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Newsletter for Instructors

November 2015

COMMENTS? CONTACT US

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

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http://warrington.ufl.edu/centers/retailcenter/research/publications.asp

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Teaching Tips

Additional Material for Teaching Retail Classes

A website, part of the University of Florida Miller Center for Retailing Education and Research, provides materials for retail class instructors including:

- Nine syllabi from instructors
- Classroom exercises
- Team projects
- PowerPoint slides
- Copies of this newsletter and previous issues
- List of retail links, cases and videos

The website is available at http://warrington.ufl.edu/centers/retailcenter/teach/

Please consider sharing your materials with other instructors through this website by sending your course syllabi, classroom exercises, projects, teaching types, etc. to bart.weitz@warrington.ufl.edu or mlevy@babson.edu

5 Ways Mobile Has Changed Retail Forever

Jim Nichols, iMediaConnection.com, September 15, 2015

Descriptions of the changes wrought by mobile technologies have a tendency to focus on the latest craze or most creative applications. But in addition to the exciting short-term changes invoked by mobile marketing and retailing, some of the shifts are permanent and expansive in their reach. In particular, mobile technology has eternally altered the way retailers allocate their budgets, price their offerings, and think about what they really provide consumers.

From a budgetary perspective, we find two main changes. First, with the widespread recognition that it is more expensive to attract new customers than to retain existing ones, many retailers traditionally assigned more of their budgets to getting new customers in their stores. They would host massive sales or spend money on advertising blitzes. With mobile options though, retailers are rebalancing these allocations, devoting more of their budgets to personalized, dedicated appeals to existing customers to encourage them to buy more. That's not to say they are done with advertising. Rather, they are trying to leverage those less expensive retention efforts to make current customers into better customers. Second, in a related shift, retailers are spending a lot more to obtain advanced, high quality data analytics and insights. With these big data, they can better find customers where they are (i.e., on their mobile devices) and appeal to them in appropriate ways and times.

Other shifts pertain to the role that retailers adopt for themselves. For example, rather than simply providing items that people might buy, modern retailers in the mobile era must provide information and insights. It is easy for mobile customers to switch to another app to find information. To avoid that move, retailers aggregate a range of informative content and make it readily available on their mobile sites and channels.

They also provide a new form of fulfillment. Because mobile customers have different preferences for when and where they obtain products, modern retailers have had to adjust how and when they provide those items. The arrival of mobile commerce means that most retailers need to offer an option for people to buy through their mobile devices, then receive deliveries or pick up the purchases later from a store.

Finally, mobile means a new view of pricing too. Whereas once retailers seemingly had only two choices—everyday low pricing or a HiLo strategy—shoppers on their mobile devices are less swayed by these simplistic approaches. Instead, pricing strategies today rely on dynamic changes and shifts, in accordance with moment-to-moment sales rates, inventory levels, and competitors' prices. For example, an innovative approach allows customers to show a retailer a better price online, and the shelf tag updates automatically to beat that price.

As this example shows, the changes induced by mobile technology still offer plenty of room for the "latest and greatest" types of innovation and change in the retail sector. But over time, those technological advances combine to transform retail altogether, in permanent, structural ways.

Discussion Question:

1. **How has mobile changed retailing?**

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Target Takes Price Matching to a Whole New Level

George Anderson, Retail Wire, October 1, 2015

Use with Chapter 14, "Retail Pricing"

Savvy consumers know how to work a price matching guarantee. In many cases, stores demand clear evidence of a lower price, and they usually impose strict time limits. Even retailers with comprehensive guarantees have made redeeming the refunds a little challenging, something that many customers are accustomed to.

But Target might be upsetting all those expectations. The retailer has announced two dramatic changes to its price matching policy. First, it is expanding the list of competitors that it considers when offering the guarantee. Whereas previously, there were 5 competitors whose prices Target promised to beat, the new policy includes 29 companies, both brick-and-mortar and e-commerce retailers. These rivals include Amazon and Walmart, as well as Best Buy, CVS, Kohl's, and Office Depot.

Second, the period during which the guarantee is in effect has doubled. In the past, customers had to bring their receipts and evidence of a lower price to Target within 7 days; they now have 14 days, and they can provide the required paperwork either online or in Target stores.

The announcement suggests that Target recognizes the frustration many consumers experience when they try to redeem price matching guarantees. It also offers a signal of Target's confidence in its price positioning. Still, it will continue to require exact product matches for the guarantee to be invoked. Thus for example, when Target added Costco and Sam's Club to its list of relevant competitors, there was little risk involved, because these warehouse clubs stock few items in common with Target. Furthermore, the list of competitors still excludes most dollar store chains.
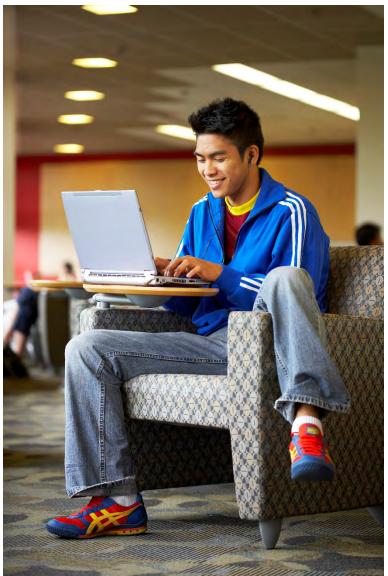
Discussion Questions:

1. **What is a price-matching guarantee?**
2. **How has Target changed its price-matching guarantee policy?**
3. **Why did it make this change?**

Millennials Are Flocking to Online Brands for Wardrobe Basics

Kristina Monllos, Advertising Age, September 7, 2015

Use with Chapter 3, "Multichannel Retailing," and Chapter 4, "Customer Buying Behavior"

The powerful influence of the Millennial generation on shopping patterns, brand popularity, and retail channels has been covered widely. But the thing about generational cohorts is that they invariably age, and as they do so, their habits change. One of those changes, currently taking place among the Millennial cohort, is creating a powerful challenge for some well-known brands.

The young consumers are entering the workforce and growing a bit more serious about their fashion choices. Rather than just fast fashion options, they seek some grown-up variety, especially when it comes to the basics of a wardrobe. However, these are the Millennials, so they are not visiting the same stores their parents did when they needed a pair of black pants or a new t-shirt. Previously, the main sources of such wardrobe staples were common mall residents like The Gap, American Apparel, or J. Crew. But as we have noted previously in these abstracts, Millennials rarely visit malls to shop for clothing. Instead, they prefer online retailers that offer them a range of benefits, compared with traditional retailers.

First, as we all know, Millennials like to be on their mobile devices, and they feel very comfortable ordering another pair of jeans or a button-down shirt that they know they like. They might look elsewhere for special occasion wear, but for the everyday basics, they are happy to place an order online or through a mobile channel and have it shipped to them.

Second, the latest online and mobile retailers offer consumers a new type of personalized experience, offering both claims of authenticity and a sense of intimacy. For example, Everlane.com details the sourcing and origins of all the pants, shirts, dresses, and outerwear posted on its website. Therefore, socially conscious shoppers can feel reassured that the items are not coming from sweatshops. Popbasic encourages consumers to offer design ideas and feedback, such that they feel as if they have participated in the development of products for sale.

Third, because these new retail versions do not have a legacy of hundreds of stores, their operating costs are lower from the start. Accordingly, they can provide many of the basics at a lower price, which appeals to Millennials just starting out in their careers. They might be moving past cheap fashion, but they still need to watch their costs.

As Millennials grow up, some of the brands they or their parents have known and loved for years "haven't grown up with us." There's a lesson for every brand here: As times change, so must they, if they hope to remain relevant and interesting to new and emerging generations of shoppers.

Discussion Question:
1. Why do online stores appeal to Millennials?

Will Surge Pricing Become the New Normal?

George Anderson, Retail Wire, October 1, 2015

Use with Chapter 14, "Retail Pricing"

When demand increases, sellers need to increase either the supply they put on the market or their prices, to balance out demand and, in the process, earn more revenue. That's a pretty basic equation from Economics 101. But the latest version of this interaction is drawing some challenges and questions, as well as leading to some allegations of price gouging and customer frustration. So what's a service provider in the modern, on-demand economy to do?

A couple of examples of surge pricing come from Uber and OpenTable. When demand for rides increases, Uber ups the price for a ride. It justifies the move by asserting that the price increase also leads to an increase of supply. If drivers know they can earn more, they are more likely to start driving. But at the same time, a higher price might limit demand, because riders may choose to walk or catch a bus instead of pay more to get to their destination. At some point, riders might become so disenchanted that they change their patterns altogether and rely on the standard pricing of other transportation options.

OpenTable is just beginning to experiment with the surge pricing method, which it might offer in the form of a Premium Reservation service. For an extra $50 for a table for two, it allows people making a reservation for that night to eat at a prime time, rather than having to show up at 5:00 p.m. to get in to the hottest restaurant. The number of reservations will be limited, and the price will double for a table for four people. The pilot test is taking place in a New York City restaurant; if it succeeds, OpenTable will make it available everywhere.

Although some customers grumble about the added costs, both Uber and OpenTable believe that they have enough information about customers and their wants that they can safely apply the surge pricing charges, in ways that consumers will be happy to pay. OpenTable notes that its big data show it exactly who would be pleased to have the option to pay more to get a good table. Furthermore, commentators argue that these two examples are just the beginning for the expansion of surge pricing tactics. Soon, it may be that the best options for on-demand purchases all invoke additional charges. For the customers who really want or need those services, price might be less of an issue.

Discussion Questions:
1. What is surge pricing?
2. How is it different than yield management as described in Chapter 14, p. 395?

The Favorite 50 2015

Sandy Smith, Stores, September 2015

Use with Chapter 1, "Introduction to the World of Retailing," Chapter 2, "Types of Retailers," and Chapter 5, "Retail Market Strategy"

The ninth annual survey of consumers' favorite online retailers revealed few differences from the rankings in previous years. The big names are still big, and of the entire list of 50 retailers, only 6 were new. Yet even as things stay largely the same, some small changes suggest trends that might be of interest.

For example, Amazon and Walmart have nearly always been in the first and second positions, and that hasn't changed. But Amazon also increased its share slightly, and much of that increase came at the expense of Walmart. So even as it remains in top place, Amazon is still competing actively, seeking to grow further, such as with its Prime Day promotion and its offer of same-day shipping.

Best Buy improved its share too, and it moved up slightly in the list to the third spot. Here again, the slight changes might signal something bigger, especially for this retailer. Many commentators predicted its downfall, following the pattern set by competitors like Circuit City and RadioShack. Instead, Best Buy has devoted powerful efforts to improving customer service, to help customers make their purchases more easily and quickly. It also enhanced its price matching guarantee, seeking to give customers more confidence in their purchases.

This sort of confidence seems to be a prominent goal for consumers. Many of the retailers on the top 50 list are widely recognizable names, which seems to indicate that online shoppers prefer to purchase from retailers that they know and trust already. Even Millennials, who are more comfortable in various online settings, rank Amazon tops on their list—though they also helped some specialty retailers like Forever 21 and Old Navy make strides up the ranking.

One of the biggest jumps came from Nordstrom, which moved up five spots to twelfth place. The reason, according to one observer, was likely its active efforts to expand its appeal with a greater presence for Nordstrom Rack and continuing to offer its renowned customer service to online shoppers as well.

Discussion Question:

1. Which retailers are rated at the top by consumers, and why?

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A Case for Costco and Other Warehouse Clubs Having Transformed Retail More than Amazon

Sarah Halzack, Washington Post, September 2, 2015

Use with Chapter 2, "Types of Retailers"

A recent academic study makes an interesting claim: Warehouse clubs, like Sam's Club or Costco, have had a stronger influence on changing retailing than has the other big game changer of our modern era, e-commerce.

The research involved analyses of the structure of the retail sector over two decades. The authors, from the University of Chicago, noted the sizes and growth rates displayed by both e-commerce sellers and warehouse clubs. As they show, the four biggest warehouse retailers accounted for approximately 8 percent of 2012 retail sales. That's nearly twice as much as e-commerce represented.

In terms of the growth of the two retail forms, these authors also reveal that e-commerce grew from $35 billion to $348 billion in sales between 1992 and 2013. That sounds impressive, yet warehouse club sales in the same period increased from $40 billion to $420 billion.

Both the numbers and the rates thus are higher for the clubs.

Drawing some conclusions from these findings, the researchers argue that reports of the death of brick-and-mortar stores appear to have been greatly exaggerated. In-store purchases continue to be a robust sector, and the specific format of warehouse clubs continues to expand. In particular, their recent growth has tapped into demand in more heavily populated areas, as the clubs move from distant suburbs into more city centers.

What the authors do not discuss, however, is the broader impact that e-commerce continues to have. For example, nearly every retailer in the world is looking to establish or expand its online or mobile presence. The same cannot be said of warehouse clubs.

Discussion Questions:

1. Which retail format has the fastest growth: warehouse clubs or Internet retailers?
2. Do you expect this differential growth rate to continue?

Retail Tidbits

What's the Answer for Costly Online Returns?

Tom Ryan, Retail Wire, September 28, 2015

A recent survey of the supply chain executives of various retailers in North America reveals some remarkably similar perceptions. Mainly, they agreed that online returns were killing their supply chain operations. Among the 20 respondents, a remarkable 95 percent cited online returns as their biggest challenge. Furthermore, 85 percent of them noted that when online customers return unwanted items to stores, the costs are painful. When the returned product is not normally carried on store shelves, the retailer has to pay to ship it back to its fulfillment center and also incurs greater risks of product damage. The survey also suggested that online returns reach as high as 30 percent of purchases, suggesting the required expenses are neither periodic or rare. These executives also agreed on the solution: more integrated inventory and fulfillment practices across in-store and online channels.

Bath & Body Works to End On-Call Scheduling

Lauren Weber, The Wall Street Journal, September 8, 2015

The saga of on-call scheduling just keeps going. Last month, we reported that, in response to pressures from the New York Attorney General's office, Abercrombie & Fitch and Victoria's Secret were putting a halt to their practice of requiring retail employees to be on-call for shifts. Now another well-known retailer also owned by L Brands (which owns Victoria's Secret) has announced a similar decision. Bath & Body Works will no longer require employees to show up for shifts or check in to find if they are needed, only to risk being sent home if the stores are not busy. The New York Attorney General lauded the move, noting that "Employees deserve stable and reliable work schedules to adequately plan for childcare, transportation, and other basic needs." Thus, of the 12 retail chains warned about the potential illegality of their on-call practices, one-quarter have reversed their policies. It seems unlikely that the others could be far behind.

Best Buy to Open Shops Inside of Macy's Stores

George Anderson, Retail Wire, September 9, 2015

Shoppers at Best Buy can often find what they want in dedicated stores within the stores. These options are among the key reasons for Best Buy's resurgence and recent success, reflecting its strong relationships with vendors and ability to offer the kind of variety its customers demand. These successes have been so notable that Best Buy is entering into a partnership in which it takes the other side—that it, where it represents the store within, rather than the host store. Accordingly, for this year's holiday shopping season, consumers will find Best Buy stores within 10 Macy's locations. The mini–Best Buys will take up about 300 square feet of space and offer tablets, smartphones, smartwatches, audio devices, and accessories. As it does in traditional Best Buy stores, Samsung will have a strong presence. Staffing the in-store stores will be Best Buy personnel, ready to answer shoppers' questions about high-tech devices. Best Buy's recent resurgence, as well as Macy's willingness to innovate, have contributed to the new initiative. In addition, Macy's notes that customers are seeking more variety in the items available to them, whether to purchase for themselves or as gifts. By adding the latest and coolest electronics gadgets, Macy's ensures that it is a shopping destination for virtually anyone.

Want to Stop Retail Showrooming? Start Training Your Staff

Marshall L. Fisher, Knowledge@Wharton, September 1, 2015

Retail showrooming—when a customer visits a brick-and-mortar store to gather information, then purchases through another, possibly less expensive channel—is a problem for retailers. But there is a key question that many retailers forget to ask: Why would shoppers take the time to get in their cars, drive to the store, research the items, and not buy, especially when the item is a smaller ticket item or available for the same price online and in stores? According to one research team, the answer is that the store is driving them away, by failing to provide customers with employees who are knowledgeable enough to help them make their decisions. That is, when customers visit the store, they seek information that can help them make a purchase decision with confidence. They want to be confident that their choice is the one that will best meet their needs. To gain that confidence, they need information and reassurance from sales employees. The author provides an example of buying some technical hiking gear. A sales clerk who knows about, understands, and can communicate the various benefits and options available across different brands of hiking boots gives the customer confidence. A salesperson who is unfamiliar with what differentiates the different offerings instead leaves the customer unsure and unwilling to complete the purchase. Instead, this customer is likely to leave the store and visit an online site, in an attempt to gather more information. According to this research, training employees to ensure that they know about the different brands and products that the retailer sells can have a remarkable impact on sales. Although these authors are careful to offer various cautions about reading too much into the findings, they propose that just one hour of training can increase an individual employee's sales by 5 percent. Combined, these improvements imply sales increases at the store level of approximately 23 percent. In general then, retail showrooming might not be evidence that customers are trying to exploit the retailer. Instead, it might be a strong signal that the retailer is not doing enough to ensure that its sales personnel are informed and helpful.