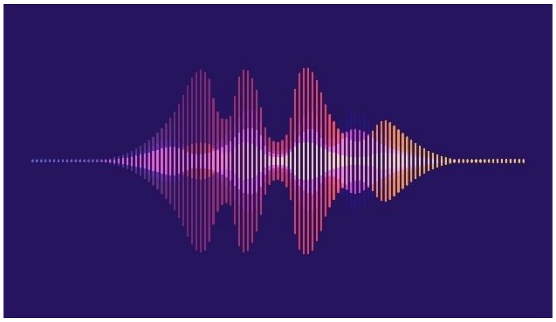
A Novel Navigation App for Consumers with Visual Impairment

Use with Chapter 17, "Store Layout, Design, and Visual Merchandising"



istockphoto / iNueng

By leveraging and integrating cutting-edge technology with relatively simple graphics, companies in a variety of sectors are making it easier for consumers with visual impairments to go about their daily lives. Enabled by a sophisticated app, users of NaviLens's service can readily scan dedicated codes on product packaging and public signs to gain detailed information that facilitates their independence, need satisfaction, and capabilities.

In more detail, NaviLens has developed a square code that is, in some ways, similar to the QR codes that consumers find nearly everywhere these days. But the NaviLens code uses bright, distinctive colors, which makes it easier for people with limited vision to find those squares on packages or signs. The squares feature a dark black frame, such that they are clearly differentiated from any other colorful packaging designs. Then bright pink, blue, yellow, and black squares within the frame establish a particular code for the specific product or directional sign.

Users who have downloaded the NaviLens app can scan these codes. In grocery stores, the app provides them with nutritional and price information for products. Kellogg was the first company to adopt and apply the labels to all its products. Coca-Cola is another recent adopter, and the developer hopes that most consumer packaged goods companies will follow suit.

But the tool is not limited to products; NaviLens codes also appear throughout the New York Metro system, guiding riders with visual impairments to find the trains they want and offering detailed train arrival information. In Barcelona, where the company was founded and maintains its headquarters, the codes guide riders of both trams and busses, facilitating navigation, ticket purchases, and access to the vehicles.

For consumers whose visual impairments are severe enough that they cannot physically discern the codes, the app provides further assistance. Unlike QR codes that require precise camera placement, NaviLens can detect its codes from about 12 meters away and from a variety of angles. Verbal instructions then guide users to move their camera to capture the code accurately, together with large arrows on their mobile devices that guide them toward the required angle and distance. Users also can program the app to read the relevant information aloud.

The app currently is free to download and available in 35 different languages, in line with the company's determination to meet the needs of and provide value to the 39 million blind and 246 million visually impaired people throughout the world.

Discussion Questions

1. How might retailers make use of this technology in stores and/or on other product offerings?

Sources: Ebony JJ Curry, "New App Helps Visually Impaired with Grocery Shopping," *ABC 12 News (Michigan)*, March 13, 2023; Kellogg, "Kellogg and NaviLens: Everybody Deserves a Place at the Table," https://www.kelloggs.com/en_US/NaviLens.html; NaviLens, "Discover NaviLens," https://www.navilens.com/en/; Chris Welsch, "A Digital Map for the Blind," European Investment Bank, December 9, 2020, https://www.eib.org/en/stories/blind-digital-sign-language

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Retailing Tidbits

Americans Are Growing Tired of Tipping

Use with Chapter 5, "Consumer Buying Behavior"

Confronted with the growing ubiquity of tablet checkout screens that prompt suggested tip amounts, at coffee shops, retail stores, hair salons, and so forth, U.S. consumers are rejecting the hint. Arguably due to their "tipping fatigue," people have indicated their decreased willingness to tip at all, even in conventional settings like deliveries and sit-down restaurants. Whereas a few years back, an estimated 77 percent of diners tipped every time they ate at a full-service restaurant, a recent survey indicates that only 65 percent do so now. Yet among those consumers who do tip, the amounts they leave have grown larger; the median tip for restaurant servers generally ranges around 20 percent, higher than it was in the past. Demographics have some effect on these trends too: Men and younger adults tend tip less frequently. But when they do tip, they throw down an impressive amount. Furthermore, attitudes toward tipping as a norm continue to grow less positive, with an estimated one-third of adults asserting that the practice simply has grown out of control. It shows no signs of stopping though; consumers must continue to decide how to react when a service provider turns that tablet around and waits expectantly to see which button they click.

Sources: Jared Mitovich, "Fewer Americans Are Tipping, Bankrate Survey Finds," *Yahoo Finance*, June 8, 2023

Hennessey Is Making Custom Hypercars for Superstars

Use with Chapter 11, "Customer Relationship Management, and Chapter 18, "Customer Service"

If you're the greatest basketball player of all time (we said it, and we stand by it!), what do you use to get around town? For Michael Jordan, the specialty hypercar manufacturer Hennessey designed and produced a personalized version of its Venom F5 roadster—the world's fastest convertible, with an astonishing 1,817 horsepower. The company plans to build only about 30 of the roadsters, which have a starting price of approximately $3 million. Each build is specific to the buyer; we might imagine that Jordan's has a bit more legroom than most roadsters for example. In announcing the transaction on Instagram, the carmaker called building the car for Jordan "an honor." With plans to expand its production, including promises of an electric, six-wheeled hypercar, Hennessey clearly hopes to make itself a champion in its own right. The prototype indicates that the electric version will offer 2,400 horsepower, and each of the six wheels will have its own motor to enhance the grip. In the best case scenario, the new model will be ready by 2026. Which GOAT will be first in line to purchase that version?.

Sources: Justin Ray, "Michael Jordan Is Now the Proud Owner of an 1,817 HP Hennessey Venom F5 Roadster," The Robb Report, May 23, 2023; Ben Oliver, "Hennessey Is Building the World's First Electric 6-Wheel Hypercar—With a Bonkers 2,400 HP," The Robb Report, November 30, 2021; Hennessey Miami, "Venom F5 Roadster," https://www.hennesseyflorida.com/hennessey-venom-f5-roadster/

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