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

- Making Mobile Happen (Chapters 3 and 15)
- The Feedback Loop: More Data Doesn’t Always Mean Better Customer Service (Chapter 18)
- Home Depot Lumbers into E-Commerce (Chapters 3 and 10)
- Why Subway Doesn’t Serve a $14 Reuben Sandwich (Chapter 16)
- What’s Different About Tomorrow’s Mall: You Never Have to Leave (Chapter 7)
- Retail Lessons for Today, Learned from PBS’ Mr. Selfridge (Chapter 5)
- Monoprice Booms as Amazon for e-Stuff (Chapters 5, 13 and 14)
- Quirky, Cult-Like, Aspirational, but Affordable: The Rise and Rise of Trader Joe’s (Chapters 2, 5 and 13)
- It’s the Age of the Millennial: What that Means for Retail (Chapter 4)
- Amazon Escalates Its Battle Against Publishers (Chapter 13)

Retail Tidbits

- Etsy, Home of the Handmade, Takes On a Wholesaler’s Role
- Speedy Checkout Wins Retail Technology of the Year
- Three Things You Need to Know about Amazon’s Price Strategy
- Sealing the Deal: Six Digital Tools Targeting Impulse Shoppers
- Is the Flash-Sales Model Fading?
- 5 Ways Companies Can Leverage Pop-Up Stores
If you are interested in the text book please visit www.mhhe.com/levy9e. Simple registration is required to gain access to the newsletters and other instructor materials. If you would like to see this newsletter and the previous editions, go to:
http://warrington.ufl.edu/centers/retailcenter/research/publications.asp

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
It may seem as if every retailer in the world is talking about integrating mobile into their operations. But implementations of game-changing technologies continue to lag the idealized promise of a retail revolution. If retailers really want to attract customers through seamless use of technology in stores, they must make significant investments of time and money to develop the appropriate software and hardware.

Some versions of these technologies already are available for purchase from external developers. For example, PowaTag integrates geo-location services with mobile commerce, as well as touch-to-buy functions. Relying on smartphone capabilities, PowaTag enables customers to purchase products they like instantly, whether they see the item in the store and take a picture of it or scan a watermark printed in a magazine spread. Rather than needing to stand in line, or fold down the pages of a printed catalog to prompt a later purchase, shoppers can simply tag the item through their phones and complete the purchase in virtually no time.

PowaTag also makes use of beacon technologies, which are growing rapidly in prominence. These sensors are small, battery-operated tools that locate consumers in stores, then send them targeted messages through Bluetooth-enabled functions. Some options include sending a shopper a coupon the moment she walks through the door or providing detailed information about a particular electronic toy to a shopper when he pauses for more than a few seconds in front of its display. As the CEO of one beacon provider explains, “Shoppers now can engage with the store almost like clicking a mouse, by using their phone. They are clicking their mouse all around your store and you’re able to bring them digital content over those beacons.”

Another function, produced by IBM, focuses more specifically on enabling retail employees to help customers. The Presence Zones technology relies on location-based information to determine where shoppers are in the store and for how long. Thus, if someone has been hanging around the shoe department for several minutes, the resource prompts an employee to check in with that shopper to provide assistance; it also can suggest offering this customer a coupon for socks in the next department over, to encourage cross-sales.

Saks Fifth Avenue sought to develop a similar tool that would be unique to its stores. Its tablet tool gives sales associates detailed information about each customer who agrees to have her or his data entered into the system. The moment a shopper enters the associate’s zone, the sales clerk gains access to the customer’s past purchases and thus can recommend new offerings from favored designers or a new tie to update the suit purchased last year. The mobile technology also provides inventory information for the entire Saks chain, so if one store is out of stock on a requested item, the sales associate can make sure the item gets delivered from another outlet to the customer’s home. Current promotions come up as soon as the salespeople open to tool, then allows them to send personalized messages to selected clients whose purchase histories suggest they would be interested in a particular marketing offer.

These examples all rely, to varying extents, on making connections with customers through their smartphones. Therefore, a prerequisite for seamless technology-based interactions with customers is making sure that the store’s WiFi or cellular connections are easy and consistent. The RFSpot is a software-as-service platform that measures, constantly and in real time, whether customers can connect through their phones using the retailer’s network. Such a tool is critical for retailers, because if the connection fails, the customer never even has a chance to learn if the store’s technology app is appealing.
As IBM’s general manager of industry cloud solutions notes—in relation to Presence Zones, though the message applies more broadly to innovative retail technologies—“Once the shopper agrees to let the retailer interact with them, the opportunities to deliver more personalized service and reward loyalty grow exponentially. Initially not everyone may want to connect to a retailer, but it only takes a couple of positive experiences to realize the value of exchanging information.” Fortunately for retailers, many customers seem to be accepting this deal: According to recent research, approximately half of all shoppers read product reviews on their phones before making a purchase decision, and nearly as many check in at retail locations in return for receiving a discount or price match.

Still, the adoption of these technologies is not without challenges. Perhaps the most prominent is the continued questions about whether and how they invade consumers’ privacy. Shoppers have complained when retailers tap WiFi signals to determine their locations without permission. When one retailer sought to avoid controversy by posting signs telling customers about what it was doing and how they could avoid being tracked (i.e., by turning off their phones), it still came in for intensive criticisms.

Ultimately, the success of these mobile technologies will depend on the trade-off that retailers offer. If mobile sales tools can sufficiently enhance consumers’ convenience and lead to improved, targeted, personalized sales interactions, in ways that seem easy and seamless, shoppers are far more likely to agree to grant retailers access to their personal information.

Discussion Questions:

1. How can mobile technologies transform the way people shop?

   The possibilities are nearly endless. Mobile technologies will make it easier, more convenient, and faster for customers to find items and make purchases. Because they involve access to customers’ personal data, mobile technologies also might increase the number and personalization of coupons and other retail communications that customers receive.

2. What are the impediments to implementing mobile applications in retailing?

   A key impediment involves privacy concerns. These issues might keep customers from using mobile, as well as potentially invoke legal restrictions. For retailers, the main impediments include ensuring sufficient resources are available to make sure mobile applications work well and seamlessly.
The Feedback Loop: More Data Doesn’t Always Mean Better Customer Service

Knowledge at Wharton, April 23, 2014

Use with Chapter 18, “Customer Service”

Even as increasing numbers of retailers actively seek out customer feedback through online surveys or follow-up telephone contacts, experts are questioning the value of such reviews. In particular, customers who assess their retail experience after they get home and log on to a survey may feel less empowered by their input, and rightfully so, because their responses may be less likely to reach the employees who provided the service, good or bad.

The rationale for soliciting more feedback is reasonable. Retailers worry that if customers only complain about poor service to a salesperson, the information will never move up the hierarchy to managers, which means that the problem would not be resolved. In addition, by gathering greater quantities of feedback through a single system, companies can aggregate the information to get a better sense of the overall level of service they provide.

However, the downsides of such practices seem equally problematic. Customers who are angry about poor service or impressed by great service often want to express their strong emotions immediately and be able to see the change that it invokes, whether an apology or a manager’s recognition of a superlative employee. Furthermore, the feedback gained through post-sale surveys conducted at the firm level might not move back down the hierarchy to inform store managers or the relevant employees. Finally, this firm-wide perspective implies that the desired outcome is always homogenous service levels, whereas many experts recommend that service provision should be personalized to meet the needs and preferences of different customers, some of whom might be happy with relatively minimal, and perhaps more efficient, services.

Although in theory, tip-based service settings can resolve some of these challenges, in that tips give immediate feedback to service providers, studies show that the level of service often is not closely correlated with the tipping percentage provided. For example, diners tend to leave around 18–20 percent for restaurant servers, regardless of how attentive the waiter was. Furthermore, according to Benjamin Schneider, a workforce analytics expert, tips are inefficient as motivators of good service.

Nor do customer complaints offer perfect signals of service quality. Some customers express inappropriate biases in their complaints, related more to the person providing the service than the level of service actually provided. Other customers simply like to complain, regardless of whether the service was good or bad, or whether a service failure was due to the actions of the frontline employee or a situation outside of her or his control.

Discussion Questions

1. Are quantitative surveys a good way to measure customer service? Why or why not?

   They can be when used at a global, firm level, in the sense that firms might get a sense of trends across multiple customers. However, they cannot offer specific recommendations about how well a specific employee functions or what specific service offerings a particular store should implement.

2. Should tips be used to measure customer service? Why or why not?

   Despite their long-standing use, recent research suggests that tips do not reflect service levels. Instead, customers tend just to tip the standard amount, without differentiating the tip based on the service level.
3. Should retailers attempt to give the same level of service to everyone? Why or why not?

No, because not all customers want or value the same level of service. To be efficient, retailers need to offer limited service to those customers who are happy with that level, rather than expending resources on giving them extraordinary service. Further, better customers deserve and often expect higher service levels than customers that spend less money with the store.
In a notable shift, one of the most well-known big box stores seeks to open wider online channels, even as it slows its long-standing drive to open new physical outlets. Home Depot build a reputation on its huge, warehouse-like stores, where do-it-yourselfers could find everything they needed for their home improvement projects and contractors could source various critical inputs for their businesses.

But several recent trends have converged to challenge its business model, which was based largely on constantly opening new stores. First, competition in the home improvement retail market became increasingly fierce. Second, with the collapse of the housing bubble, the competitors in this industry were forced to chase a rapidly shrinking segment of homeowners—which fell from around 77,000 households before the collapse to approximately 30,000 afterward—with ever increasing more vigor. Third, consumers have continued to grow more comfortable with online buying, which also enables them to enjoy in-home delivery of bulky products such as sinks or patio sets, rather than having to find a way to lug the heavy items home on their own.

In response, Home Depot is simultaneously halting 50 planned new store openings, closing about a dozen existing stores, and investing $1.5 million in its e-commerce operations. Although online purchases account for just 3.5 percent of the chain’s total sales, Home Depot anticipates that an expanded online presence will have several positive repercussions. In particular, it should help satisfy customers who want access to a broader range of products, because whereas even its biggest stores can carry around 35,000 products, Home Depot will make more than 600,000 items available through its website. It also has set predictions for what it believes will be the fastest movers online: quick purchases such as light bulbs and extension cords, combined with big, heavy items such as appliances.

In these efforts, Home Depot also hopes to appeal to its business customers. Online ordering would enable a contractor to put together an e-commerce order for the project it has scheduled for the next day, then stop by the store to pick up the entire supply on the way to the project site. Such options are not without challenges though. For example, when the orders are particularly sizable, individual Home Depot stores struggle to find space to hold them until the customers are ready to retrieve the items. As one Manhattan store manager complained, “We had air conditioners stacking up and no place to put them” when customers failed to gather their online orders in timely fashion.

Discussion Questions:

1. Why is Home Depot expanding its e-commerce business?

   The reasons for this expansion reflect the changing face of home improvement retail: a smaller, more price-sensitive customer market, filled with shoppers who are happy to order online and like delivery services.

2. What will be its supply chain challenges as it does so?

   The main challenge is finding space to hold inventory ordered online and available for in-store pick-up services. Especially when these items are large and bulky, Home Depot stores will have trouble giving up valuable store space for storage purposes.
Why Subway Doesn’t Serve a $14 Reuben Sandwich


Use with Chapter 16, “Managing the Store”

The debate about the appropriate level at which to set the federal minimum wage has reawakened again, prompting various observers to pose arguments for or against raising the current rate. According to one columnist who opposes raising the minimum wage, the key question really centers around the positioning adopted by various retail employers.

The comparison of Subway with Zingerman’s, a specialty deli from Michigan with a thriving mail-order business, provides a central example. Zingerman’s pays its sandwich and bread makers far more than the minimum wage. It seemingly can do so largely because its prices are high enough—such as $14 for a Reuben sandwich—that it earns strong margins. In contrast, for Subway to continue attracting the cost-conscious consumers that make up its target market, it needs to keep its sandwich prices low, which leaves it with little room to pay workers more.

The other example the author cites is Costco. Although this retailer takes a low price position, it also enjoys an uncommon revenue stream in the form of the annual membership fees. As a result, it pays workers a starting hourly wage of $11.50. In this view, the only question to ask when considering whether the federal government should legally increase the minimum wage is whether the companies that pay these wages to employees can afford to pay more.

Discussion Question:

Can retailers afford to increase the minimum wage?

Yes: Ultimately, retailers cannot afford not to raise it. To keep pace with the cost of living, employers must increase the wages they pay employees. Otherwise, those employees cannot afford to make purchases themselves, which means the retailers cannot survive in the long term.

No: Especially in industries with very thin margins, retail companies could not bear the additional cost of paying their workers more. Many of these workers perform unskilled labor, so it is not reasonable to expect employers to increase their wages.
What's Different About Tomorrow's Mall: You Never Have to Leave

Krystina Gustafson, CNBC.com, April 22, 2014

Use with Chapter 7, “Retail Locations”

The identity of the anchor store in nearly every mall once was quite well defined: a large, well-known, branded department store that would have a large footprint and provide a common entryway into the center of the mall. But in the aftermath of the economic recession, mall occupancy rates dropped dramatically. Furthermore, the competition that modern brick-and-mortar retailers face has pushed malls and their tenants to change the definition and widen the meaning of anchor stores, to include a broader range of retail providers.

In particular, more mall properties have started to feature grocery stores in prominent locations. Similar to traditional anchor stores, grocers sell products that most shoppers need, tend to highlight their familiar brand names, and account for a significant portion of the mall’s total real estate. By adding such stores, developers enhance the one-stop shopping convenience offered to consumers and promise benefits for their other tenants. Consumers who need to stop by the mall anyway to pick up a few groceries are more likely to take a few extra steps to outfit themselves with a new pair of shoes or check in on the latest fast fashions.

Another option as an anchor store offers a different and seemingly stranger kind of fit with malls. When fitness centers and gyms provide the anchors, the mall developer probably does not expect customers to finish their sweaty workout and then go try on new clothes. Instead, a mall that features a fitness center becomes a routine site that many shoppers visit regularly. Because they are so familiar with the location they visit for every workout, they also may be more likely to revisit it when they need to find a tux or a gift for a friend.

Because of the competition created by the rise of e-commerce, traditional versions of malls have become largely a thing of the past. They have relatively little in common with not only the versions of malls that appear in the marketplace today but also those slated to come in the future. As one retail analyst notes, “If you had told a developer or landlord 15 years ago that they would be putting grocery stores or fitness centers in malls, they might have looked at you sideways. Not only are they doing it now, but [they] are finding success in its application.”

Discussion Questions:

1. What are mall operators and tenants doing to motivate customers to buy?

   **By increasing convenience, retailers in mall settings hope to make it easier for customers to visit multiple types of stores and enjoy one-stop shopping benefits.**

2. How is the tenant mix changing in today’s malls? Is this a positive change for mall operators? What about customers?

   **As the tenant mix becomes more diverse, customers gain access to a wider range of retail options, rather than the same old stores that used to appear in virtually every mall. For mall operators, the greater diversity creates some challenges, in that they need to reorient their methods and promises to attract the new types of tenants, but if they succeed, it will mean greater success in terms of leasing all their space.**

BACK

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Retail Lessons for Today, Learned from PBS’ Mr. Selfridge

Joe Cecere, April 10, 2014, Retail Customer Experience

Use with Chapter 5, “Retail Market Strategy”

Sometimes art imitates life, and sometimes, life should imitate that art. The Masterpiece Classics series Mr. Selfridge recounts the true story of an American retail employee who took the lessons he learned working at Marshall Fields across the ocean and opened his eponymous store in London. Even more than the personal stories, the PBS series explains the historical origins of several early twentieth century retail innovations that have since become nearly mandates.

For example, Harry Gordon Selfridge has a reasonable claim to being the first person to assert that the customer was always right—as well as the first to use the phrase “Only 10 shopping days until Christmas!” Rather than limiting his clientele to wealthy patrons, Selfridge encouraged myriad shoppers to browse through the store, whether they made a purchase during that visit or not. To encourage such visits, Selfridge ran popular promotions and hosted notable events, such as when he displayed the first airplane to fly over water in his stores. The plane attracted an estimated 150,000 people in just four days.

He also took care to recognize the essential needs and desires of shoppers. Women of the era had trouble finding access to some basic comforts while outside their homes, so Selfridge made sure to build pleasant in-store restaurants, allowing them to sit down for a cup of tea in the midst of their shopping. He also added a remarkable innovation, found in few other business locations: women’s restrooms. Furthermore, Selfridges introduced the first semi-annual sales, to appeal to customers’ enjoyment with finding a good deal.

His consideration of people’s needs extended to employees too. Before Selfridge arrived, retail clerks often worked 12-hour days, treated as if they were domestic servants in a store setting. In contrast, Selfridge paid workers a higher wage, allowed them to live in their own homes (whereas other stores often required them to stay in onsite dormitories), and encouraged them by example to interact with and provide superior service to all customers. His daily managerial walks throughout the store demonstrated his accessibility, his interest in ensuring the store functioned smoothly, and his dedication to treating customers well.

Restrooms, putting the customer first, and sales seem like old hat now. The lesson for modern retailers who might catch a few episodes of the television series is that they must keep paying attention to new and creative ways in which they might transform retail again, as Mr. Selfridge did, to keep customers happy.

Discussion Question:

1. What did Mr. Selfridge contribute to today’s retailing strategies and tactics?

   Overall, Selfridge sought to make his retail store a comfortable, pleasant place for customers to spend time, then added in retail elements, such as sales, that encouraged them to buy items while they were browsing through the lovely atmosphere.

BACK
The e-commerce retailer Monoprice has one primary goal: source and sell electronic accessories and equipment at the lowest cost possible. It seeks to shrink every margin it can find so that the online prices for its private-label HDMI cords, for example, are less than half the prices that big box electronics stores charge for branded versions of the same cords.

Although Monoprice has a physical store in California, its $145 million in gross sales come predominantly from its online channel. Despite the inevitable comparisons to Amazon, Monoprice makes a point of specializing in only particular product categories. It seeks out production lines on which it can price its offerings at least 30 percent lower than comparable products sold by competitors. Because all its offerings involve electronic components, Monoprice finds its own manufacturers and has the expertise to test the products it sells. By outsourcing production, mainly to Asia, it lowers prices. By testing all the equipment, it simultaneously guarantees an acceptable level of quality.

Its pricing also relies on its efficient supply chain. In response to each order, an automated system first determines the proper box size. That box moves along the line to a staffed station, where the line worker adds the requested items to the box, which then heads out the assembly line to the shipping trucks.

With these strategies, Monoprice sells HDMI cords for $3.61, compared with average prices of around $20 for a similar cable sold at RadioShack. Monoprice’s iPhone cases sell for $4; from other producers, they range from $10–$50.

Discussion Question:

1. What is Monoprice’s retail strategy? That is, what are its target market(s), retail mix, and bases for sustainable competitive advantage?

   Monoprice works to attract electronics buyers who are price sensitive. Its relatively narrow product mix focuses on electronics equipment and accessories, rather than expanding into other, less familiar lines. Such expertise suggests a strong competitive advantage, whereas its low price strategy, based largely on outsourcing, is a tactic that many competitors could copy.
Quirky, Cult-Like, Aspirational, but Affordable: The Rise and Rise of Trader Joe’s

Elaine Watson, The Packaged Facts, April 15, 2014


The employees are wearing tropical shirts, the product labels feature puns and silly rhymes, and the manager goes by “Captain.” But dismissing Trader Joe’s as a joke is a bad idea, especially if you’re another grocery store chain that wants to appeal to discerning shoppers. Just ask Whole Foods.

The roots of its success are as diverse as the customers Trader Joe’s attracts. For example, its product lines offer organic, gourmet, and multicultural options (and sometimes combinations of all three), rather than focusing on any one type of product appeal. Furthermore, those options rarely are available anywhere else, because 80 percent of Trader Joe’s product assortment consists of its own private labels. The plentiful, unique options also tend to be relatively low priced—likely an artifact of Trader Joe’s ownership by the same family that runs the infamously low priced ALDI chain.

With these product and price offerings, rather than being all things to everyone, Trader Joe’s is a little something for anyone. Full, stock-up shopping trips still require another grocer, but for a little something special and tasty, Trader Joe’s provides a compelling alternative. Accordingly, it attracts a diverse fan base, approximately equally split between households that earn more than $100,000 annually and those that average closer to $25,000. Still, many of the customers at Trader Joe’s exhibit some appealing similarities for retailers, including high levels of education, a health emphasis, and a high level of comfort with technological innovations.

In these traits, Trader Joe’s customers are remarkably similar to those who shop at Whole Foods, despite the vast differences in the price positions the two chains take. The Whole Foods CEO even has admitted that the company views Trader Joe’s as its primary competitor and that its 365 private label represents a direct response to the offerings on hand at Trader Joe’s.

Yet its unique positioning sets Trader Joe’s apart from other grocers in consumers’ minds; it also helps it stand alone when it comes to some pertinent measures of success. Namely, in the grocery industry, the average rate of sales per square foot is $521. Whole Foods, with its high-end, pricy, trendy image, nearly doubles that rate, with sales per square foot of $973. And Trader Joe’s, with its small, island-themed stores? It achieves an utterly astounding $1723 per square foot on average.

Discussion Questions:

1. **What is Trader Joe’s retail strategy, i.e., its target market, retail format, and bases for sustainable competitive advantage?**

   Trader Joe’s relies heavily on its private-label strategy to attract diverse customers, keep prices low, and establish an exciting atmosphere where shoppers can find items they would never find elsewhere. Thus, it is clearly distinct, with a strong sustainable competitive advantage.

2. **How does it compete against Whole Foods?**

   Because many of its products promise organic ingredients, Trader Joe’s appeals to many of the same customers who appreciate Whole Foods, but it also offers them much lower prices on average.
3. Is it winning the battle?

   It may be hard to declare a victor yet; both chains continue to expand, but Trader Joe’s is not quite as large as Whole Foods. However, the concern expressed by Whole Foods’ CEO suggests that Trader Joe’s is no amateur either.
It’s the Age of the Millennial: What that Means for Retail

Kelsey Lindsey, Retail Dive, April 8, 2014

Use with Chapter 4, “Customer Buying Behavior”

Just when retailers had figured out how to appeal to the huge target market of Baby Boomers, along came their children, the Millennials. They constitute approximately one-quarter of the population, and their annual spending appears likely to surpass $1.4 trillion—or about one-third of all retail sales—within the next few years. Enticing this distinct generation of shoppers into stores, whether virtually or in person, and encouraging them to spend their limited funds requires a whole new set of approaches—a lesson retailers need to learn quickly if they hope to last until the next generation rolls around.

The characteristics of Millennials set them clearly apart from any other generational cohort. They have relatively little to spend, because they are just starting out in their jobs, and those jobs are hard to get in the post-recession era. Many are underemployed, if employed at all, and some estimates suggest that they face an astonishing average of $27,000 in student loan debts. Moreover, they are the first generation of true digital natives, such that whatever form technology takes, they can adapt readily and seamlessly to it. For them, digital media are inherent and innate, rather than requiring the kind of behavior shifts that they have demanded of older consumers. Finally, Millennials exhibit a notable lack of loyalty and a strong sense of skepticism, such that they switch religions, political parties, and, of course, retailers without much concern.

Such traits clearly constitute challenges for retailers. If the current target market has little disposable income, it becomes far more difficult to entice them to spend money on the latest fashion or the newest version of a gadget. Their comfort with digital media also might imply that retailers’ sunk costs in storefronts and physical outlets are becoming obsolete, leaving them with expensive, inefficient assets that do little to increase their business. And if an entire cohort of consumers is inherently predisposed to switching behaviors, it makes it very hard for retailers to build the valuable kind of customer loyalty they need.

The news isn’t all bad for marketers though. Because of their financial constraints, Millennials love a good deal, so retailers that can offer great value should enjoy a rush of business from them. For fast fashion stores, Millennials’ love of an affordable price has been the primary source of their remarkable growth. In addition, their comfort with various forms of digital media means that marketers can reach them through a wealth of channels, as long as the marketers learn how to use them effectively. Furthermore, this comfort level encourages young consumers to interact with marketers and retailers through digital channels, producing an unprecedented expanse of consumer feedback. Still, because Millennials, with their readiness to change, also like instant gratification, it appears that brick-and-mortar stores should not be relegated to the dustbin just yet. No mobile or online order, regardless of how responsive, can match the immediacy of walking into a store with money and walking out with the desired product in hand.

Discussion Questions:

1. **Why are Millennials such a good market for retailers to target?**
   This generation of consumers is vast, meaning that it has substantial spending power. The young shoppers also are comfortable in various retail channels.

2. **Why are Millennials a challenge for retailers to catch?**
   Although as a cohort, Millennials account for substantial spending, on an individual level, they have little disposable income. They also are not very loyal and will pursue the lowest price option.

3. **How can retailers meet that challenge and make Millennial customers loyal?**
   The key for retailers is to make sure they offer exactly what Millennial customers want: functional quality, integrated channels, and affordable prices.
Amazon Escalates Its Battle Against Publishers


Use with Chapter 13, “Buying Merchandise”


Who knew that the cultured world of literary retailing could start to look so much like a soap opera, filled with accusations of betrayal, threats of divorce, and anguished sighs by innocent bystanders? And just like some long-running soaps, it gets hard to keep the list of characters—not to mention who is allying with whom and who is stabbing a former partner in the back—straight without paying close attention.

The role of the big, bad villain is mainly being played by Amazon these days. The retailing giant for years has been working to lower the prices on both hardbound and electronic versions of books for customers. That seems like a good thing, but according to its supply chain partners and competitors—namely, book publishers and independent booksellers—it’s actually harmful for the reading public. By undercutting prices and demanding price concessions by the publishers, Amazon leaves impossibly small margins for writers to earn profits on their intellectual labor, especially if they have not yet joined the ranks of bestselling authors. The publishers also argue that these slim margins make it impossible for them to provide intangible but ultimately valuable development services, such as finding new authors and voices, providing editorial services to them, and making sure niche genres have plenty of texts available.

A few publishers have stood firm against the pressure. In the United States, Hachette proclaimed that it would not grant Amazon the greater split of the profits earned on e-books that the retailer was demanding. In response, Amazon allegedly started holding small, insufficient stocks of Hachette titles, so that customers faced “out of stock” responses on many of the books they ordered. It also halted all preorders on popular titles that were about to be released, such as the latest book by Robert Galbraith, the well-known pseudonym of J.K. Rowling. When those moves were insufficient, it simply stopped taking orders for any Hachette books and made Kindle versions unavailable. In Germany, Amazon similarly delayed any deliveries of books published by Bonnier Publishers.

In the meantime, Hachette and several other companies ruled out the possibility of a new retail channel for book sales, through introductory subscription services. Similar to Netflix and GameFly, services such as Oyster and Scribd charge a monthly fee, in return for which subscribers may download as many books as they can read. Only a few publishers have signed on with these retail services, including Simon & Schuster most recently, but already the two providers claim they have hundreds of thousands of titles available. All of the books are those that were published more than a year ago, which represents an effort to avoid cannibalizing existing sales of new titles any further.

Amazon’s remarkable retail dominance in the book market also has led to allegations that its actions actually constitute illegal antitrust violations, not just aggressive competition.

Across all these developments, the character most commonly being threatened appears to be consumers. On one side, they face the threat of unavailable or more expensive books if Hachette and other publishers won’t come to terms with Amazon. But on the other side, there sits the possibility that the quantity or quality of available titles will suffer if Amazon has its way. Be sure to stay tuned for more. You won’t want to miss tomorrow’s exciting episode!
Discussion Question:

1. Do you believe Amazon is violating antitrust regulations? Why or why not?

The answer depends on just how much of the book retail market is held by Amazon. If its share is, for all intents and purposes, monopolistic, then refusing to sell books unless the publisher lowers prices is an antitrust issue.

BACK

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Etsy, the popular online destination for consumers seeking one-of-a-kind, handmade goods, is expanding its approach to allow brick-and-mortar retail buyers greater access to such products. With a new Etsy Wholesale arm, retail firms can place orders with craftspeople to supply their creative products to the stores, which the stores then sell for a higher retail price. The proceeds of this sale then get split among the retailer, the craftsperson, and Etsy, which takes the same 3.5 percent commission on each sale that it takes on the direct retail version of its site. This wholesale introduction continues to be a learning process. Etsy learns what sort of information and support its retail patrons need from the suppliers. In addition, suppliers are learning the finer points of pricing: Not only must they price their offerings carefully to allow retailers to make a profit from selling them, but they also must take care that when they sell directly to end customers, the price is not significantly less than what those customers would find in the retail stores.

Among all the high-tech retail innovations that have emerged recently, the best one, according to InformationWeek, meets a relatively low-tech need: getting grocery customers through checkout lines faster. With its QueVision system, Kroger uses infrared sensors to keep track of not only the number of customers entering the checkout lanes but also the pace at which they are entering the store. A simulator then calculates the number of registers that should be open immediately, in 10 minutes, and in 20 minutes. In stores using the systems, wait times—which are posted prominently, for both employees and customers to see—have dropped from an average of 4 minutes to about 30 seconds. In turn, both customers and the employees who help them check out report greatly improved satisfaction levels.

Amazon undertakes a remarkable number of price changes on a daily basis. For competitors, information about its dynamic pricing suggests several ambitious goals, if they hope to keep pace. For example, Amazon changes the prices on approximately 15–18% of the products it sells every single day. But that level is just the baseline; during the holiday season, it might undertake anywhere from 3 to 10 million price changes daily. In addition, some product categories are more prone to changes than others: Amazon shifted its pricing for tablets more than it did for any other product it sells. Finally, all these rates and numbers appear likely to increase as Amazon gets better and better in its pricing efforts.

To increase impulse buys, several app developers promise new methods to get buyers to click quick, before they think too much about their purchases. For example, PowaTag allows customers to scan QR codes in advertisements or on displays to purchase an appealing product. When they reply to a product link with #AmazonCart, Twitter users immediately add the item to their Amazon account. Other apps, such as Shelfbucks and Swirl, rely on Apple’s iBeacon technology to push pop-up promotions and discounts to shoppers in stores. Even if customers pause their purchase and abandon their online shopping carts, apps that e-mail them directly
to remind them of their missed purchase can respark purchase intentions. According to one study, nearly half of all recipients of such reminder e-mails click to reopen their carts, and then about one-third of those wind up completing the purchase.

Is the Flash-Sales Model Fading?

*Daphne Howland, Retail Dive, May 23, 2014*

The introduction of flash sale sites a few years ago really excited consumers, who embraced the notion of buying deeply discounted items that were available for just a limited time. But the prevalence of similarly great sales in various channels, including the constant discounts that appear in low price retail stores such as TJMaxx and Marshalls and the end-of-season sales by traditional department stores, have made such bargains seem commonplace. In response, flash sale sites have added new retail options to continue attracting consumers. For example, Haute Look now links with Nordstrom Rack’s conventional e-commerce website, and Rue La La includes a blogging component to appeal to fashion buyers. In France though, where traditional retailers are legally limited in the amount and number of discounts they can offer, the flash sale sites continue to thrive.

5 Ways Companies Can Leverage Pop-Up Stores

*Courtney Subramanian, Fortune, May 20, 2014*

The temporary retail sector—better known by its physical manifestation as pop-up stores—continues to grow at a rapid pace and now represents a $8 billion industry. Many traditional retailers are experimenting with such stores, which offer five key benefits.

1. **Build brand awareness.** Whether the pop-up store is virtual or physical, adding a new branded channel helps introduce the retailer to new or additional customers.
2. **Achieve an omnichannel approach.** Modern consumers expect to be able to access retail offerings wherever it is most convenient for them. With pop-up options, retailers can expand their reach to be anywhere consumers look for them.
3. **Test new products.** Rather than inserting potential product failures into their regular stores, and thus take up valuable shelf space, retailers can test new product introductions in less expensive, temporary retail real estate.
4. **Unload excess inventory.** Similarly, rather than incur expenses for holding end-of-season merchandise in stores, retailers can use pop-up options to discount items and potentially earn new revenue.
5. **Exploit seasonal trends.** A pop-up store that appears only during the holidays for example might increase revenues for the retailer without adding more traffic to conventional stores, which might already be taxed by holiday shopping crowds.

Big Advice from a Small Retailer

*Al McClain, Retail Wire, May 8, 2014*

For one unique retail chain, Dave’s Soda and Pet City, the retail bottom line is simple: Nothing is ever the customer’s fault. Sales of carbonated beverages account for only about 2 percent of the seven-store chain’s business. Thus, the focus is on pets, yet the lessons that its owner offers apply to a wide swath of retail operations. Because nothing is the customer’s fault, employees at Dave’s are required to be polite, kind, and helpful, and their goal is to resolve every single customer problem, easily and quickly. The owner Dave Ratner sets the standard; he writes personal notes to many of his customers, and he donates generously to local shelters that refer new animal adopters to his stores. In this same vein, he insists that his employees work closely together, develop interpersonal relationships with the customers they encounter, and provide expert advice to shoppers with pressing questions about their beloved pets. Finally, Dave’s aims to succeed in realms where its competitors fail. For example, noting that many of the big box pet food stores suffer high stockout rates, Dave’s aims to achieve virtually no out-of-stock failures.