RETAILING MANAGEMENT

11E

Newsletter for Instructors

August
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Goodbye to Buy Buy Baby, Hello to Broadened Retail Channels for Baby Gear

Use with Chapter 2, "Types of Retailers"

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The bankruptcy and related closure of all Bed Bath & Beyond stores was widely reported, but few of those news reports noted another stakeholding victim: the company's spin-off, Buy Buy Baby, that specialized in baby and children's offerings. But with the closure of its 112 stores that carried a vast range of furniture, supplies, and toys for young children, as well as the associated online store, families are left with one less place to find the items they need to care for the very youngest consumers.

Into that vacuum, two broad types of competitors are trying to enter and compete effectively. First, having gone through its own parent's bankruptcy and vast store closures, Babies R Us is attempting to reemerge as a one-stop shop for all basic baby needs. Appearing in a few stand-alone stores but mostly within existing Macy's storefronts, Babies R Us promises to give new (especially first-time) parents access to an expansive array of choices, options, and brands. To encourage them to visit stores in person, the new spaces feature distinctive experiential offerings too. In the personalized, DIY nursery-building section, parents can put together matching furniture and décor, then try out a comfortable rocker they might want to install for late-night soothing. A test track features various real-world surfaces, such as steps, grass, and gravel, to let people experience walking or jogging with different potential stroller models, to determine which one will suit their lifestyles best.

Second, another group of retailers targets new parents who believe nothing is too good for their newborns. Rather than a big box–style experience, these locally owned, "indie" shops offer a boutique atmosphere. Their main target market is the Millennials who are today's young parents, together with the previous generation as they become grandparents for the first time. Such consumers tend to be well-informed about the high-tech gear and gadgets currently available for babies, as well as the prestige brands that offer the most desirable strollers, baby slings, and diaper bags. By stocking only a carefully curated selection, these boutique sellers also can help consumers avoid the sense of being overwhelmed (which young parents might be suffering already) by aisle after aisle of bottles, bibs, and baby wipes.

Of course, both these types of retailers also continue to face competition from general merchandisers like Amazon, Target, or Walmart, which sell many of the basics that parents need over the course of their children's lives—along with the basics they need for themselves, their pets, and their households. Thus, some observers argue that a separate baby retail category may have outlived its usefulness. It's hard to imagine that to be completely true though—new grandparents, aunts, uncles, cousins, and friends need somewhere to find all the treats and fun stuff they can use to start spoiling the kids in their lives.

Discussion Questions:

1. In the baby retail market, is a big box–like store or a boutique setting more likely to succeed? Or is there room for both in this industry?
2. If you needed a gift for a baby shower, where would you start to shop?

Sources: Sanford Stein, "The Loss of Buy Buy Baby Suggests Gains for Indie Retailers and Majors," *Forbes*, August 3, 2023; Sumner Park and Madison Alworth, "Babies R Us Returns with New Flagship Store Featuring Stroller Test Track," *Fox Business*, July 21, 2023

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Shoplifting Is an Obvious Problem for Retailers, But the Harms to Others Are Just as Troublesome

Use with Chapter 5, “Consumer Buying Behavior”

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For retailers, shoplifting may have always been a concern, but the challenge also is growing disproportionately and to potentially unsustainable levels. In New York City, reports of retail thefts have increased by a whopping 77 percent in the most recent year of statistics. Target executives released a projection that its stores would lose approximately $1 billion due to retail shrink in 2023, $500 million of which it attributed to retail crime. Many small retailers beset by theft have been forced to close their stores, but so have major retailers, including REI, Whole Foods, Starbucks, and Walmart, in cities with high retail crime rates.

Thus, the threats to retailers are clear and evident. But retail firms are not the only ones harmed by rising rates of shoplifting and organized retail crime. Both shoppers and store employees suffer too, in ways that are more difficult to quantify but still represent meaningful and troubling detriments.

For retail employees, the risks linked to shoplifting run the gamut, from discomfort to real threats to their safety. Various retailers implement different rules for their employees, such that some employees feel responsible for preventing theft, whereas others are discouraged from doing so. Requiring untrained employees to prevent theft can clearly put them at risk, especially in the face of organized crime rings that are potentially armed. But asking them not to intervene can be similarly problematic: In one well-publicized case, a Lowe’s employee was fired (though later rehired) for trying to stop a group from stealing items, and being assaulted in the process.

Even if they do not suffer physical harms, the stress of encountering frequent shoplifting can be demoralizing and exhausting for retail employees. Research indicates that when retailers tell their employees not to intervene, those employees feel helpless and targeted by criminals. They also express less pride in their work, seemingly due to their sense that they cannot perform effectively if products are just being stolen from under their noses.

A potential solution would be to train employees in how to monitor stores more closely or make their presence obvious, to discourage attempts at shoplifting. But such a solution feeds into another problem created by retail theft, namely, a shopping experience that is uncomfortable, unpleasant, and less enjoyable for customers. If retailers ask employees to follow shoppers around the store as they browse, those customers may feel unfairly judged and surveilled, which cannot create a pleasant retail experience for them. Rather, it communicates a sense that the retailer expects them to steal, which is uncomfortable and aversive.

If retailers instead or also adopt tactics like locking expensive or frequently stolen items behind counters or in display cases, they similarly undermine shoppers’ enjoyment. Especially if they are purchasing personal care items, such as condoms, pimple cream, or feminine hygiene items, customers dislike the requirement that they ask shopkeepers to unlock a case to access the products. In such scenarios, consumers are less like to linger in the store, make impulse purchases, or even complete their shopping lists. A person can only expose so many personal needs to a random checkout clerk, so many times, before the experience gets so embarrassing that they simply leave the store.

As a form of crime, shoplifting also has effects on societal levels of well-being. A National Retail Federation survey recently indicated that 53 percent of consumers perceive that, in the past several years, looting, shoplifting, and other

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retail-linked crimes have increased in their communities. Such perceptions are not good for individual citizens (whether consumers or employees), retailers, or society as a whole.

Discussion Questions

1. Do you have any innovative ideas for combating retail theft of shoplifting?
2. What macroenvironmental influences might explain the rising frequency of retail crime?

Sources: Pamela Paul, "What We Lose to Shoplifting," *The New York Times*, August 10, 2023; Melissa Repko, "Target Expects Organized Retail Crime-Fueled Losses to Jump by $500 Million This Year," *CNBC*, May 17, 2023; Nathaniel Meyersohn, "The Real Reason Stores Such as Walmart and Starbucks Are Closing in Big Cities," *CNN*, May 13, 2023; The City of New York, "Combating Retail Theft in New York City," March 2023, https://www.nyc.gov/assets/home/downloads/pdf/office-of-the-mayor/2023/combating-retail-theft-report-may-17-2023.pdf; National Retail Foundation, "Exclusive: NRF Survey Shows Majority of Consumers Believe Retail Crime Has Increased," June 1, 2023, https://nrf.com/media-center/press-releases/exclusive-nrf-survey-shows-majority-consumers-believe-retail-crime-has

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Nutrition Advice, Counselling—and Drugs: Expanded Offerings from Some Weight Loss Firms

Use with Chapter 6, "Retail Market Strategy,"

istockphoto / Douglas Cliff

The relatively new class of weight loss drugs, which feature semaglutide as an active ingredient, has made a massive difference in many people's health and well-being. Sold under more familiar brand names such as Ozempic and Wegovy, semaglutide effectively reduces users' blood sugar levels and their appetite, because it creates a signal that tells their brains they are full. For patients diagnosed with obesity, diabetes, and other related conditions, these medical solutions to their diseases have helped them achieve healthier, safer physical conditions.

Such benefits in turn have created massive markets for the products, especially in the United States, where approximately 42 percent of the population struggles with being dangerously overweight. New markets prompt new competitors, and accordingly, firms that already have marketed weight loss solutions are seeking to appeal to consumers. Both Noom and WeightWatchers offer access to semaglutide prescriptions, in addition to their existing advice and encouragement tactics, in their attempts to remain competitive. Their expanded offerings appear to reflect the lessons they have learned recently, such as following the exit of companies such as Jenny Craig, which arguably failed due to its inability or unwillingness to keep up with the latest developments in care and treatment for the medical conditions that lead to obesity.

Both Noom and WeightWatchers firms promise that their entries into prescription medicine are guided and supported by physicians on staff, such that customers must demonstrate their medical need for the drug before they can receive it. For customers with such medical requirements, obtaining their prescription through WeightWatchers or Noom offer several benefits, compared with receiving it from doctors.

First, this channel allows them to combine existing recommendations for maintaining healthy weight, such as tracking calories and exercising, that the companies already offer with a new tool. They can manage and maintain all their weight loss efforts in one place, with ongoing support that likely surpasses what they might receive from a busy physician. Second, though obesity is an acknowledged medical condition, many people who suffer from it feel embarrassed or judged. Some patients report that their doctors have denied them the medically proven solution, even when their health condition clearly qualifies them. Visiting a doctor and requesting a prescription for Ozempic may be difficult for these consumers, whereas receiving the drug from online companies that embrace nonjudgmental attitudes as central to their brand identities may feel much more comfortable. Third, due to massive demand, it can be difficult to obtain supplies of Wegovy or Ozempic; Noom and WeightWatchers promise an alternative channel.

The expanded market for these drugs also raises some concerns, of course. Popular media frequently reports on inappropriate uses of Ozempic by celebrities, and arguably, easier access through profit-oriented firms might encourage further abuses. Consumers who do not qualify to take these drugs might pursue a prescription to reach an unhealthy and false standard of thinness, especially if they suffer from body dysmorphia. Both Noom and WeightWatchers note that they have precautions in place to avoid such abuses, but the potential for getting around such restrictions seems obvious.

In addition, obtaining Wegovy or Ozempic through WeightWatchers or Noom is more expensive for consumers than getting it from a doctor. For example, a regular, basic Noom subscription costs about $42 per month; adding the Noom Med service, which is required to receive the prescription medication, requires an additional $49 per month,

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such that the cost more than doubles. At WeightWatchers, the subscription is $99 per month, beyond fees for counselling or meal services. Then beyond the subscription fees, consumers still must pay for the medications (if they are not covered by their insurance), which can exceed $1000 per month.

The drugs require a lifelong commitment; when people stop taking semaglutide, they nearly invariably gain any weight they had lost. For weight loss companies, the appeal of getting into this market thus is clear. What remains is the need to make sure the value and benefits they provide to consumers are equally clear.

Discussion Questions:

1. How should Noom and WeightWatchers market their new offerings to consumers? Propose a marketing plan for one or the other.
2. What precautions should be established to ensure healthy prescriptions of weight loss drugs? Can for-profit companies be trusted to establish them on their own, or are legal restrictions necessary?
3. Are the prices charged by WeightWatchers and Noom justifiable?

Sources: Aria Bendix, "Ozempic and Wegovy Force Weight Loss Companies to Upend their Approaches," *NBC News*, June 4, 2023; "Adult Obesity Facts," May 17, 2022, https://www.cdc.gov/obesity/data/adult.html; "FDA Drug Shortages," https://www.accessdata.fda.gov/scripts/drugshortages/dsp_ActiveIngredientDetails.cfm?AI=Semaglutide%20(WEGOVY®)%20Injection&st=c&tab=tabs-1

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Can AI Order Takers Speed Up, Maintain, and Improve the Fast-Food Drive-Thru?

Use with Chapter 6, “Retail Market Strategy”

istockphoto / Alexander Farnsworth

The current count stands at nine national fast-food chains that have announced, piloted, or more widely implemented artificial intelligence (AI)-powered chatbots in their drive-thru lines (Wendy’s, White Castle, Popeye’s, Hardee’s & Carl’s Jr., Checkers & Rally’s, Del Taco, Panera, McDonald’s, and Taco Bell). Some are testing the technology in just a few stores; others have begun massive rollouts, together with clearly outlined plans to transform all their restaurants. Their common goal, of course, is increasing efficiency. But will that efficiency come at the cost of customer satisfaction?

As restauranteurs and researchers well know, the bottleneck that consistently slows down every fast-food drive-thru is the order-taking process. Customers might not have made up their minds, employees might be busy performing other tasks, and the speaker systems, if not working properly, can make it difficult to get the order right. With effective, AI-enabled robots, those issues would be resolved. The robot can make recommendations about appealing menu items to help customers make decisions (and also encourage upsales of side dishes, drinks, and other items), remove the labor-intense burden of order taking away from human employees, and establish a clear and technology-enhanced communication channel.

The channel is not perfect though, and that might be the greatest barrier to AI order-takers thus far. Voice recognition and natural language processing remain difficult skills to integrate into robots. Even in ideal conditions, robots sometimes misunderstand emotional terms, shorthand, or accented speech. And drive-thrus are not ideal conditions. They feature substantial background noise, such as engine and traffic sounds or music playing loudly in the car. Many customers gather orders from multiple people in the car, whether their friends or children, which means the AI must be able to identify which voice is placing the order and which are kids in the back, pleading for an ice cream sundae.

Another issue surrounds the names that different restaurants use for their menu items. At Wendy’s, a milkshake is called a Frostie, so the AI needs to be programmed uniquely to understand what both terms, used variously by different customers, all mean the same thing, namely, that customers are seeking a frozen treat. The AI that supports McDonald’s drive-thrus needs to know what customers really want, whether they order a burger, hamburger, a cheeseburger, or a Big Mac; it cannot be programmed the same way to staff White Castle drive-thrus, where people might call for a pack of sliders.

Such shortcomings in turn might lead to inaccurate orders, a substantial source of frustration for customers who are explicitly visiting drive-thrus for the speed and convenience they offer. If they receive a ham biscuit at Hardee’s, instead of the hamburger they ordered, customers must take the time and effort to return and find an employee to fix the mistake. However, some planned AI strategies note that the goal is to have no human employees on site, to achieve the greatest cost benefits for the restaurant. In that case, mistakes would be particularly challenging to fix, and customer satisfaction would likely be at particular risk.

Still, an estimated 58 percent of fast-food restaurant operators indicate their plans to add more AI in the drive-thru. The justification comes from multiple directions, in that AI promises to cut their costs, help them overcome labor shortages, and increase the amount spent by each customer, because it can suggest appropriate additions and add-ons that reflect the massive data the automated systems can process. In a sense, it thus might not matter what customers prefer today. It looks like they need to get used to robot order takers, like it or not.

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Discussion Questions:

1. What systems and safeguards could fast-food restaurants put in place to limit customers' frustration in dealing with AI in the drive-thru and protect their satisfaction?
2. Should fast-food chains aim for completely robotic stores, or should they maintain some human staff members in each store?

Sources: Nancy Luna, "Another Robot Will Take Your Order Now. White Castle Joins 7 Other Fast-Food Restaurants Using AI at the Drive-Thru," *Business Insider*, August 7, 2023; Angus Loten, "Wendy's, Google Train Next-Generation Order Taker: An AI Chatbot," *The Wall Street Journal*, May 9, 2023; Danielle Wiener-Bronner, "AI Drive-Thrus May Be Good for Business. But Not for the Rest of Us," *CNN Business*, June 19, 2023

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ALDI, Y'All: When, How, and Why the German Grocery Retailer Is Expanding in the U.S. South

Use with Chapter 8, "Retail Locations"

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It is not as if ALDI's plans to expand in the United States were a surprise. It had announced that it wanted to increase its existing inventory of around 2,300 stores by adding 120 more throughout the 38 U.S. states in which it operates. But in one fell swoop, the German grocery chain has sped up and expanded those plans, by acquiring the parent company that runs Winn-Dixie and Harvey's grocery stores.

Through this substantial acquisition, ALDI will add around 400 stores to its portfolio, all of them located in southern states, including Alabama, Georgia, Louisiana, and Mississippi—as well as Florida. This latter state is home to nearly 300 of those newly acquired stores. Although some of the stores reportedly will retain the Winn-Dixie branding and logo, most of them will be converted in ALDI outlets.

The change means more than altering the name on the outside of the store though. Known for its efficient, sparse designs and relatively small stores, ALDI gains various options from taking on the properties. Arguably, it could divide larger Winn-Dixie stores and sell a portion, as a revenue source. Or it might undertake a creative redesign to find a way for the larger footprints to match its corporate strategy. Creative cost-saving efforts have long been central to ALDI's appeal, as are private-label options that enable shoppers on a budget to get necessities, often in large package sizes, at lower prices.

Winn-Dixie is not a low-price grocer, but neither is it the most expensive and service-oriented conventional grocer in Florida and surrounding regions. That prize usually gets awarded to Publix, the dominant, beloved chain for Floridians. This midway positioning might have been part of the downfall of the chain, which in the past couple of decades faced bankruptcy threats, substantial store closures, and layoffs of around 30 percent of its staff.

In this sense, ALDI seems like a savior, keeping stores open and operations running while bailing out a struggling food chain. Its low price appeal led many consumers, struggling with an uncertain and challenging economy, to learn about ALDI's offerings, so expanding its footprint and adding even more stores, accessible to even more customers, seemingly represents a way for the chain to maintain its positive momentum.

Discussion Questions:

1. Is there space in the grocery market for a midrange retailer like Winn-Dixie? Or should all grocery chains pursue either a strong service or low cost positioning?
2. How do you predict the addition of hundreds of ALDI stores will affect competition in the grocery market nationwide?

Sources: Melissa Repko, "Aldi Is Getting Bigger. Here's Why the No-Frills German Grocer Is Looking to the Southern U.S. for Growth," *CNBC*, August 19, 2023; Ramishah Maruf, "Aldi Is Buying 400 Winn-Dixies and Harveys Supermarkets," *CNN*, August 17, 2023

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No One Can Stand this Heat: Climate Implications for Supply Chains

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

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When it is too hot to work, a person's work does not get done. When the heat reaches such levels that entire teams of laborers, production shifts, firms, or even industries find it impossible to function, the implications spread throughout supply chains and entire national economies.

Let's take food retailers as a simple, familiar example to understand how difficult working conditions undermine the entire supply chain. These retailers—whether grocery stores, fast-food chains, or more formal restaurants—all need raw materials such as meat, dairy, and bread products. But in meat packing plants, like a National Beef factory in Kansas, working conditions make it nearly impossible to operate safely or efficiently. As outside temperatures reach or exceed 100 degrees, workers outfitted in heavy safety aprons are cooled only by fans, not air conditioning. As sweat drips into and fogs their safety glasses, they cannot see well enough to perform their physically demanding, dangerous jobs safely—assuming they have not already passed out from the heat.

That's a risk for many workers, throughout the supply chain. Warehouse workers stocking huge pallets of supplies rarely have access to air conditioning during their shifts, leading to a risk of heat exhaustion. In fast-food restaurants, some workers allege that the front of the store might be appropriately cooled, but in the back, near friers and grills, the heat reaches excessive levels. Worried about her health, one McDonald's employee left her shift early rather than risk fainting, noting that it was the first time in her more than 20-year tenure with the company that she felt compelled to do so.

Climate change–induced conditions on farms also have reduced crop yields. In blazing sun and extreme temperatures, there simply may not be enough water to keep crops alive, leading to shortages of various grains. In addition, workers cannot function in such conditions, especially if they lack access to water or shelter—as is widely true in Texas, where the governor outlawed rules that would mandate that companies provide regular water breaks for employees working outside.

Such moves might be attributed to producers' attempts to save money. One construction company that provides bottled water to workers estimated a monthly cost in the thousands of dollars. Installing air conditioning systems in warehouses and factories might impose costs in excess of $200,000, depending on the size. But ignoring and avoiding such provisions also is expensive, particularly in the long term. The loss of productivity due to heat accounts for an estimated 2.5 billion hours of lost labor, which in turn implies a cost of around $100 billion for the U.S. economy as a whole. On a global span, increasing temperatures could reduce overall productivity by one-quarter from current levels.

Of course, food supply chains are not the only industry affected. Tourism destinations, including Disney parks, recognize threats to their revenues created by high temperatures. Zoos note the steeply increasing operating costs they face in keeping their animals safely cool. Service providers, such as home health care workers or cleaning services, cannot maintain high quality services if customers cannot afford to keep their homes cool enough for them to perform necessary tasks. Furthermore, if workers live in non–air conditioned spaces, their sleep probably is disrupted, which tends to reduce their productivity once they reach work.

When many of these warehouses, factories, farms, stores, and homes were built, often decades ago, global temperatures were not as high, and it was sufficient to cool these spaces with fans or natural wind power. Today

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though, as high temperatures around the world continue to break records, they are proving insufficient. The question becomes whether companies (and likely consumers) pay to retrofit production facilities to allow the flow of goods through supply chains now, or if the entire world pays later, in the form of lost productivity and risk to the health and safety of workers.

Discussion Questions:

1. Which stage(s) in food retailing supply chains should be held responsible for ensuring safe working conditions for the workers who participate in each stage? Should there be collaboration, or should they be independent?
2. How might firms throughout the supply chain leverage new technologies to address heat-related concerns?

Sources: Coral Davenport, “Heat Is Costing the U.S. Economy Billions in Lost Productivity,” *The New York Times*, July 31, 2023; Justin Worland, “Extreme Heat Is Hitting Companies Where It Hurts,” *Time*, July 13, 2023; Alicia Wallace, “‘It Comes Up on You Fast’: Scorching Heat Is Crushing American Businesses,” *CNN*, July 23, 2023

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Dynamic (Food) Pricing as an Environmental Initiative

Use with Chapter 14, “Retail Pricing”

istockphoto / Roman Mykhalchuk

Everybody hates food waste. It creates unnecessary costs for producers, retailers, and consumers, and it has deeply detrimental impacts on climate change. In the face of global food insecurity, it also represents a moral flaw. So if everybody agrees, why is it so difficult to find a solution?

Perhaps marketing and retailing theory can come to the rescue. Recent research and pilot programs in stores call for leveraging a well-known pricing tactic to reduce food waste substantially, namely, by adopting dynamic pricing for perishable foods. As vegetables, dairy, fruit, and meats get closer to their expiration dates, lowering their prices should encourage more purchases, which would reduce the number and amount of items thrown out by retailers. A similar pricing strategy might occur further up the supply chain too, such that farmers and other producers might lower their wholesale prices to move late-season produce into stores, rather than letting it rot in the field.

According to some studies, dynamic pricing offers substantial promise. One experiment indicated that it reduced food waste in a grocery chain by 21 percent. In a comparative analysis, the researcher also tested the effectiveness of organic waste bans, which require retailers to deal with the expired products in their stores by either composting or donating them. Those efforts, according to the study, reduced food waste by only 4 percent.

In addition, organic waste bans create costs for retailers, which must find methods and channels to move the expired items. But dynamic pricing promises increased revenues throughout the supply chain. They might earn lower margins on nearly expired food, by charging, say, 25 percent less for eggs that are within a week of their expiration date, but it is still better than earning nothing, while also having to pay to have the eggs disposed of. It also implies better immediate outcomes for the retailer than donating the food for free. According to the previously cited study, dynamic pricing increases retailers’ gross margins by about 3 percent, whereas the bans decrease them by 1 percent.

Such studies and experiments only focus on wholesalers and retailers though, so dynamic pricing alone is not enough. Once consumers get the products home, they still might wind up tossing expired food, such that it still goes to waste. To address this stage, dynamic pricing advocates also suggest establishing revised rules for the definition of expiration, sell-by, and best-by dates printed on food packaging.

Currently, those rules are vague and undefined (with the exception of expiration dates for baby food). Manufacturers tend to be conservative and print early dates, even if the food is likely to remain consumable and fine for a longer time, to protect against potential lawsuits and to encourage people to eat their products at their optimal freshness levels. For the dynamic pricing plan to work, consumers need to realize that they can still safely consume food after its best-by date, so that they feel safe purchasing it at the store, then consuming it at home.

Still, disposal by grocery stores accounts for approximately 10 percent of all food waste, so reducing the volume of items thrown into dumpsters in the back of stores could have a significant effect. The next step is determining effective implementation plans; to price dynamically and accurately, the wholesalers and retailers need to be able to identify a precise date of production and/or expiration for all the foods they sell. Such information is not widely available currently, suggesting the need for more transparent food supply chains. That’s another idea that seems likely to get everybody to agree, even if deciding how to make it happen continues to challenge us.

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Discussion Questions

1. Develop a plan for dynamic pricing of food, imagining that you are a food manufacturer (e.g., farmer). Develop another plan, imagining that you are a retailer. What are the most important features that each member of the food supply chain would want to include?
2. Should laws regulate the meaning of expiration, sell-by, and best-by dates printed on food? What represent reasonable requirements for these products?

Sources: Christine Clark, "Dynamic Pricing Superior to Organic Waste Bins in Preventing Climate Change," *UC San Diego Today*, July 23, 2023; Robert Evan Sanders, "Dynamic Pricing and Organic Waste Bans: A Study of Grocery Retailers' Incentives to Reduce Food Waste," available at http://dx.doi.org/10.2139/ssrn.2994426; Jodi Helmer, "Can Dynamic Pricing Reduce Food Waste in Supermarkets?" *FoodPrint,* January 31, 2022

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You Say Junk Fees, We Say Resort Promotion: How Hotels Are Getting Creative in Charging Extra Fees

Use with Chapter 14, "Retail Pricing"

istockphoto / pashyksv

We previously reported on regulatory efforts by the Biden administration to restrict the imposition of hidden, mandatory junk fees by tourism and entertainment operators ("Junk Fees: A Pricing Tactic that May Be Checking Out"). These fees, charged by hotels, airlines, and ticket agencies, get added on to the final price, after the operators have lured customers into the purchase process by advertising a lower initial price. They might feature labels like "resort fee," "convenience charge," and so on, but according to legislators, they are a money grab, by any other name.

Some hospitality industries and firms have responded by promising to eliminate the extra costs, but others are taking a different tactic: Reframe them. For example, an independent hotel in California touts its value-added offerings of "free" electric vehicle charging, local calls, and internet, all included in a $30 destination fee package. But the package itself is mandatory. So it remains a junk fee, because visitors who do not have an electric car or do not need to make local calls from their room cannot turn down these features or avoid the fee.

Marriott Hotels in Los Angeles also have been accused of illegally charging guests to cover the costs of paying housekeepers more, as mandated by a local worker protection law. That is, the law requires hotels to provide their cleaning staff extra compensation once they clean more than a specified number of square feet per 8-hour shift. Allegedly, Marriott simply passed on those costs to guests, with a fee that appeared on bills as the "Hotel Worker Protection Ordinance Cost Surcharge."

Rather than hiding them behind confusing names, another approach instead makes the extra charges more transparent. Some hotels add a bed sheet fee, a towel fee, and a concierge fee, on top of the room rate. It is a bold move; customers seem likely to expect that the sheets are included in the rate they pay to rent a hotel room. But the hotels apparently are confident that the current U.S. Congress will be unable to reach consensus on any law, so they do not expect to be held legally liable for such moves any time soon.

For consumers, it thus seems like the onus is on them. If guests believe they should receive towels every time they book a room, not because they pay an extra fee, they are going to need to demand such charges be removed from their bills. But most hotels still try to keep such fees at least a little hidden. Anecdotal evidence suggests that hotel operators express embarrassment when challenged about the fees. At the same time though, many guests lack the patience or time to review their bills closely, then follow up by disputing the charges. Thus, for the time being, it appears that the junk (fee) removal process is at a standstill.

Discussion Questions

1. Are junk fees a legitimate pricing tactic or an unfair strategy? Does your answer change, according to how hotel operators are responding to threats to make them illegal?
2. If you found extra, undisclosed fees on your hotel bill when you went to check out, would you contest them?

Sources: Christopher Elliot, "Hotels Are Returning Fire in the 'Junk Fee' War. Don't Be a Casualty," *USA Today*, August 7, 2023

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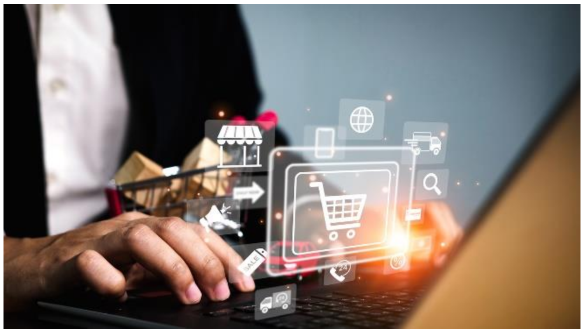
Understanding the Retail Media Network Phenomenon

Use with Chapter 15, "Retail Communication Mix"

In retail media networks, retailers post advertising by other market actors, sharing their marketing communications with customers who are visiting the retailer's store or website. For example, grocery stores might feature brand advertisements for toothpaste products they carry; online retailers like eBay host promoted products on main pages. In both cases, the sellers—whether the toothpaste brand or an individual seller hawking items on eBay—pay the retailer to be featured in these promotions. Thus, retail media networks represent both a relatively new advertising channel that sellers can use to reach customers and a growing source of revenue for retailers.



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To be effective and efficient, retail media networks need to be able to grant advertisers sufficient numbers of views. Therefore, the retailers that seem to be benefitting most from these relatively novel advertising channels are the largest retailers in the world, including Amazon, Walmart, Target, Dollar General, Instacart, Lyft, and Wayfair (in an extremely incomplete list). For these retailers of products and services, their substantial customer bases are deeply appealing to advertisers. As a Walmart executive noted, in its stores, the retailer "can provide Super Bowl–sized audiences every week."

Beyond sufficiently large audiences, retail media networks seem to work best when the advertising aligns with customers' buying process and status at the moment they see the advertising. In particular, because it delivers advertising precisely while a customer is actively looking to make purchases, the marketing effort does not need to include attempts to move customers down the purchase funnel. An advertisement for floss delivered to someone scanning the toothpaste shelves can skip the part about convincing people that oral health is important. When eBay features a link directly to a memorabilia seller at the top of the page, it is appealing to shoppers who already have come to eBay, which means they likely are looking for unique, collectible items to purchase.

Such examples represent strong targeting opportunities, which may account for the popularity of retail media networks. They will attract an estimated $52 billion in spending in 2023, and predictions suggest that level will reach $100 billion by 2026.

But such effective and intense targeting might represent a concern for retail media networks, as well as being one of their most appealing features. That is, for consumers, targeted advertising can quickly lead to annoyance, especially when it involves their habitual purchases, like buying groceries or consumer packaged goods (CPG) in large retail stores. If a shopper likes, is loyal to, and always buys Crest, encountering a Colgate advertisement in the toothpaste aisle represents a distraction and divergence from their easy, habitual shopping habits, which is more likely to annoy than entice that customer. Notably, research shows that CPG manufacturers are among the largest spenders in the retail media network market.

Even if a retailer wanted to avoid such potential irritants, it might find few other options for viable advertising clients. No retailer is likely to host advertising for items that are not available in its stores or websites; doing so would risk encouraging customers to visit another retailer to obtain the advertised merchandise. Thus, brick-and-mortar grocery retailers, in a practical sense, can only share advertising for brands they carry, and online sites can only push products with links to their pages.

Despite such apparent limitations, predictions of the relevance and importance of retail media networks continue to indicate their growth and expansion. Thus, the concept represents a notion that marketers and retailers need to know.

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Discussion Questions

1. Do you predict continued growth in retail media networks, or do their inherent limitations imply they cannot grow much further?
2. Can you think of any creative approaches to advertising through retail media networks that might expand their usage?
3. As a consumer, how do you feel when you encounter advertising for related products while you are in the midst of a purchase process?

Sources: Katishi Maake, "Walmart and eBay Reign Supreme in the Growing Retail Media Network Space," *Retail Brew*, August 7, 2023; Nikki Baird, "Retail Media Networks Are Having a Moment, But It Won't Last," *Forbes*, February 23, 2023

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Get Ready to Get Good at Scanning: Self-Checkouts May Soon Be Unavoidable

Use with Chapter 17, "Store Layout, Design, and Visual Merchandising," and Chapter 18, "Customer Service"

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The self-checkout lane is not a new invention. Their presence has been notable in various grocery, convenience, home improvement, and dollar stores for years. But increasingly, rather than inserting them as an option that consumers can choose voluntarily, retailers are designing them to be the only method shoppers can use to complete their purchases. According to one estimate, 55 percent of grocery transactions now involve self-checkout activities.

In promoting the appeal of self-checkout options, retailers often cite the convenience, speed, and control they offer shoppers. People do not need to wait as long in line, nor do they feel pressured to make friendly small talk with cashiers. But such claims of the appeal of self-checkout to consumers might be masking the real driver of the ever-increasing trend: It saves retailers a lot of money.

If retailers can shift the labor involved in the checkout process to consumers, rather than cashiers whom they employ and pay, the cost savings would be substantial. In addition, it provides a solution to ongoing and inherent labor challenges, including difficulties hiring qualified applicants and scheduling sufficient staff.

In response, Kroger has announced plans to open more self-checkout-only stores, though thus far, it has implemented the project in just a few stores. Walmart, Dollar General, and Target also have increased their uses of self-checkout, though they have stopped short of converting their stores to feature these lines exclusively. If the Kroger experiment proves successful, those retailers appear ready and willing to join the bandwagon though.

Their choices also seem well-supported by some evidence that redesigning the checkout area to accommodate self-checkout can prompt more impulse purchases by shoppers. Various stores are experimenting with different layouts and designs, moving different products into the shelves near the self-checkout line and experimenting with open queues, conventional lines, and other patterns. According to one merchandising study, people notice displays more and interact with certain products, such as colas in coolers, more in the self-checkout lines than in staffed lines.

But these solutions are not universally popular. Many consumers complain that they find the newly imposed task of finding bar codes, scanning them accurately, and bagging their purchases overly oppressive. Despite the stress it causes, shoppers feel compelled to rely on self-checkout though, because the stores offer few staffed lines. They thus deny the retailers' assertions that consumers find self-checkout convenient and appealing. Instead, many people realize that the underlying purpose is to make them work harder, so the stores can save money, a motivation they find both frustrating and inappropriate.

Beyond consumers' negative responses, self-checkout creates a risk of increased theft for the retailers. It is relatively easy for unethical shoppers to slip extra small items into their bags, perhaps especially the impulse-sparking candy bars and gum items that usually appear near the scanners. And customers annoyed by the need to devote effort to perform a task that previously would have been done by a store clerk might induce a sense of justification. "If I am being forced to work to check myself out," they might reason, "the store should be paying me for my labor. I deserve this extra Snickers bar for free then!"

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Discussion Questions

1. Are the benefits of self-checkout lines sufficient to outweigh any annoyance they might create among consumers? Why or why not?
2. Does the temptation or reasoning that stores "owe" consumers free products if they must work to check themselves out resonate with you? How can retailers convince shoppers that this reasoning actually is unethical—or can they?

Sources: Daniel Kline, "Kroger Makes a Change Customers Hate (Walmart and Target May Follow)," *The Street*, August 1, 2023; Rajeev Sharma, "Self-Checkout Usage and Productivity Continue to Soar," *VideoMining*, April 25, 2023

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Retailing Tidbits

To Reach Global Markets, Luxury Brands Are Combining Forces

Use with Chapter 7, “Financial Strategy”

In Europe, the LVMH conglomerate is responsible for the vast majority of the luxury market; its name refers to Louis Vuitton, Moet, and Hennessey, but it owns many more brands as well. In an apparent bid to establish a similarly collaborative U.S. luxury house, the Tapestry company, which already owns brands such as Coach and Kate Spade, has acquired Capri Holdings, parent of Versace, Jimmy Choo, Michael Kors, and other luxury brands. Through the acquisition, the companies hope to broaden the brands’ access to global markets. Currently Capri is stronger in Europe and the Middle East, whereas Tapestry has a stronger foothold in Asia. By merging, such market access gets spread across all brands. Furthermore, the merger managers anticipate that by combining forces, the companies can save an estimated $200 million in operating costs, due to their economies of scale and enhanced efficiencies in their newly shared digital marketing, transportation, and supply chain efforts. Such strategic moves also represent a likely response to the current slowdown in U.S. luxury markets, such that establishing and maintaining a strong international profile may constitute a necessary goal for all luxury brands.

Sources: Jordyn Holman and Elizabeth Paton, “Coach Owner to Buy Parent of Versace and Michael Kors in Luxury Merger,” *The New York Times*, August 10, 2023

Forget Movies: Movie Theaters Are Finding New Ways to Make Money

Use with Chapter 6, “Retail Market Strategy, and Chapter 12, “Managing the Merchandise Planning Process”

For movie theaters, some indicators are looking up as the post–COVID-19 economy continues to emerge. At AMC for example, sales and earnings have increased dramatically in recent quarters, driven by popular blockbuster films and people’s desire to return to community events. But the sailing is far from smooth. The strike by Hollywood writers and actors threatens to eliminate future content and create supply chain issues. Furthermore, AMC’s shareholders seek larger payouts, whereas the company’s CEO hopes to keep more cash reserves on hand. In addition, the company has indicated its plans to diversify, such as by introducing AMC Perfectly Popcorn, sold at Walmart stores and online. It also plans to add AMC-branded candy to theater concession stands. Moreover, AMC continues to acquire and open new theaters to expand its presence. The CEO also cited goals of introducing more bars to sell alcohol and larger format screens to existing theaters. Thus, shareholders may want to enjoy more of the profits of recent sales surges, but if they take too much, their future profits arguably might be in jeopardy.

Sources: Jill Goldsmith, “AMC CEO Sees ‘Serious Liquidity Issues’ Even as Box Office Booms,” *Deadline*, August 8, 2023

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