RETAILING MANAGEMENT

11E

Newsletter for Instructors

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It Isn’t Just the Aroma: The Deep Appeal of Yemeni Coffee Shops

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

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It isn’t as if coffee shops are a new idea. Consumers throughout the United States have demonstrated their deep and consistent need for a great, rich, full bodied cup, often on a daily basis and in various consumption contexts. But a recent d evelopment in the coffee shop market demonstrates how even a familiar daily ritual can evoke new and compelling appeals, when new marketers change just a few elements of the offering.

The latest coffee innovators are immigrants from Yemen who believe that U.S. consumers might enjoy trying some different beans and new methods of preparation. They appear to be right; popular Yemeni coffee chains already are ubiquitous in Dearborn, Michigan, home to one of the largest Middle Eastern populations in the United States, and their expansion to other regions continues to grow nationwide. Two of the most popular chains, Qahwah House and Haraz, already have locations in California, New York, Illinois, and Texas.

The appeal of Yemini coffee houses stems from the unique attributes they provide. They are designed primarily to be social locations. Patrons partake in an experience; they do more than purchase a product. The notion that coffee shops can be a third place, outside work and home, also is not totally new. When he founded Starbucks, Howard Shultz freely acknowledged that he was inspired by cafes in Italy, where people interacted frequently and socially. The Yemeni coffee houses embrace this notion as essential; they encourage people to come to meet and socialize, creating community and bonds, through the design of their operations. Most are open late, sometimes stretching into the early hours of the morning.

Furthermore, the menus are designed to foster a sense of community and cultural acceptance, particularly among members of Muslim communities in the United States. Yemeni coffee beans are a must. They get brewed and poured into a range of drinks that feature spices such as cardamom, nutmeg, and cloves. The rich flavors offer a pleasant sweetness, which the cafes pair with pastries, usually stuffed with honey or nuts and cheese. These tastes, resonant of Middle Eastern food traditions, encourage patrons to gather, sipping their warm beverages, and stake out tables with large groups of friends. Young people mingle, introducing themselves to those sitting at nearby tables, many of whom share similar cultural backgrounds.

Discussion Questions

1. What are some third places, perhaps from your own life, that are designed primarily for casual social interaction?
2. Are Yemeni coffee shops simply the latest food trend? Or do they fill a larger cultural need for a certain type of space, such that they will persist as market offerings?

Sources: Ahmed Ali Akbar, “Late-Night Chai and Covert Flirting: Why US Muslims Flock to Yemeni Cafes,” The Guardian, February 17, 2024; Micheline Maynard, “Why Yemeni Coffee Is Catching on Across America,” The Takeout, September 12, 2023; Ramishah Maruf and Monica Halder, “What the Rising Popularity of Yemeni Coffee Shops Says About Third Places,” CNN, October 26, 2024

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Nipped in the Bud: Plant Seller The Sill Moves Online

Use with Chapter 3, "Digital Retailing" and Chapter 4, "Multichannel and Omnichannel Retailing"

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Less mess than a pet, much less responsibility than a child, house plants have become a staple of 20-somethings' lives, giving them a commonly refer to themselves as "plant moms" and "plant dads." For these young, avid plant lovers though, plant sellers have had to adapt their way of doing business, to appeal to this largely digital-first customer base. Apparently as a result of such trends, The Sill, a popular, direct-to-consumer plant retailer, has shuttered its last physical storefront and shifted completely to e-commerce.

This latest stage marks yet another development in the company's history. Founded in 2012, by 2015, it had rented its first physical location in Manhattan. Soon thereafter, it began shipping orders nationally. During and following the pandemic though, the company reported annual net losses approaching $7 million for two years in a row. In response, The Sill began shuttering its physical locations; the first store closure happened in late 2022.

This story reflects similar trends occurring throughout the industry. Horticultural sales through brick-and-mortar locations appear to be in steady decline; plant parents seem determined to purchase their latest plants through digital channels. The Sill's decision also reflects its careful attention to customer feedback. By scaling back its physical business, the company believes it can gain flexibility and also provide a more refined, curated selection of the perennials, bulbs, trees, and hedges that its customers are seeking.

In contrast though, other direct-to-consumer brands in other markets seem to be thriving by expanding their physical retail operations. For example, On, a popular Swiss apparel company, announced its plans to open up to 100 physical locations. Vuori, the athletic fashion brand, promises to have 100 brick-and-mortar shops open by 2026.

Discussion Questions

1. Is The Sill's decision to shift completely to e-commerce likely to help ensure its profits in the long term? Why or why not?
2. Which other markets might make the transition to becoming completely digital, and which ones seem to benefit from opening more physical stores? What might explain the differences?

Sources: Bruce Crumley, "The Sill Closes Its Last Store, Becoming a Fully Digital DTC Business," Inc., October 3, 2024; Howard Ruben, "The Sill Closes Its Final Store, Shifts Back to Online-Only Business," Retail Dive, October 7, 2024; Sandra E. Garcia, "As Plant Sales Move Online, the Sill Closes Its Last Retail Store," The New York Times, October 1, 2024

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Is Fashion Making a Gotham-Sized Comeback in NYC?

Use with Chapter 4, “Multichannel and Omnichannel Retailing,” Chapter 8, “Retail Locations,” and Chapter 9, “Retail Site Location”

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Faced with intense time constraints, most consumers might be forgiven for prioritizing convenience over a stellar experience. This preference represents a strong driver of the shift toward e-commerce, such that online shopping appears responsible for the so-called retail apocalypse. But in New York City, some of the most renowned fashion brands in the world appear poised to make a comeback, not just by opening new businesses but by reinventing the way they do business in the first place.

In particular, the entry of various mid-size boutiques into the New York scene appears dominated by the goal of prioritizing customers’ physical experiences. The process of buying and wearing clothes arguably is an inherently tactile experience, and in embrace of that notion, some brands, like LuisaViaRoma, have determined to build and expand their brick-and-mortar locations.

At the same time, other brands are prioritizing the addition of social elements to shopping experiences. For example, some physical stores screen films and expert talks that reflect the company ethos. Rather than tactile connections, this approach prioritizes the intangible qualities of a retail environment.

As a way to provide both tactile offerings and experiential retail, pop-up shops also appear to be experiencing a boost in popularity. Various fashion houses host exclusive sample sales or cocktail parties. Smaller retailers and startups have turned to pop-up strategies as an effective way to avoid soaring rents. Even consumer product brands are filling up the pop-up space, and experiential offerings such as sports teams and television shows establish branded experiences and exclusive merchandise.

All together, these combined strategies seem to be providing a foundation for a marked recovery for New York retail. The shift is particularly notable in communities that had been decimated by the pandemic. Whereas Midtown suffered vacancy rates that neared 30 percent in 2021, and Manhattan’s rate reached 28 percent overall, brokerage firms now estimate vacancies to have dropped to just 15.4 percent, and further improvements are projected. The revival is not restricted to Midtown, a traditional fashion destination, either. Flatiron, Nolita, and the Upper West Side all have emerged as increasingly desirable retail locations, due to the combination of residential and commercial locations they host—a combination that helps brands establish a loyal and local customer base.

Discussion Questions

1. What are some of the key advantages of a pop-up shop for different types of retailers?
2. What features can physical stores offer to improve convenience, and perhaps compete even more effectively with e-commerce?

Sources: Max Berlinger, “New York Was a Shopping Town. Is It Again?” The New York Times, October 22, 2024; Greg David, “New-to-New York Stores Are Helping Turn Around the Retail Apocalypse,” Flatiron Nomad, May 2, 2024; Martina Italiano Di Licosa, “Pop-up Shops Are Changing Midtown’s Retail Playing Field,” Columbia Journalism School, November 4, 2024

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Past the Point of (Amazon) Returns: Reverse Logistics Are Overwhelming Stores

Use with Chapter 4, "Multichannel and Omnichannel Retailing" and Chapter 16, "Human Resources and Managing the Store"


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Amazon's business model is centered around efficiency and innovation. It prioritizes the customer, even at the cost of its employees—and its pseudo-employees. New reports suggest that Amazon's retail partners are feeling the strain, such that the UPS Store, Whole Foods, Staples, and Kohl's locations have reported significant problems due to their partnerships with Amazon.

These agreements mandate that the physical locations of these chains will accept returns from Amazon customers. They are responsible for scanning the returned products, assigning an individual code to each, and then labeling, bagging, and boxing the return for pickup. For customers who drop off one or two boxes every once in a while, it offers an appealing convenience. For those who bring in as many as 50 boxes, regularly, the stores instead serve like a dump, forced to receive thousands of added packages per week.

The combined results have prompted all four retailers to complain about untenable conditions, including congestion in their stores, increased labor costs, and excessive plastic waste. Staples workers circulated a petition, demanding that their employer increase their budgeted hours so that they could accommodate the added foot traffic.

But experts suggest other ways might be more effective, including incentives that might curb superfluous returns. For example, Amazon might offer more comprehensive product information about the items it sells. Or it might charge consumers to make returns, though this option flies directly in the face of its promise of convenience and likely would anger its loyal, frequent shoppers.

Yet some UPS Store locations have experimented with disincentives, charging $1 per return. Staples and Kohl's have resisted such a policy thus far, as well as acknowledged the benefits that accepting returns brings, such as increased in-store purchases from shoppers already in the store. According to Amazon's own announcements, it will ensure that at least one free return option will always be available to customers.

These conflicting interests suggest that the current model might not be able to last forever though. The National Retail Federation has reported that, as of 2022, 16.5 percent of all online purchases were returned. That rate continues to climb. True to its name, Amazon continues to account for a sizeable share of those return figures.

Discussion Questions

1. What other steps can or should Amazon take to reduce the strain placed on its return partners?
2. Does it seem advisable for retailers to continue return partnerships with Amazon? Why or why not?

Sources: Caroline O'Donovan, "Returns of the 'Amazombies': Unwanted Packages Are a Retail Nightmare," The Washington Post, July 21, 2024; Clara Ludmir, "The Billion Dollar Return Nightmare: Why Retailers Are Enabling 'Keep It' Policies," Forbes, December 6, 2023; Mattea Vecera, "Retailers Like Staples Are Being Overrun with Customers Dropping Off Amazon Returns," Inc., July 23, 2024

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Spook-tacular: How Halloween Became a Retailing Boon

Use with Chapter 5, “Customer Buying Behavior” and Chapter 12, “Managing the Merchandise Planning Process”

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Changing weather and falling leaves have long heralded the coming of fall. And for many, it also marks the start of an extended holiday season. Christmas might only come once a year, but many U.S. consumers begin their celebrations in October, kicking off the festivities with Halloween, before transitioning into Thanksgiving, and then Christmas and other year-end celebrations.

But beyond its role in starting off the extended holiday season, Halloween has become a juggernaut all of its own. What started with simple outfits and local trick-or-treating has transmogrified, prompting massive and steep increases in the sales of decorations (including increasingly popular, massive, 12-foot skeletons), candy, and costumes. Statistics show that U.S. consumers aren’t just spending a bit more; they’re spending exponentially more. Domestic Halloween sales were predicted to reach $11.6 billion in 2024, more than three and a half times what people spent in 2005. Several reasons might be behind this phenomenon.

First, Halloween is easy to commercialize. It occurs on the same day each year, it consistently influences pop culture news and celebrity trends, and the purchase of costumes and candy is usually required to participate. Retailers have capitalized on this ready capacity and worked to incentivize Halloween spending, often well before the date. They stock shelves with spooky décor to help people get in the spirit, and accordingly, almost half of U.S. shoppers indicate that they plan to start their Halloween shopping more than a month before October 31. For example, Spirit Halloween opened the doors of its more than 1,500 temporary locations on August 1, and Home Depot made headlines when it began selling Halloween-themed products in April. Marketed as a “Halfway to Halloween” sale, the promotion represented a creative way to sell holiday items even earlier and justify a further expansion of what experts refer to as “holiday creep.”

Second, the influences of social media, through which influencers and celebrities share their remarkable, creative, and cute costumes, seeking to outdo themselves and one another each year, encourages regular consumers to follow suit, literally. In particular, Millennial and Gen Z consumers have deeply embraced Halloween, such that more than 60 percent of these generations report plans to dress up and celebrate, which in many cases involves dressing up their beloved pets as well.

Third, consumers today report heightened feelings of stress and widespread dissatisfaction. The escapism promised by a nostalgic, silly holiday—one that generally does not feature family-related emotional baggage or the risk of controversial conversations that threaten to derail other holiday dinners and celebrations—offers a compelling and reassuring form of consumption therapy. Even when the pandemic prompted a drop in sales for 2020, retailers still earned an estimated $8 billion on Halloween, and its subsequent rebound has been even more impressive. Unlike the temporary fun of dressing up for a day, the fundamental appeal of Halloween seems both recession-proof and secure.

Discussion Questions

1. How might retailers encourage increased consumer participation in Halloween? Are there any obviously untapped customer demographics?
2. Why are customers willing to spend so much on Halloween, even during economic downturns?

Sources: Aimee Oritz, “Halloween’s Mutation: From Humble Holiday to Retail Monstrosity,” The New York Times, October 19, 2024; Brennan Doherty, “Why Americans May Spend $12bn on Halloween in 2023,” BBC, October 16, 2023; Nicholas Molinari, “How American Businesses Deliver Halloween in Spooktacular Fashion,” U.S. Chamber of Commerce, October 29, 2024

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Redbox Is Done. Where Do the Machines Go?

Use with Chapter 6, “Retail Market Strategy,” and Chapter 11, “Relationship Management”

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Okay kids, gather around. We have a story to tell, one that you might not believe, but stick with us. Once upon a time, streaming services did not exist. If people wanted to watch a movie at home, they had to wait for networks to choose to show it. Then, some clever companies decided to create movie rental stores. They offered a better option, but it still involved a tedious process. Consumers had to drive to the video store and search through the shelves to find a movie to rent, and they simply had to hope that the most popular titles were still in stock. (We won’t even go into the evolution of different video formats available in the stores here, but it’s a pretty interesting story too!)

Then, a new idea arose in 2002, seeking to address the pain of visiting a separate video store. Redbox came up with the revolutionary notion of installing DVD vending machines in existing stores, such as supermarkets, pharmacies, or convenience stores. Thus, consumers already out and about, shopping for daily necessities, could grab a movie on the same trip, then return it to the same convenient location. The vending machines could hold up to 600 discs and did not require any regular staffing, and people could keep the movies as long as they wanted (for a fee). Redbox eventually boasted nearly 25,000 machines installed throughout the United States.

The idea might have been revolutionary at the time, and it signaled the company’s innovative ability to address a problem that only had emerged as the market changed. Yet despite this history, Redbox failed to adapt as video viewing habits and capabilities continued to shift. Thus, by 2024, the company had entered bankruptcy, which was frustrating for investors and employees. But that isn’t the only difficulty.

Its bankruptcy means that all those tens of thousands of vending machines, installed in stores across the United States, are useless. Each box weighs nearly 900 pounds. They are bolted into concrete foundations at each location, and they rely on the host stores’ electricity. Walgreens estimates that it has spent $184,000 per month, across 3,800 locations, to power Redbox machines linked to its existing grids, even though the boxes no longer function as intended.

In addition to the physical challenge of removing the Redboxes, the responsibility for doing so is not straightforward. Both Redbox and the operators that it contracted with to maintain the kiosks have left the market, completely out of business. Thus, there is no corporate entity that stores can contact to deal with the machines. Instead, the retailers need to get permission from the courts to have the Redbox machines disconnected and removed. Once they gain the approval, they have to find a way to remove the machines in an environmentally safe way; each Redbox was designed to contain coolant material that would be corrosive if disposed of incorrectly.

Thus a new market has emerged, and some specialized moving companies have begun touting their ability to handle the removal process for the retailers—pending court approval, of course. But solving the removal problem still leaves open the question of what happens to the removed machines. Most of them likely will end up as scrap metal, because the intricate processes that would be required to salvage, retrofit, and store the machines are intense and expensive. A few enthusiastic collectors have struck deals with stores or salvage contractors, in their bid to own a piece of media history, but that niche market is much too small to make a real dent in the supply of defunct Redboxes.

Discussion Questions

1. Ideally, which actor in this supply chain should be responsible for removing the Redbox machines? Does your answer match the reality?
2. Can you imagine any other creative reverse logistics solution for dealing with the defunct kiosks?

Sources: Becky Yerak, “Bankruptcy Took Down the Redbox Machine. If Only Someone Could Take Them Away,” The Wall Street Journal, October 10, 2024; “Companies Weighing How to Delete Now-Defunct Redbox’s DVD Vending Machines,” ABC News, October 11, 2024; Trevor Mogg, “Redbox Kiosks Are Disappearing, But Where Are They Ending Up?” Yahoo! Tech, October 15, 2024

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Nobody Home: NYC Pharmacies Are Closing Locations

Use with Chapter 8, “Retail Locations” and Chapter 9, “Retail Site Location”

istockphoto / mrdoormits

As Frank Sinatra promises, “If I can make it there, I can make it … anywhere.” New York represents a hub for students and workers, artists and financiers, young and old alike. It’s a bustling metropolis, every block thrumming with life. But its desirable real estate comes at a price: New York is one of the most expensive cities for people to live and for retailers to set up shop.

Corner stores and bodegas, as well as national chains like Duane Reade to Rite Aid, often anchor individual city blocks. But as chains shutter their locations in the city, driven out by high rents, many of these spaces remain empty. In just the past four years, 222 national chain pharmacies have closed in New York City. Yet demand for commercial real estate continues to be intense, such that many firms complain about their inability to find locations to rent. What can explain this ongoing paradox?

A key reason involves radical changes to the drugstore business. Three of the biggest national chains announced plans to reduce the numbers of their store locations. Rite Aid filed for bankruptcy in October 2023, citing high rents, mismanagement, and retail loss as contributing factors. The pandemic also created staffing shortages industry-wide, and e-commerce has made many brick-and-mortar locations defunct.

In addition, the chain pharmacies are often locked into lengthy leases, even if the stores themselves close. Because commercial leases can last 10, 15, or 20 years, and demand pre-pandemic rent rates, the renters have to keep paying the rent, and the landlords have little incentive to find new tenants.

Many of the stores are also relatively large in size, and it’s also difficult to subdivide the sprawling spaces. Most current vacancies range from 8,000 to 15,000 square feet; few modern businesses require that much space. The instillation of new walls and separate utility capabilities also is expensive, and owners would be expected to absorb these cost. Whether they actually can or not, most of them choose not to, especially in less desirable locations, including storefronts on secondary corners.

Locals who live and work near shuttered locations have expressed concern, because the empty storefronts tend to attract illegal activity, as well as dissuade shoppers from visiting nearby stores. In response to allegations that the city is not doing anything to address the problem, the New York City Council passed a new zoning plan in June 2024, allowing the large spaces to be turned into experiential businesses, such as microbreweries, laser tag venues, or play centers. But such a solution may be only temporary, and it does not address the substantiative needs of locals who hope to shop on their block for their daily necessities.

Discussion Questions

1. Why is the drugstore sector in New York City specifically struggling so much?
2. What other zoning changes might help incentivize landlords to subdivide these spaces? What changes could incentivize businesses to rent these spaces?

Sources: Stefanos Chen, “The Zombie Pharmacies That Are Holding Back New York City Retail,” The New York Times, August 6, 2024; Anna Staropoli, “Rite Aid’s Empty Storefronts: What Will Fill Them?” TSCG, October 20, 2023; Michael McDowell, “Zombie’ Pharmacies Plague UES, May Remain Empty For Years: Report,” Patch Media, August 6, 2024

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Hot Off the Presses, and We Don't Mean Hot Dogs: Costco's Successful Magazine

Use with Chapter 11, "Customer Relationship Management" and Chapter 15, "Retail Communication Mix"

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You might be forgiven for not knowing that Costco, known for its big-box warehouse offerings and affordable hot dogs, also is a publisher, with its own magazine. But even if we might forgive you for not knowing, we'll also caution that you're missing out. It exists—and it's a hit!

The *Costco Connection* currently ranks as the magazine with the third highest circulation in the United States. Its reach extends to the distribution of 15.4 million copies, delivered to club members each month. An additional 300,000 copies are available in Costco locations for shoppers to browse while in the stores.

The content features an eclectic mix of reading material that seems designed to appeal to a broad range of readers, but also is specific to Costco's average member. It spans recipes, product descriptions, articles about health issues, and human interest pieces. Oprah Winfrey, Bruce Springsteen, and Tom Hanks all have been featured in previous issues, providing readers with novel access to these popular celebrities while also reinforcing the celebrities' image as everyday folks who also might love to shop at Costco.

Whereas other print journalism interests continue to struggle, the built-in readership of the *Costco Connection* means that its editorial staff is largely free of the pressure of trying to push more engagement by publishing sensational pieces. Instead, they can focus on charming, gently entertaining content that also cultivates an appealing sense of belonging to a community. The shared content creates an idea of what it means to be a Costco shopper, outside of just bulk, value-oriented buying.

As a result, readers respond positively to what they find within the pages, including product reviews. In today's politically divisive cultural contexts, most media companies come under increasing scrutiny and questions about their responsibilities as they relate to the content they push. But 94 percent of readers express confidence in the *Costco Connection*. This cultivated outcome has been achieved by insisting on a culture of accepting feedback and responding accordingly. The magazine routinely publishes contact information for members of the staff, including that of its editorial director.

As an added benefit for Costco, print remains one of the best vehicles for achieving distraction-free engagement. According to some research, product reviews published in print lead to higher quality audience attention. One survey estimated that more than half of the magazine's readers bought a product because it was mentioned in the *Costco Connection*. The products featured in its pages accordingly exhibit sales increases of up to 30 percent.

Noting the *Costco Connection's* appeal and success, some other chains have tried to replicate the formula, but they seem unable to do so. Sam's Club ended the publication of its magazine; though some other grocery chains continue publishing their versions, they attract much smaller audiences. The content, style, and editorial ethos has firmly established the magazine's niche, pop culture status, along with a fiercely loyal readership.

Discussion Questions

1. How might retailers without print publications replicate the sales boost that Costco products receive from being featured in the *Costco Connection*?
2. Which other brands might find a similar success with a print publication? Which other brands likely would not? Why?

Sources: Mattie Kahn, "Costco Has a Magazine and It's Thriving," The New York Times, October 19, 2024; Nathaniel Meyersohn, "The Costco Connection Is America's Fourth Biggest Magazine," CNN Business, February 24, 2020; "Costco: An Unlikely Publishing Winner with Its Monthly Magazine," WARC, October 21, 2024

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No One Is Monitoring the Door: Sam's Club Introduces Cashierless Stores

Use with Chapter 16, "Human Resources and Managing the Store," and Chapter 17, "Store Layout, Design, and Visual Merchandising"

istockphoto / Olena Miroshnichenko

Because self-checkout options promise to increase the efficiency of a shopping trip, their introduction has been most prominent in retail locations that encourage quick trips, like convenience stores. But few people visit Sam's Club with the belief that they are going to get in and out quickly. So what is prompting the warehouse club to experiment with cashierless stores?

In the pilot store, planned to open in the Dallas area soon, members will be able to use a dedicated app to scan purchases as they shop. When they exit the store, the surveillance archways will perform automatic cross-checks of the contents of the carts. Some employees will still be standing nearby, to assist with any queries, but as long as shoppers don't have any issues, the process will be completely free of interactions with employees.

Perhaps that promise is driving the experiment; some consumers simply prefer not to make small talk when they shop. But in addition, by eliminating staffed checkout counters, the revised store design promises to free up substantial space, meaning that Sam's Club could strategically rethink the entire layout of its warehouses. Newly available space near the doors promises approximately four times as much room for staffers to prepare and hold curbside or delivery orders. Furthermore, it can be used to offer physical displays of really compelling products that consumers must order online, but which they might want to check out in person first, like Christmas trees or diamond earrings.

Even if some people hate talking to clerks in stores, others enjoy it. That is, a completely cashierless experience is not for everyone. Sam's Club's internal data show that 30 percent of its customers already use its app regularly. Implementing the new checkout technology would force the remaining 70 percent of its customer base to adapt or else look elsewhere. Such considerations are likely to be especially worrisome for elderly or tech-resistant buyers.

In acknowledging such risks, Sam's Club's leaders also note that, for now, the test is just that—an experiment in one store to see how well the alternative store design works. Nor are they focused solely on profitability. By devoting resources to testing the new concept, these executives can learn how flexible Sam's Club shoppers are willing to be. Using the data they gather, the company can adjust the design or devise iterations, such that perhaps stores could offer shoppers a choice of relying on the cashierless technology or else checking out with a few remaining cashiers.

In this sense, Sam's Club is making clear plans for its future. The strategic experiments look not one or two years ahead but decades in advance, testing ideas that could be ready for widespread execution in 2045.

Discussion Questions

1. What are the advantages and disadvantages of a cashierless shopping model, for consumers and retailers?
2. What other layout changes might Sam's Club make, in conjunction with the cashierless shopping process?

Sources: Ben Tobin, "Sam's Club Set to Open a Cashier-Less Store in Texas," USA Today, October 29, 2018; Chris Walton, "Why Sam's Club's New Cashierless Store Is Retail Innovation at Its Finest," Forbes, October 9, 2024; Melissa Repko, "Walmart-Owned Sam's Club Tests a Future Without Checkout Lines," NBC News, October 7, 2024

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Play On! The Profitability of Interactive, Play-Focused Retail Experiences

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

istockphoto /wdstock

For most children, imagination and curiosity represent skills to nurture. For most adults, they tend to be discarded and ignored. But these traits actually are innate to all humans, and accordingly, if given the chance, adults will embrace childlike pursuits, activities, and hobbies and seek a sense of wonder in the world. We might observe such behaviors in the growing popularity of pickleball for example. But engaging consumers in fun is not limited to the courts. Immersive retail experiences can provide ideal environments to encourage people to embrace their inner child, with the support of their adult-sized wallets. For example, Build-A-Bear's products have long promised emotional connections with children, who can develop personal relationships with the stuffed animals they help build and track throughout their production processes. By the time the toy is ready to come home, customers have moved through the entire store, engaged with various products available for sale, and made decisions about what features will be included in their new fuzzy friend. The process establishes a strong sense of wonder but also a feeling of ownership.

To extend this appealing outcome to adult consumers though, the retailer recognized it needed to make it seem acceptable for grown-ups to want to a stuffed animal. Therefore, it embraced a collectible positioning and partnered with existing collectible offerings, such as the *Star Wars* and *Deadpool* franchises. In stores or through age-specific websites, adults can build their own *Harry Potter* and *Friends* characters, personalized to reflect their favorite versions and costumes. Given the chance to expand their existing collections dedicated to such fandoms, teens and adults have increased their patronage of the retailer's offerings, such that they now account for an estimated 40 percent of sales.

The approach adopted by Build-A-Bear seemingly reflects an assumption that adults need a nudge or justification to embrace playfulness and childlike toys. The Jellycat Diner at FAO Schwarz rejects this assumption; it builds on the idea that adults (especially Millennial and Gen Z consumers) need no prompting to embrace a retail experience that gives them a way to escape reality and play for a while. The diner, which has gone vastly viral since opening in September 2024, is actually a pop-up shop within FAO Schwarz's New York flagship store. Dedicated Jellycat workers, uniformed in aprons and caps, pick, flip, and wrap up plush stuffies that take the shape of various diner foods. They mimic the sounds of foods cooking to make their "preparation" of the stuffies appear more realistic and to establish a completely immersive atmosphere. Fans line up around the block to wait their turn to interact with the employees, play with the stuffies, make memories of the experience, and then bring their stuffed burger, fries, or milkshake home.

As FAO Schwarz's chief merchandising manager put it, "we inspire awe and wonder with one-of-a-kind experiences…. And now we're bringing the classic New York City diner to our store, inviting guests to literally play with their food at the Jellycat Diner!" The underlying notion—giving people permission to play, whether with food or stuffed animals—is part of the driver of this expanding trend of using retail as a form of escapism from increasingly stressful adult lives, as well as a way to recapture childhood joy. In addition to the joy it brings, it means a new source of profits for retailers that create spaces for adults to play.

Discussion Questions

1. Which types of stores can benefit most from establishing immersive, playful retail experiences? Which not?
2. Consider an ideal layout for an experiential retail store. How can different design elements add to the tangible, sensory experience for customers?

Sources: Daysia Tolentino, "Adults Just Want to Have Fun: Why People Are Seeking Refuge in Toys and Experiences Again," NBC News, February 2, 2024; Kate Hardcastle, "The Rise of Onomatoplay Retail: How Bringing Play to Life Is a Winner," Forbes, October 14, 2024; Pauleanna Reid, "How Sharon Price John Took Build-A-Bear from Imploding Profitability to Record Results," Forbes, December 23, 2024

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Happy to Help: Microsoft Launches AI Agents

Use with Chapter 18, "Customer Service"

istockphoto / Tippapatt

Working in a customer service role can be deeply taxing. It requires nearly constant exertions of emotional energy, in addition to completing regular work tasks included in conventional job descriptions. Customer service employees thus suffer from high rates of burnout and turnover, harmful to both the workers and the companies that employ them.

Enter Microsoft's latest AI offering, Copilot, and its promise of a solution. Companies that purchase Copilot can use it to create virtual assistants, specific to their needs, that will be able to conduct automated tasks and complete designated workflows without human intervention. These advanced AI agents can respond to customer service queries, make purchases, compile caseloads, automate administrative tasks, and check others' work for errors.

In conjunction with the AI agents themselves, Microsoft launched Copilot Studio, an application that requires no prior coding knowledge or expertise. For clients that do not want to go through the process of developing or designing their own versions of the AI agents, Microsoft offers 10 readymade agents that can perform automated, routine tasks across various industries, like expense tracking or supply chain management.

Ideally, every employee of a company would have their own Copilot account, such that its interface would be specific to them and their needs. Furthermore, each employee's agent will collaborate with other employees' Copilot agents, so that they can integrate information and knowledge held by each of their employee partners to reach decisions, without human involvement. For these purposes, the AI agents might be trained to react to certain triggers or programmed signals, such that they initiate certain tasks without needing any human contribution.

The technology clearly is exciting. It also raises clear concerns. For example, once human oversight disappears, the possibility of large-scale errors arguably increases. Microsoft points to the many security features already integrated into the program. In addition, a dedicated function of each agent will feature a detailed explanation of the logic underlying the decisions the agent makes, should any employee need to understand or change the automated workflow model. Likewise, a list of all actions taken by the agent will be available for review by every employee in real-time.

Convinced of its promise and potential, Microsoft already has introduced Copilot to various blue-chip companies for testing, including McKinsey & Company and Thomas Reuters. Reports indicate that Copilot already has engaged in automated tasks surrounding legal due diligence processes. Such tasks can have significant impacts in financial and legal transactions, both positive and potentially negative. Thus, experts still call for caution. Copilot represents an exciting change to the way we do business, but developing, defining, and delimiting agent responsibilities needs to happen over time, and with plenty of oversight.

Discussion Questions

1. Which work processes would be the easiest to automate? Which would be the hardest?
2. Which industries might benefit the most from integrating Copilot agents?

Sources: Aditya Soni, "Microsoft Will Let Clients Build Their Own AI Agents," Reuters, October 21, 2024; Charles Lamanna, "Unlocking Autonomous Agent Capabilities with Microsoft Copilot Studio," Microsoft, October 21, 2024; Dan Milmo, "Microsoft Introduces 'AI Employees' that Can Handle Client Queries," The Guardian, October 21, 2024

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Titbits

The Federal Reserve Cuts Interest Rates Again

Use with Chapter 5, "Customer Buying Behavior"

The holidays are a busy time for retailers and consumers alike, as shoppers rush around trying to take care of last-minute gifting and party planning needs. A recent decision by the Federal Reserve, to cut interest rates yet again, is likely to exacerbate their typical spending patterns. In particular, lower interest rates mean that the costs of borrowing money are lower. These costs include the rates charged on credit card debt, as well as the costs of loans for cars or homes. Thus, shoppers likely will be willing to add more purchases to their credit cards, especially in light of indications that private credit institutions (e.g., American Express, U.S. Bank) plan to reduce the interest charges they impose on outstanding debt too. More affordable home and auto loans can encourage these large purchases and also enable current homeowners to refinance their loans. The National Retail Federation thus predicted a 2.5–3.5 percent increase in holiday spending in 2024, compared with the prior year. Such benefits for consumers often prompt them to engage in increased spending, which benefits retailers in the form of increased sales. In addition, small businesses can take advantage of low rates to obtain their own loans, such as to expand their operations. Looking forward, the Federal Reserve has issued statements that suggest it will implement fewer interest rate cuts in 2025. Before taking office, President-elect Donald Trump also released policy proposals for higher tariffs, which experts say will worsen inflation. Therefore, consumers would be wise to choose their own spending in the light of potential future developments.

Sources: *Aimee Picchi, "Federal Reserve Made a 3rd Consecutive Rate Cut Today. Here's How It Will Impact Your Money," CBS News, December 18, 2024; Christopher Rugaber, "Federal Reserve's Likely Rate Cut Slowdown Could Disappoint Borrowers," Associated Press, November 21, 2024; Nandan Sheth, "How the Fed Rate Cut Impacts Consumer Debt and Holiday Spending," Forbes, October 22, 2024*

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