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

- Not So Cool Anymore, Teen-Focused Retailers Like Abercrombie Try to Reinvent Themselves (Chapter 5)
- Delivery Start-Ups Are Back Like It’s 1999 (Chapters 10 and 18)
- Does Family Dollar/Dollar General Make a Monopoly? (Chapter 14)
- Should Chronic Returners Be Banned? (Chapter 11 and 18)
- RIP Department Stores? Not Yet (Chapter 2)
- Plugged-In Over Preppy: Teenagers Favor Tech Over Clothes (Chapter 5)
- Alibaba Cleans Up “Gray Market” for Some Prestigious Brands (Chapter 13)
- In Ambitious Bid, Walmart Seeks Foothold in Primary Care Services (Chapters 5 and 18)
- Reverse Showrooming: Bricks-and-Mortar Retailers Are Fighting Back Against Amazon And Others (Chapter 3)
- Wal-Mart Looks to Grow by Getting Smaller (Chapters 2 and 5)

Retail Tidbits

- Ace Hardware Partners with Regional Supermarkets to Create One-Stop Shopping
- How We Shop for Food Is Changing, in Three Charts
- Why Haven’t Outlet Centers Faced Saturation Issues Yet?
- Push to Give Steadier Shifts to Part-Timers
- Russia Closes Four McDonald’s Branches in Moscow
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
Speed and distinctiveness. These are the new keys to selling to adolescent customers. Rather than sporting similarly logoed shirts and the same jeans worn by all their peers, today’s young shoppers want something unique, something that no one else will have, and something that appeared in stores only yesterday and likely will be gone tomorrow.

Such desires come in direct conflict with the business models that helped Abercrombie & Fitch, Aeropostale, and American Eagle Outfitters enjoy substantial success in the last decade. Whereas once upon a time, every high school classroom would have contained a large percentage of students sporting an A&F logo, today those same teens aim to communicate their individuality by dressing differently than the kid sitting next to or behind them.

In response, these retailers are scrambling to reinvent themselves and pulling back from some of the stances they previously called foundational to their brands. Abercrombie & Fitch once asserted it would never carry clothing in black; there is plenty of this dark hue on its racks today. In addition, its dimly lit stores, with their loud, thumping music, are being replaced by brighter lighting, front window displays, and somewhat quieter (though still thumping) music.

Over at American Eagle, the reinvention focuses on making better connections, particularly by linking to its customers through social media. Simultaneously, it has changed its marketing approach to feature actual customers in its advertising, rather than gorgeous models.

The stores also are searching for ways to cut their prices, to compete better with the popular fast fashion retailers such as H&M and Zara. But in many cases, they have slim margins available to do so. As a result, both Abercrombie & Fitch and American Eagle have announced they will be closing dozens of their stores, in an effort to halt their tumbling stock prices.

**Discussion Questions:**

*Why are Abercrombie & Fitch and similar retailers having problems with their traditional target market?*

The tastes of today’s young consumers have shifted, such that rather than spending more money to access the “it” brand and follow preset trends, shoppers want fast fashion, provided at a low price, and various styles to enable them to express their unique style.

*What are these retailers trying to do about the problem?*

Mostly, they are trying to mimic their fast fashion competitors and giving customers more of what they want. In addition to lowering prices, they are working to appeal to customers with different store environments and altered product options.

*Do you believe they will succeed?*

If young consumers have already decided that Abercrombie & Fitch, American Eagle, or Aeropostale are not cool anymore, these efforts probably will not succeed, because they can obtain what they want from alternative sources. However, if the brands can reinvent their image, they might be able to bring customers back into their stores.
Delivery Start-Ups Are Back Like It’s 1999


Use with Chapter 10, “Information Systems and Supply Chain Management,” and Chapter 18, “Customer Service”

The latest supply chain trend seems just a little too similar to an old and not particularly successful trend for some investors. But for consumers, it means a retail convenience to which they are flocking, as long as it remains available. What’s all this excitement about? Delivery, plain and simple.

A vast batch of new apps promise speedy, personalized delivery of virtually anything, from groceries and take-out food to laundry to service providers who will cut your lawn or clean your house before your surprise guests arrive tonight. The services are attracting significant venture capital and expanding rapidly. Even Uber, the car sharing service, is looking for ways to expand into the delivery of products, in addition to riders.

The scene was similar at the peak of the dot.com bubble, when websites made nearly identical promises of being able to deliver anything a computer user wanted, right to his or her door. But most of these sites struggled and then disappeared by the early 2000s, unable to fulfill their promise of rapid delivery at a reasonable cost.

The greatest hurdle, for both the historic delivery services and their modern counterparts, is the last step: getting goods from some central location to far-flung customers. This portion of the service necessarily requires couriers of some kind, whether they drive their cars up into a suburban driveway or bike their way through city streets to drop off the order. Couriers are expensive; having a fleet that is large enough and appropriately located throughout the delivery area demands a remarkable level of investment by the service firm.

But prior to this final step, something else sets the modern delivery services apart from their predecessors, namely, the influence of mobile, as opposed to PC, technologies and software. Relatively few consumers had access to online options when the previous generation of delivery services attempted to change the way people accessed goods and services. Today, virtually all U.S. consumers have some form of access, and for many of them, that access is in their pocket at all times, so the market of potential users is far larger. Because mobile consumers and mobile delivery providers can remain in constant contact, it also may be possible to achieve better scale economies.

By relying on cutting-edge software and sophisticated algorithms, the modern companies also facilitate better, flexible, and constantly updated links and communication between their customers and their couriers. Such efforts help minimize the time between the order and the delivery and optimize the efficiency of any courier’s daily routes, such that each employee can make more deliveries.

Furthermore, few modern services attempt to maintain the inventory themselves, whereas their web-based ancestors paid excessively to build warehouses and maintain extended supply chains. The mobile apps adopt a single, specific role in the supply chain: Connect the supplier to the end user.

Discussion Questions

Can one-day delivery services succeed today, whereas their predecessors failed? Why or why not?
No, because it still is too challenging for them to get products from the supplier to each individual consumer. Until there are drones, or some other space-age technology, available to deliver the goods and services at virtually no cost, it will not be a viable strategy.
Yes, because of the influence of mobile connectivity and the improved algorithms providers have to determine when and where to locate products, service personnel, and delivery drivers.

Do you use one-day delivery services? Would you?
Sometimes I use quick meal delivery services, but only if I’m really desperate, because they are still quite expensive. I haven’t even tried things like a laundry delivery service, even though it’s very appealing. Maybe if I started earning enough that my time was worth more than the associated charges, I would buy more things from such providers.
Does Family Dollar/Dollar General Make a Monopoly?

Tom Ryan, Retail Wire, August 25, 2014

Use with Chapter 14, “Retail Pricing”

When Dollar General offered to merge with Family Dollar, the monetary values involved were a lot higher than what customers expect to find on store shelves: It offered $9 billion in cash. But the problem, according to Family Dollar, was not the high price for the merger. It was the potential for higher prices on those shelves too.

Antitrust regulations exist mainly to prevent any single entity in a market from having so much power that it can set policies and prices at whatever level it prefers. Because consumers lack access to any other option, they have no choice but to pay those prices. Thus, regulators will reject mergers that appear likely to create a monopoly in a market.

In accordance with its interpretation of existing laws, Family Dollar rejected the merger offer from its competitor Dollar General, arguing that the combination ultimately would be rejected by regulators. That is, if the first and second largest firms in the dollar store segment merged, the resulting conglomerate would be so huge that it could charge anything it wanted, and customers would have to pay that price to obtain the goods. In this view, the competitive market is defined by the dollar store category.

An alternative view suggests that the merger would not be anticompetitive, because the market should be defined to include all other retailers that make similar items available to consumers, such as Walmart, drugstores, and grocers. If the understanding of competition is broadened this way, the merged firm would not have a monopoly, and it would be forced to keep its prices competitive, to avoid losing customers to other retailers with lower prices. Dollar General has embraced this view, arguing that the merger would be acceptable to regulators and not harmful to customers.

Support for the latter interpretation is available in some recent decisions to allow mergers between similar firms in other channels, such as Office Max and Office Depot. In that case, regulators also noted the influence of Amazon, such that purchasers of copy paper and toner could easily shop online if the prices at their local office supply stores rose too high. Yet most evidence suggests that dollar store shoppers tend not to shop online. In addition, in many rural communities, one or two Dollar General or Family Dollar stores might appear in the local strip mall, but the Walmart might be miles away. In such cases, the threat of antitrust concerns may grow more acute.

Discussion Question:

If Family Dollar and Dollar General merge, what do you believe will happen to retail prices?

Students will probably say that prices will increase, because competition in the market will be reduced. That’s the easy answer. But the issue that the Justice Department must deal with is, “What exactly is the market?” If it defines the market as all dollar stores, the merger will reduce competition, and prices may increase. If the market is defined more broadly to include alternative places where dollar store customers can shop at a discount, then the market is very broad. Generally, customers seeking low prices have many alternatives, and therefore, a merger of these two chains should not significantly affect competition, create a monopoly, or ultimately raise prices.
Should Chronic Returners Be Banned?

Tom Ryan, Retail Wire, August 12, 2014

Use with Chapter 11, “Customer Relationship Management,” and Chapter 18, “Customer Service”

The responses of retailers to customers who return frequently or in large volumes vary widely. Some continue to embrace the popular mantra that “the customer always right” and accept virtually every return. But increasing numbers of them are imposing limits on returns, or even banning those customers who exceed the limits.

In some cases, the rules are communicated in the retailer’s published policies. For example, Saks notes, “To ensure a positive shopping experience for all our customers, if we identify through electronic analysis an unreasonable return pattern, we may restrict or refuse future transactions from such customers at Saks Fifth Avenue or at saks.com,” and Best Buy cautions consumers, “Based on return/exchange patterns, some customers will be warned that subsequent returns and exchanges will not be eligible for returns or exchanges for 90 days.”

Other retailers do not offer any published warning or establish standardized responses but still impose limitations and bans in practice. Target does not cite the potential for banning customers, but anecdotal evidence, shared by various customers, reveals situations in which people have been told they cannot return items for time periods ranging from 90 days to a year to forever. Reports also indicate that Victoria’s Secret, Home Depot, and Lowe’s will limit returns and that Amazon, HSN, and QVC are prepared to issue lifetime bans to customers who return too many previously delivered items.

Whether the policies are communicated or implicit though, there is no clear algorithm or threshold for how many returns are too many. Thus some good customers complain that in extraordinary circumstances, they were forced to make multiple returns, in good faith, so the retailer’s lack of understanding when it imposed a ban on them left them frustrated and angry. For example, one high-tech consumer returned three televisions to Best Buy when each set suffered from dead pixels. The result of his search for a properly functioning television was a 90-day ban on making any returns to Best Buy. The concern for retailers is that good consumers will simply stop buying from their stores if they lose the confidence provided by a helpful return policy.

Yet the concern on the flipside might be even more threatening. Retailers continue to suffer from fraud perpetuated by consumers who “borrow” items by purchasing and using them, then seek to return items. The practice is particularly prevalent for formal wear; many clothing retailers tell stories of party dresses returned with stains or strong food smells. But it also hits electronics retailers, such as when fans pick up a new smart television before the Super Bowl and return it the following Monday. The high costs of such fraud include restocking costs, as well as losses when the returned items cannot be sold as new. In addition, for retailers that provide delivery of purchases, such as Amazon, excessive returns increase shipping charges by at least double, if they pay both to send and receive the item.

Discussion Questions:

What are some retailers doing about chronic returners?
Retailers are working to limit the damages caused by chronic returners, by banning them from making any further returns past a certain point. The length of the bans vary; some retailers simply tell terribly chronic returners that they can never return anything they have purchased ever again.

Using the Customer Pyramid in Chapter 11, in what segment do these customers reside? According to the guidelines prescribed by the pyramid, are these retailers doing the right thing?
Chronic returners are in the lead segment: They are not worth retailers’ time or attention, and they even have negative effects on retailers’ revenues and income. Assuming all the customers the retailers ban are actually lead customers, and not iron, gold, or platinum customers who happen to have a series of bad experiences, then the bans are absolutely the right move.
Why, after multiple quarters of sales losses and widespread assumptions of their demise, are department stores still a force to be reckoned with in the retail market? The answers run the gamut, from their inherent characteristics to more recent innovations by several department stores seeking to ensure their relevance and appeal.

Let’s start with the bad news. Compared with the $232.5 billion department stores sold at their peak moment in 2000, sales drooped to just $170.7 billion in 2012. During this period, various chains met their demise in bankruptcy and disappeared from view.

But for the survivors, the future looks a lot brighter, and sales trends are starting to creep back upward. Some of the reason might be the essential appeal of department stores themselves: They allow consumers to shop for various needs in a single location, where buyers can consider a range of options, compare offerings from multiple brands, and leave with a full outfit, including pants, shirt, belt, shoes, and even a matching hat, if they so choose.

Because of this capacity, department stores also are appealing to a vast variety of brands that seek access to consumers. Shoppers at Macy’s stores thus can find not just a dedicated section of Coach purses and accessories but also team-logoed caps by the sports merchandiser Lids. In both these cases, the brands might struggle to operate their own independent stores, so partnering with Macy’s enables them to tap into an existing stream of customer traffic. Coach recently experimented with expanding the number of dedicated stores it maintained, but it has since reversed course and now plans to rely increasingly on department stores to push its high-end accessories. Even if they have proven capacity to support dedicated stores, many clothing brands complete a significant percentage of their sales through department stores, giving them good reasons to remain. For example, Macy’s accounted for 12 percent of Ralph Lauren’s total sales last year.

But the impressive growth enjoyed by Macy’s in recent years, and the remarkable recovery of JCPenney from its devastating recent losses, also reflect active efforts by these department store chains to ensure their survival. Both retailers were among the first to experiment with using beacons in their stores, leveraging these high-tech tools to improve shoppers’ in-store experiences. They also have worked to enhance their e-commerce capabilities and expand online orders. Although their target markets differ somewhat, both chains similarly have sought to appeal more strongly to discerning customers by developing and encouraging closer links with appealing brands. Macy’s welcomes strong names in luxury, such as Dolce & Gabbana, and has helped develop brands that appeal predominantly to millennial consumers. JCPenney instead leverages its existing partnerships with Levi Strauss and Izod, which respond with strong support for the retailer, to maintain their effective sales channel.

Discussion Questions:

In general, how are department stores doing?
Better than many observers might have predicted! Although they are still far from the market peak, and some weaker competitors were forced out of the market, in general department stores are surviving and some are even thriving, with continued prospects for success.
Plugged-In Over Preppy: Teenagers Favor Tech Over Clothes


Use with Chapter 5, “Retail Market Strategy”

Among young consumers, the primary method to express individuality, status, and a fashionable image has long been through clothing. They can reveal their expertise and awareness of the latest trends or signal their difference from the mainstream based solely on the items they choose to maintain in their wardrobe. Accordingly, teen shoppers have long been a powerfully appealing market for clothing retailers, and they account for around 15 percent of total spending on clothing.

But the appeal is evaporating as teenaged consumers redirect their disposable income to another market that enables them to express themselves even better: smartphones and their related accessories.

Rather than spending their money on the latest fashions in clothing, teenaged shoppers save up to ensure they can afford the latest gadgets and models of their favorite smartphones. The first student in school to have the most recently introduced phone enjoys a cutting-edge image, and those who can afford the highest-end options achieve a sort of status usually obtained through luxury items like expensive watches.

In addition, teenaged consumers rely on phone accessories, especially cases, to express their individuality. From neon colors to glitter to designs emblazoned with fictional characters, the choices for smartphone cases are innumerable, granting a sense of individuality to each user. Furthermore, considering the ubiquity of uses of smartphones, teens signal their ideal self-image every time they check social media, snap a picture, or receive a text from their parents, because in every instance, they show off their unique and specially chosen case.

The clothing retailers that appealed to previous generations of teens, such as Abercrombie & Fitch and American Eagle, face competition not only for these consumers’ basic attention but also for any money they actually choose to spend on clothing. If they have to have new clothes, modern teenagers often rely on inexpensive fast fashion retailers such as Zara and H&M. In addition, they rely so much on their smartphones that many of them prefer to order clothing from online retailers rather than make a trip to the mall.

The effects of the vast spread of smartphones is not limited to clothing retailers though. For operators in various food industries, this shift in spending has been beneficial. As teens seek out places that offer free Wi-Fi, many fast food and casual eateries are attracting more young patrons. Their meals might only consist of fries and a soda, but they are still spending money in restaurants that they might not have spent in the past.

Surveys of teen consumers suggest that these trends represent their conscious consumption choices, not just a fluke. For example, in a recent focus group, even as the moderator tried to get participants to talk about crop tops, they kept shifting the conversation to emphasize the latest fashions in headphones that were compatible with different phones. In another survey, a high school student explained clearly that a smartphone offers more entertainment and distraction than a pair of jeans ever could. If she had $200 to spend, she would make the smarter investment in a new phone rather than a new coat.

**Discussion Question**

What benefits do smartphones offer for teenaged consumers that make them so popular? Smartphones enable young consumers to express themselves, be entertained, signal status, and achieve functional goals (e.g., complete online shopping tasks). Thus their benefits are varied and extensive, which implies that they appeal to virtually every member of this consumer segment.
Alibaba Cleans Up “Gray Market” for Some Prestigious Brands


As the largest e-commerce site in China (and after its recent initial public offering, one of the most valuable companies in the world), Alibaba wields great power over which goods are available for sale to Chinese consumers. These sales account for approximately 80 percent of China’s online retail market, which has been valued at around $300 billion. In addition to its massively successful auction-style site Taobao, Alibaba hosts TMall, where approximately 70,000 vendors sell a vast range of branded products. But not every seller on TMall is actually a brand. Rather, TMall is home to a multitude of gray market vendors that access branded goods—especially luxury items—through unofficial channels, then sell them at sharp discounts to luxury-hungry shoppers.

Unlike counterfeit products, gray market goods are the same items that a brand would sell in its stores or through its website. However, rather than moving through the formal supply chain, these products have taken alternative routes to market. In some cases, the manufacturer quietly produces more products than the brand owner orders, then sells the “left-overs” to the gray market to earn more profit for itself. In other cases, products “fall off the truck” during the delivery process from the brand owner to retail outlets. Because gray market vendors can purchase the items at lower costs and do not incur expenses related to advertising or storefront rents, they can sell those products for much lower prices. Although the practice is not illegal in China, brands obviously would prefer that customers have limited access to the gray market, so that obtaining a branded item requires them to purchase from the brand itself.

Previously though, luxury brands have had little luck convincing Alibaba to help them clear gray market vendors out of TMall. More than 50 different sellers posted Burberry products on their TMall site, and more than 60 vendors sold Gucci, whereas neither of those brands had their own stores on the site. These examples are instructive, especially with regard to how brands are reacting to new policies implemented by Alibaba in its attempt to clean up its image and attract more high-end names to its online mall.

Specifically, Alibaba has promised luxury brands that if they open a store on TMall, it will actively work to eliminate gray market vendors of those brands’ products. For those that choose not to open stores, the gray market for their products is free to function broadly. Burberry took the former route and opened its TMall store in April, at which moment all gray market Burberry goods utterly disappeared from TMall. In contrast, Gucci has not opened its own store. Between April and June, the number of gray market vendors of Gucci goods increased from 63 to 69.

The gray market is not limited to luxury goods either. Nike and New Balance shoes are particularly popular gray market items, yet since these brands opened stores on TMall, both have noted increased sales through traditional channels and decreases in the gray market. For Alibaba though, clearing the site of gray market vendors of such mass market products is far more challenging that it is for luxury goods, because many mass market brands allow authorized vendors to sell products for them. Differentiating between an authorized and an unauthorized distributor requires individual analyses, which is likely impossible across the entire site, with its literally tens of thousands of vendors.

Discussion Question:

What is the gray market? What are gray market goods?

The gray market consists of an unauthorized supply chain, in which the goods, which are identical to those in the authorized supply chain, get rerouted to vendors that did not buy the merchandise from the manufacturer or its authorized agents. Thus it is different from counterfeit markets and goods, and in many countries, including the United States, it is not illegal. However, it causes substantial damage to brands, which lose control of their supply chain, as well as sales that they might have made in their stores.

What strategies can luxury brands implement to reduce competition from gray markets?

On Alibaba, it seems clear that they need to agree to the terms the e-commerce site has established and open stores on TMall. It may seem like a little bit of extortion, but it also might be the most efficient way to limit the gray market in China. Other options might include pushing for legislation to put more restrictions on the gray market in various countries or attempting to monitor its supply chain more closely to prevent situations in which products move outside traditional sales channels.
In Ambitious Bid, Walmart Seeks Foothold in Primary Care Services


Use with Chapter 5, “Retail Market Strategy,” and Chapter 18, “Customer Service”

Walmart is a savvy observer of national trends. For example, it recently noted two parallel and prominent developments: First, the health care market has expanded, because the Affordable Care Act has mandated that more consumers have access to insurance and health care services. Second, rural areas continue to suffer from an expanding, critical shortage of doctors and health care providers. Adding these observations together, Walmart recognized the potential for its latest new offering: health care clinics.

In several states, Walmart stores have begun to feature primary care health clinics, staffed by at least one supervising physician, nurse practitioners, and medical assistants. These clinics offer basic medical services but also promise the ability to treat more chronic or serious medical concerns. In this sense, they differ from the acute care clinics that populate additional Walmarts, as well as Walgreens and CVS stores.

Visitors to the primary care clinics pay $40 per visit; many of them have no other primary care physician. Especially in rural locations, the local Walmart is far more accessible than a comprehensive or supportive health care system. However, some observers express concerns that a retail store cannot effectively deal with chronic health problems such as diabetes that often entail complex side effects and issues.

In addition to the broader $1.7 billion health care market, Walmart has a large target market of potential customers close at hand: its employees. Walmart employees pay only $4 per visit. Approximately half of its 1.1 million staffers receive their health care through Walmart’s system.

For Walmart, the primary care clinics offer great promise. Primarily, the retail giant hopes to grow even larger by expanding its offerings and tapping into the growing health care market. Furthermore, if more people visit Walmart stores because they need to see a doctor, more people will be walking through the aisles, increasing the chances that they will make additional purchases. Receiving care at Walmart also increases the likelihood that patients fill their prescriptions at the Walmart pharmacy under the same roof.

Discussion Questions:

How are different stakeholders affected by Walmart’s entry into primary healthcare services?
Customers and Walmart’s employees, especially those in rural areas, likely benefit, because they gain access to services that often are hard to find. Walmart’s expansion represents a strong competitive move against the acute care clinics run by drug stores.

Are there any potential problems associated with this move?
A key concern clearly relates to the quality of care provided by clinics in retail stores, where medical assistants and nurse practitioners—who by law have less training than medical doctors—provide the majority of the services. In addition, the potential for exploitation may be a problem; if medical staff in a Walmart tell patients to take a medication they obtain from the pharmacy at Walmart, there is little those patients can likely do to compare prices or services, especially if they also are Walmart employees.

BACK
Reverse Showrooming: Bricks-and-Mortar Retailers Are Fighting Back Against Amazon And Others

Emily Adler, Business Insider, August 14, 2014

Use with Chapter 3, “Multichannel Retailing”

The ubiquity of smartphones and the expansion of e-commerce were supposed to have clear effects on consumers’ showrooming behaviors: They would visit stores to get expert advice, then buy online from less expensive retailers that did not invest in brick-and-mortar outlets. But some recent reports indicate that these clear effects are a little more complicated than the predictions would have allowed.

In particular, a reverse showrooming phenomenon is appearing across product categories, such that consumers research their potential purchases carefully through their computers or mobile devices, and subsequently head out to the store to obtain exactly the version they have determined is their best option. This version is even more prevalent than the expected showrooming: According to a recent poll, whereas 46 percent of U.S. shoppers engage in showrooming, 69 percent exhibit reverse showrooming behaviors.

In either case, Amazon is a key player. More showrooming consumers visit this online giant, after receiving expert advice from salespeople in brick-and-mortar stores, than any other retailer. But at the same time, more reverse showroomers research their options on Amazon than on any other online site before buying in stores.

These activities are widespread among consumers; even millennials, who reportedly buy everything online, report engaging in reverse showrooming for products as diverse as cosmetics, shoes, electronics, and sports equipment. Yet retailers seemingly have not exploited these behaviors until recently, when increasing numbers of them have started promoting the benefits of their knowledgeable staff, in-store services such as Wi-Fi, and potential for immediate discounts.

Discussion Question:

What is reverse showrooming?
Reverse showrooming means that customers research their purchases online but then buy in stores. It represents a reverse, in that most observers predicted that the rise of e-commerce would prompt customers to gather information in stores and then purchase online.

What are retailers doing to facilitate reverse showrooming?
Brick-and-mortar retailers are relying on both their existing service offerings and some innovative options to encourage customers to engage in reverse showrooming. For example, those leading the pack are highlighting their superior service in their marketing communications. They also are experimenting with cutting-edge technologies to help transform the in-store retail experience into a fun, compelling, convenient, and appealing experience.

BACK
Wal-Mart Looks to Grow by Getting Smaller


Use with Chapter 2, “Types of Retailers,” and Chapter 5, “Retail Market Strategy”

Facing dwindling sales trends and ever increasing competition on various fronts, especially from Amazon, Walmart is making innovation a priority. The primary focus? Establishing new store concepts and expanding its online presence.

Some of the reasons for its poor sales performance are familiar. Amazon continues to attract shoppers with expanding product selections, enabling them to order grocery and household goods online and have them delivered readily. In addition, ethical concerns, including allegations of bribery by some overseas divisions and continued questions about labor practices, remain difficult topics for Walmart, demanding substantial attention and resources to address. Moreover, even as the recent recession continues to recede, the segment of consumers that has been the slowest to recover is also the segment that represents perhaps Walmart’s most important customers, namely, lower income shoppers.

In response to such trends, the retailer’s new CEO Doug McMillon has set a new tone for the company. He assigned his top executives a reading task: review Amazon founder Jeff Bezos’s book *The Everything Store* to help them come up with some new ideas that traditionally might have seemed outside Walmart’s purview.

As they were reading, the executive team was overseeing the opening of more small convenience-style and grocery stores, rather than the supercenters that previously had been the heart of its growth. Averaging around 20,000 square feet, these Neighborhood Market and Walmart Express stores are about one-tenth the size of a regular supercenter.

Furthermore, Walmart invested $500 million last year in an effort to expand its e-commerce presence. The resulting website exhibits some notably non–Walmart-like traits. Rather than everyday low prices, the site relies on dynamic pricing, such that the underlying system alters prices regularly in accordance with sales data and competitors’ prices. Short-term deals of the day or hour mimic the concept of Amazon’s gold box deals. Finally, the website features items that most shoppers would be surprised to find in Walmart stores, such as expensive branded sunglasses or a wine chiller for around $2500.

Such moves—small stores and a departure from everyday low pricing—are radical for Walmart and, some say, contrary to the very foundation that enabled it to succeed as well as it has. But McMillon insists that innovation is key to continued success, even as he demands that the company continue to take care of the basics. One particular emphasis is at the store level, where he demands that store managers and employees get better about keeping shelves stocked and aisles clean. In his estimation, cleaning messy stores and better stocking procedures can translate into sales increases of 1 percent, which is significant for a company that sells as much as Walmart does.

**Discussion Questions**

What are the primary challenges that Walmart presently faces?

*Competition from Amazon, the continued effects of the recession, and regulatory challenges have made it difficult for Walmart to achieve its sales goals. Instead, its sales have dropped consistently in the recent past.*

Of the initiatives described in this article, which do you believe will have the greatest effect on Walmart’s success? Which do you believe will be the most difficult to implement successfully?

*The most basic might be both the easiest and the most successful: If Walmart can keep stores clean and well-stocked, it can efficiently appeal to customers and improve its sales. In contrast, both the e-commerce and small store initiatives feature substantial risk, along with their potential promise. For example, if consumers become confused about what Walmart represents, because it has moved away from its traditional image as the largest, lowest price operator, they might respond by switching to another retailer with a clearer position, or else they might love the change and shop more at Neighborhood Markets and online.*

**BACK**
**Retail Tidbits**

**Ace Hardware Partners with Regional Supermarkets to Create One-Stop Shopping**

*Ian Ritter, SCT, August 25, 2014*

In line with its preferred image as the helpful neighborhood hardware store, Ace Hardware has initiated a new model for expanding its reach: It will work with local grocers and small chains to create combined storefronts that offer greater convenience for consumers. For Ace, the new initiative enables it to grow in a new direction. For the local grocers, many of whom own both the grocery store and the Ace franchise, the retail innovation should help drive more traffic into their stores. For customers, the collaboration means they can pick up both groceries and the lug nuts they’ve been needing in a single trip. Although many of these combinations currently appear as small Ace outposts within the grocery store, the plan calls for more parallel openings, with an Ace Hardware right next to the local grocer, just as its famous jingle implies.

**How We Shop for Food Is Changing, in Three Charts**

*Sarah Halzack, Washington Post, August 28, 2014*

Traditional grocery stores are out. Innovation is in. That’s the theme that emerges from three notable trends affecting the modern grocery retail market. First, young consumers shop for food differently than their parents, building a shopping list around a particular menu or meal plan, rather than just restocking their pantries with similar items that will last them for an entire week. This method resonates with a last-minute approach to grocery shopping and list making. Second, in line with their distinct shopping lists, these young, millennial consumers do not exhibit loyalty or consistency in their shopping behaviors. They visit whatever store—supercenter, traditional grocer, dollar store, drugstore—fits their needs at that exact moment. Third, consumers across the board are looking to make their meals healthier. Facing increasing demand for healthy options, even Walmart, which is known far more for its low price strategy, has expanded its offerings of organic options. Because retailers can no longer count on being the once-per-week destination to which their return again and again. Instead, they face increasing pressures to offer flexible, interesting experiences that actively pull consumers back through the aisles.

**Why Haven’t Outlet Centers Faced Saturation Issues Yet?**

*Tom Ryan, Retail Wire, July 18, 2014*

Sometimes, even when all the indications suggest a shift in one direction, trends still persist in another way. Take, for example, the expansion of outlet centers, which seemingly should have reached saturation in the U.S. market years ago. The nation now hosts 368 outlet centers, 39 of which opened in the past eight years. In that same time, only one new regional mall opened. Furthermore, 12 new outlet centers will open within the next year, and an additional 55 are in the planning stages. Yet even as they expand, the square footage accounted for by outlet centers still reaches only a paltry 1 percent of the leased area available for shopping—but they attract nearly 11 percent of all consumers’ shopping trips. This unbalanced benefit likely stems from the outlet centers’ willingness to stock a wide variety of product categories, beyond clothing and home goods. Still, observers remain skeptical that outlet centers can continue on this pace, noting the effects of increased competition from department stores that are more willing to offer sharp markdowns, as well as the ever-present threat of expanded online shopping. The outlet centers, as they continue to earn average sales per square foot of $532, somehow do not appear too worried.
Push to Give Steadier Shifts to Part-Timers


Some planned legislation, though still far from passage, suggests a shift in regulatory attitudes toward part-time labor. Employers of part-time workers, including retail stores and restaurants, have long been able to change workers’ shifts at a moment’s notice, without offering any guarantee of consistency or a set number of hours. Labor unions and women’s rights groups are calling for new approaches though, noting the challenges that face millions of part-time workers whose unpredictable shifts leave them struggling to find daycare and schedule their college courses, as well as unable to earn enough to support themselves and their families. On-call shifts also are popular in the service and retail industries, but the proposed laws would require the employing companies to establish work schedules two weeks in advance and pay higher wages for on-call shifts. One potential regulation would go further, demanding that companies pay employees the equivalent of an additional hour of pay every time they call those workers in with less than 24 hours’ notice. Moreover, a company would have to pay workers for a minimum of 4 hours if those workers appeared on the schedule but were sent home, such as when customer traffic is lighter than anticipated. Many businesses strongly oppose these suggestions, but the expanded calls for more consideration of workers’ needs for consistency and sufficient hours suggest a new fight for labor.

Russia Closes Four McDonald’s Branches in Moscow


According to Russian regulatory authorities, the closure of four McDonald’s stores is a result of food safety violations. According to most observers, both inside the country and without, the truth is that the restaurant closures—including the shuttering of the store on Pushkin Square, once the most visited McDonald’s outlet in the world—are symbolic. The goal appears to be to demonstrate that Russia can and will limit U.S. retailers from selling to its population. Although currently Russian sales account for only about 5 percent of McDonald’s global profits, the potential for growth in the large and increasingly market-based economy is massive. Such growth also is critical to McDonald’s, whose U.S.-based sales have declined consistently for several quarters. As Russia and the United States continue to lock horns over Russia’s actions in Ukraine and the U.S. sanctions imposed in response, even Big Macs have become political.

BACK