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

- **Retailers Dot Fortune’s “100 Best Companies” List** (Chapters 2 and 9)
- **Is Fresh Killing the Center Store?** (Chapter 17)
- **Inside Chipotle’s Kitchen: What’s Really Handmade** (Chapter 5)
- **Impulse Under Siege?** (Chapter 17)
- **Can Retailers Get the Discount Monkey Off Their Backs?** (Chapter 14)
- **The Retailer’s Guide to Big Data** (Chapter 11)
- **Target Revamps Groceries for Millennials** (Chapters 5 and 12)
- **Chanel Acts on Prices as Euro Worsens Gray Market** (Chapters 12 and 14)
- **For Kate Spade, a Move Downmarket Goes Bust** (Chapters 5 and 13)
- **Apple Gets Sweet Deals from Mall Operators** (Chapter 7)

**Retail Tidbits**

- **RFID Use Reaching a “Tipping Point”**
- **Retailer Coalition Makes for Stronger Loyalty Program**
- **Eight Things Retailers Need to Know about EMV**
- **Amazon’s New Store Is All About Exclusives**
- **Costco Ends AmEx Exclusivity Deal**
- **West Coast Port Gridlock Hits Inventory at Macy’s and Home Depot**

**Newsletter for Instructors**

May 2015

**Comments? Contact Us**
If you are interested in the textbook 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
Retailers Dot *Fortune’s “100 Best Companies” List*

*George Anderson, Retail Wire, March 6, 2015*
*Use with Chapter 2, “Types of Retailers,” and Chapter 9, “Human Resource Management”*

*Fortune* Magazine produces a list of the 100 Best Companies to Work For every single year, though we might start to wonder why. The names on the list rarely change, especially the representatives of the retail industry. Year in and out, list readers learn that Wegmans, L.L. Bean, The Container Store, QuikTrip, REI, and Nugget Market are wonderful companies for which to work.

But perhaps a better question than asking why we check the list each year is the consideration of why entry into the list isn’t more competitive. If retailers were actively seeking to improve their working conditions so that they could gain recognition, it seems likely that the entries would shift somewhat, as new entrants and innovations earned notoriety as a great workplace.

Instead, it appears that many retailers are satisfied with being just an acceptable place to work and choose not to invest in becoming a great employer. Some observers also cite the possibility that investing in worker benefits may be too expensive for small firms. However, the presence of regional retail chains such as Wegmans and Nugget Market challenge that interpretation.

Nugget Market has 15 supermarkets, is family owned, and has a relatively small reach. Yet it has earned a place on the 100 Best list for 10 straight years. The key, according to the retailer’s CEO, is that Nugget is a fun place to work, where employees enjoy the labor they perform, the time they spend at work, and their interactions with their colleagues and supervisors. In his words, “Encouraging our extended family to enjoy their time at work naturally creates a win-win for everyone; associates and guests alike.” Accordingly, not only does Nugget Market gain consistent recognition from *Fortune*, but it enjoys the remarkably low turnover rate of just 9 percent among its full-time employees.

**Discussion Questions:**

**Which retailers made *Fortune’s “100 Best Companies to Work For” list?***
The same ones that always make the list! Some well-known retailers on the list include REI and The Container Store, though it also features some smaller, less familiar actors that offer great working conditions.

**Why has the relatively small Nugget Market supermarket chain made the list for the last 10 years?***
Nugget Market is focused on improving the experience its employees have at work. It believes that happy employees provide better service, so it seeks to go beyond normally accepted levels of employee support.
Is Fresh Killing the Center Store?

Bernice Hurst, Retail Wire, March 6, 2015

Use with Chapter 17, “Store Layout, Design, and Visual Merchandising”

Grocery retailers have learned to promote their fresh options, from fruit and vegetables to freshly baked bread to deli options cut to order. Customers find great value in these fresh offerings, so a store that can offer more of them generally can attract far more shoppers. Yet this overriding focus on fresh options may be having unintended and unwelcome consequences for packaged items that account for most of the total dollar sales in grocery stores.

The center store refers to the middle of each aisle, where most grocers stock seemingly less compelling or exciting products, though ones that consumers still require. Imagine, for example, the cereal or detergent aisle in your local grocer. Unless a particular item is on promotion and displayed prominently on the end cap, these products are lined up with all their competitors, with little to set them apart.

Because these aisles tend to be less visually interesting, shoppers do not spend much time in them. According to one recent study, grocery shoppers spend an average of 13 minutes in stores, and only 18 percent of that time involves the center store. Instead, they tend to gravitate to the perimeter of the store, where they spend 39 percent of the time they allot for shopping. (The remaining 44 percent of their time is taken up with navigating and waiting in line to check out.)

However, center store products account for approximately 73 percent of grocers’ total dollar sales. Despite their prominence, grocery stores have had trouble finding growth in these categories, likely because of the popular emphasis on healthier and fresher food options. In response to these trends, several options are available to retailers.

For example, in a recent “Playbook,” Kraft recommended organizing stores by types of meals, linking the perimeter better to the center store, and engaging shoppers in the middle of the aisle. Methods to increase such engagement might include staggered aisles, the use of recessed shelves, pyramid-shaped displays, focused lighting, more in-aisle sampling kiosks, or innovative signage.

Instead though, many retailers seem stuck with traditional designs, with their uninspiring displays and redundant looking rows of products. If they rely on such monotonous merchandising approaches, even if they can attract customers inside with their fresh options, stores are unlikely to sell enough to survive.

Discussion Question:

Why are sales in the center store declining or stagnating

The primary reason is the broader push among consumers to access and purchase more fresh options. If they are seeking to eat more fresh bread, they might not even enter the bread aisle, which means they also aren’t seeing the crackers or other staple products that might be featured in that aisle as well.

What can be done to increase sales in the center store?

Innovative visual merchandising is likely the best solution to increasing sales. Stores need to make the center store an exciting place to be, so that customers spend more time there, consider the products in these aisles more closely, and make more purchases from the center, not just the perimeter, of the store.

Photo Credit: Noel Hendrickson/Getty Images Business Unit Rights = MHE Canada ,MHE USA Asset Source= Getty Images

BACK
Every company must balance the extent to which it wants to make improvements of any kind against the costs of doing so. For Chipotle, the fast-food chain that has largely been responsible for changing the way people imagine fast food, that balance is never more evident than in the kitchens.

Chipotle seeks to give consumers the sense that their meal is being made fresh, right before them. It allows people to customize exactly what goes into their burrito, on the fly, and it is happy to accommodate requests for extra lettuce or hot instead of mild salsa. In these promises, along with its assertion that its food is largely ethically sourced, Chipotle differs notably from its more traditional fast-food rivals.

In some cases, the perceptual distinctions it encourages are accurate, but to be able to control its costs, Chipotle also relies on some conventional approaches. Anyone can have more lettuce, for example, but asking for more beef, sour cream, or chicken—which are far more expensive items for Chipotle to source—will lead to an upcharge. On average, though the food is still affordable, meals cost consumers about twice what they would pay at McDonald’s, for example.

Furthermore, though some of the options available on the burrito line truly are freshly chopped and prepared, others are frozen and shipped in, then finished in the restaurant kitchens. Tomatoes offer an instructive example. In the past, Chipotle chopped not-quite-ripe tomatoes in a central location, bagged them, and shipped them all around the country. But they didn’t taste very good, so it tried moving the chopping step closer to the end customer, having prep cooks chop the tomatoes each morning. This option proved far too labor intensive, leading Chipotle to come up with a compromise option: Whole tomatoes enter a chopping machine that is on site in each restaurant. The result might not be as good a hand-chopped versions, but it is less expensive, and it is better than precut, bagged tomatoes.

Although it tried a similar approach to onions, the restaurant chain quickly learned that automated choppers did a poor job with the fragrant vegetables, producing overly watery samples that totally overpowered any other flavors in a dish. Thus, in each store around the country, about 10 employees arrive approximately four hours before they open, ready to dice onions, as well as cilantro, jalapeños, and salad lettuce.

The balance that Chipotle has found seems to be holding quite well. Its more than 1,800 storefronts enjoy continued growth, while traditional fast-food rivals are struggling with sinking sales and diminished popularity among consumers who demand fresher food options.

Discussion Questions:

What is Chipotle’s retail format?
Chipotle is fast food, but with a fresh twist. It prepares some of the food onsite, unlike traditional fast food companies that have all their products shipped in frozen and prepared in advance. It’s prices are more expensive than other fast food chains, but cheaper than restaurants with table service. It has excellent locations, mostly in strip shopping centers, but also in urban areas.

What are its bases for sustainable competitive advantage?
It has gained a good reputation as a source of fresh food that tries to be sustainable.

Photo Credit: © 2/John E. Kelly/Ocean/Corbis  Extended Credit Required= NBusiness Unit Rights = MHE Canada ,MHE USA  Asset Source= Corbis
Impulse Under Siege?
Susan Reda, Stores, March 18, 2015
Chapter 17, “Store Design, Layout, and Visual Merchandising”

Grocery customers continue to demand more convenience and ease in their shopping. Grocery retailers have responded in various ways, as we have detailed in these abstracts: self-checkout stations, real-time adjustments to long queues, and so forth. But these efforts to improve the customer experience have had some unintended and worrisome consequences for grocers.

Traditionally, when customers had to stand in line for several minutes to check out, they encountered a familiar range of candies, gum, tabloid magazines, and small convenience items. Although these offerings account for only about 1 percent of stores’ total floorspace, the impulse purchases they prompt often can provide up to 4 percent of the grocers’ overall sales. Impulse buying is therefore a valuable and necessary element for supermarkets that survive on razor thin margins.

But when customers do not wait in line, whether because the grocer is quick to open new checkouts or because the customers can check themselves out, they also do not have the enforced downtime to consider impulse purchases of some candy or gum. Thus, grocers are seeing significant declines in their traditional impulse purchase sales.

Neither the retailers or the affected manufacturers are ready to give up on this lucrative market though. Hershey’s is testing a menu board for candy at stores that offer customers the opportunity for curbside pickups. New versions of vending machines might provide access to packs of gum at self-checkout lines. Another proposed idea would try to reach customers elsewhere: Grocery customers might be able to speed through checkout, but people pumping gas still have to stand there and wait for their tanks to fill, so some new vending machines might appear alongside gas pumps.

Discussion Question:

Why are impulse purchases threatened in grocery stores?
Most impulse purchases result when consumers have forced time on their hands, such as when they are waiting to check out. But efforts to increase customer convenience have so effectively reduced this downtime that they have little motivation, or time, to look around at the candy, gum, and magazines on offer.

What are retailers and their vendors doing about it?
All the participants in these supply chains are working to find new ways to make it easy for customers to see, consider, and purchase little luxury items, such as through vending machines.

Do you think any of these efforts will save impulse purchase sales? If so, which ones?
Considering the likely future of grocery retailing, such as technology that allows people to check out just by wheeling a card full of RFID-enabled items through the door, vending machines in stores might not be the best option. However, moving the site of impulse purchases to other locations that still mandate “wasted” time, such as at the gas pump, might offer more promise.
Can Retailers Get the Discount Monkey Off Their Backs?

George Anderson, Retail Wire, March 26, 2015
Use with Chapter 14, “Retail Pricing”

Despite the cautionary tales offered by JCPenney and Abercrombie & Fitch—both of which suffered severe consumer backlash for their decision to eliminate deal-based pricing—a growing flock of stores has announced that they are seeking to reduce the amount and number of discounts they offer to shoppers.

The reasons for the moves are clear. Consumers have grown so accustomed to sales that they seemingly refuse to consider full-price items. If they can wean their shoppers off such sales, retailers such as Express, Quiksilver, and Vera Bradley can improve their margins, move more recent merchandise, and reduce their promotional costs. Furthermore, several retailers have expressed the belief that rebounding economic conditions allow shoppers to focus on factors other than price in making their purchase decisions.

Research in online retail channels also shows that when customers’ first encounter with a retailer involves the purchase of a discounted item, they are half as likely to return to the site to purchase again. By establishing an expectation of sales, retailers thus might be driving return business away from their sites.

Even if they halt the constant cycle of markdowns though, retailers cannot give up completely on discounts. At the end of the season, they still need to clear their racks for new merchandise. Therefore, stores such as Neiman Marcus and New York & Co. are experimenting with more targeted deal offers. For example, sales of a particular product line might be made available only to customers who bought other items in that line from the retailer in the past. Alternatively, deals might be limited to certain items, rather than extending to the entire assortment.

Discussion Questions:

Why do some retailers believe they can cut back on discounting?
The improved economy suggests that consumers might be ready to stop focusing only on price, such that they might be willing to pay a little more for the newest fashions or better quality.

What tactics might retailers try with regard to pricing if they halt across-the-board discounting?
Most retailers likely should consider more targeted discounting, such as offering special deals as rewards to the best customers or only providing discounts to customers that the retailer has identified as price-oriented buyers.

Are customers who purchase discounted merchandise more or less loyal than those who purchase full-price merchandise?
Less loyal, according to at least one study. That study indicates a significant difference, in that they are half as likely to return after purchasing discounted merchandise.

Photo Credit: JGI/Jamie Grill/Blend Images LLC Business Unit Rights = MHE World Asset Source = Blend Images
Retailers can gather, analyze, and use more detailed and extensive customer information than ever before. But should they? Recent events suggest that any company that gathers customer data needs to consider some precautions and limitations before it takes the big data plunge.

In particular, companies need to consider how customers react to corporate uses of their data. People do not like to feel manipulated or taken advantage of, even if they have agreed to provide the information (e.g., by signing up for a loyalty card program). Thus, retailers must impose some reasonable self-constraints to avoid relationship management attempts that seem just plain creepy. More seriously, they need to acknowledge customers’ inherent rights to privacy, especially as facial recognition and mobile tracking technologies advance and spread. At a minimum, retailers should post clear, obvious information about any data they collect from consumers while they are in the store.

Privacy considerations gain particular power when a retailer suffers a data breach—an event that involves not “if” questions, but “when” ones. Hackers are really good. To combat the ever-present threat of data breaches, retailers should be proactive. Although no explicit laws mandate retailers’ responsibility for data, several recent moves suggest that legislation will soon be coming. For example, a proposed law would mimic regulatory oversights in other sectors, such as healthcare, and require similar privacy protections. In addition, the Federal Trade Commission has asserted its right to penalize firms that exhibit persistent failures to protect customers’ data, though that power has come in for a legal challenge.

For proactive retailers that don’t want to wait to be told what they need to do to keep customers’ confidence, there are four key recommendations:

1. Adopt a “privacy by design” approach strategically and throughout the business. For every new tactic chosen or decision made, the retailer should solicit input from various departments, including marketing, legal, human resources, and IT, to think about how the choice will affect customers’ privacy, both immediately and throughout its implementation.
2. Retain customer data only for as long as they are being used. After a reasonable usage period, destroy the data. Doing so drastically reduces the chances of a data breach that could go undetected by companies and consumers.
3. Undertake an explicit legal review to determine what personal information consumers may access and edit. Do consumers have the right to know exactly what information retailers are gathering about them? The answer might not be evident, but it is something that companies should seek to answer for themselves.
4. Buy better security measures. Companies need to invest substantially in this corporate asset, because it can mean the difference between corporate scandal and survival.

Discussion Questions

What should retailers do to protect the privacy of their customers?

Broadly, they need to be proactive, rather than waiting for laws that tell them what to do. The primary goal should be protecting data from external breaches, because such events can be detrimental to everyone involved. In addition, from an internal perspective, firms need to take care to consider a variety of perspectives. Rather than thinking only about what they can do with customer data, they need to consider what they should do with them.
Target Revamps Groceries for Millennials


Target has two main goals for its near future: appeal to Millennial customers instead of just their parents and distinguish itself from its familiar competitor Walmart. Fortunately for the company, it believes it can achieve both those outcomes simultaneously by improving its grocery offerings.

When Target first started introducing grocery offerings to its stores, it prompted a temporary bump in sales. That bump did not persist though, leading today’s executives to seek a path to persistent growth. Noting survey data that indicate that younger consumers are less interested in or compelled by packaged food, Target plans to add more organic, gluten-free, and natural options.

In addition, it found that only 18 percent of shoppers agreed that Target’s food offerings met their preferences. To revise those perceptions, Target is focusing on seven uniquely defined categories of grocery items: granola/yogurt, tea/coffee, candy, snacks, fresh meat, beer/wine, and produce. Although Target does not necessarily plan to give these categories more shelf space, they will be the focus of promotional efforts and merchandising tactics.

In making these changes, Target acknowledges that its inspiration is coming more from innovative grocery retailers such as Trader Joe’s and Wegmans rather than its traditional nemesis Walmart. Rather than a warehouse feel, Target wants to “freshen” its overall image and store surroundings.

Beyond these assortment approaches, Target has announced plans to expand its digital reach, open more small footprint stores, and encourage greater localization in store assortments. For consumer packaged goods manufacturers that have grown accustomed to stocking their packaged foods in Target stores across the nation, these changes might come as an unpleasant shift.

Discussion Questions

How is Target adjusting its assortment to appeal to Millennials?
Mainly, it is seeking to expand its fresh and unique grocery offerings, to limit the amount of packaged goods but increase the focus on organic or natural items.

Based on these changes, if there were a Target near you, would you shop there?
Sure, if it really starts to offer great produce, high-quality granola, gourmet coffees, and more interesting candy. These are things I already buy elsewhere, so if Target offered better quality on these things, particularly at a lower price, I would consider going there.

Photo Credit: © Nathan Mead / age fotostock Business Unit Rights = MHE World Asset Source = AGE Fotostock

BACK
Chanel Acts on Prices as Euro Worsens Gray Market

Use with Chapter 13, “Buying Merchandise,” and Chapter 14, “Retail Pricing”

The euro is lower than it has been in over a decade. As a result, for Asian shoppers seeking Italian designer clothing or French handbags, it is literally worth the cost of flying to Milan and Paris and buying the items there, rather than shopping in Shanghai. But that’s not what the luxury fashion houses want, so they are revising their pricing schemes to address the problem.

Prices are nearly always lower in the country of origin, because there are no customs or import duties to pay. For many products, the price difference might not be significant, but for luxury items that cost thousands of euro (or tens of thousands of Chinese yuan), buying overseas has long been a habit among consumers. As the euro dropped, such international shopping excursions became even more appealing, especially for consumers from China, where the yuan remains strong.

In response to these market developments, Chanel has announced it will be raising its retail prices in Europe but cut them in China. In so doing, it seeks to level the playing field, so that the same bag costs approximately the same amount, wherever people buy it. Currently, prices for Chanel items in China are 63 percent higher than prices for comparable items sold in Paris. When the item is a 4,000 euro handbag, this difference is great enough that a shopper from Beijing could buy a ticket to Paris, fly over, purchase the bag, and fly home—and still save money left over compared with buying the item in the local store.

Beyond the basic confusion created by such discrepancies, Chanel and other fashion houses have another prime reason to raise their prices: the threat of the gray market. Because of the vast gap between their European and Asian prices, actors in the middle can readily buy up goods at the European cost, increase the price slightly—though still remaining below the Asian retail level—and earn massive profits on the gray market. China’s well-known Taobao shopping site is a ready source of such gray market goods.

Discussion Question:

How are Chanel and other luxury goods retailers changing their global pricing strategies?
In an attempt to bring prices more in line across nations, the luxury retailers are increasing the prices charged in European stores but decreasing the prices charged in stores in China.

Why has a weaker euro prompted this change?
When the euro is weak relative to the yuan, one yuan converts into more euro. Thus people who arrive in Paris with yuan in their pockets get more euro from the currency office, which they can use to buy lots of luxury goods at what is, to them, a relatively low price. The euro is weaker than it has been in a long time, so the price gap has grown so large that the retailers can no longer ignore it.

Photo Credit: dibrova/Getty Images Extended Credit Required= NBusiness Unit Rights = MHE Canada ,MHE USA Asset Source= Getty Images
For Kate Spade, a Move Downmarket Goes Bust

Kim Bhasin, Bloomberg, February 5, 2015
Use with Chapter 5, “Retail Market Strategy,” and Chapter 13, “Buying Merchandise”

Female professionals love Kate Spade’s simple, fun image—but only if carrying one of the brand’s bags also makes a clear fashion statement. That appears to be the lesson the company has learned from the general failure of its attempt to introduce a downmarket Kate Spade Saturday brand.

At its founding, Kate Spade was a premium brand but not generally considered to be a luxury brand. That is, consumers could reasonably anticipate that they could save up enough to purchase the pricy handbags. Thus it offered aspirational luxury, because people who might not be able to afford a true luxury handbag that retails at $20,000 could purchase a nearly luxury item that cost $2000.

Heady with success, and after having been purchased by the Liz Claiborne group, the Kate Spade brand sought to expand its reach, opening a range of Kate Spade Saturday stores to offer lower priced versions of its designs, as well as Jack Spade shops for men. Within two years though, the company has decided to close all these stand-alone storefronts and integrate any remaining inventory into their traditional, central line stores.

Yet its long-term goal still is to reach $4 billion in sales annually, which would put it on par with rivals such as Coach and Michael Kors Holdings. Despite continued sales increases though, it remains topped out at about $1.1 billion per year, driving executives to seek out new expansion opportunities. For example, it has recently introduced swimwear lines, home goods, and several children’s clothing lines.

The question that remains for Kate Spade is whether it wants to move these extensions up or down the luxury ladder. Although some luxury brands, such as Burberry, have enjoyed success by marketing deluxe versions of their regular offerings, such as a lace trench coat, others instead seek to appeal to a broader audience with lower priced offerings.

Discussion Questions

What option seems more promising as a strategy for growth for Kate Spade: moving upmarket or downmarket?
Based on the evidence provided by the failure of its Saturday stores, it appears that Kate Spade cannot move further downmarket and still succeed. Instead, it might want to consider increasing its higher-end offerings, to try to achieve a stronger luxury position that would enable it to charge higher prices on a wider range of offerings.
Apple Gets Sweet Deals from Mall Operators


Use with Chapter 7, “Retail Locations”

To locate their stores in popular malls, retailers pay mall operators rent, which usually reflects its sales per square foot. But the companies running the mall also understand that different tenants have different effects on mall traffic, so they vary the rents they demand from various stores. A small, specialty retailer that benefits mainly from spillover customers from other stores might pay up to 15 percent of its sales per square foot. The department stores that anchor malls and draw most of their customers sometimes pay nothing at all.

But all this conventional wisdom is starting to shift due to the simple presence of about 450 Apple Stores worldwide (256 of them in the United States). Because Apple fans are so eager to visit the well-designed, comforting stores, Apple can draw crowds to a mall like no other dedicated retailer has done in the past. Specifically, some estimates suggest that adding an Apple Store increases a mall’s average foot traffic by about 10 percent. On average, each Apple Store earns a sizable $6000 per square foot, and the most popular stores reach as high at $10,000 per square foot.

Noting its value to the mall and the other tenants, Apple has demanded substantial breaks on the rents it pays, such that it refuses to go higher than 2 percent of its sales per square foot. Although these rates are much lower than other dedicated retailers’, they do not quite get the nearly free ride that malls offer to department stores. That is because visitors to Apple Stores often head straight for the technology retailer and its Genius Bar, without stopping to shop with other tenants in the mall. Department stores instead act like feeders to the rest of the mall, so their value overall is greater.

Moreover, the presence of an Apple Store enables mall operators to turn to their other tenants, point to the increased foot traffic, and demand higher rents from them. Although some retailers ask the mall operators to calculate overall mall sales after excluding department stores and Apple, the influence of Apple Stores is undeniable.

Discussion Question

Are Apple Stores the new mall anchors? Explain your answer.

Not quite. Although Apple can attract many consumers to malls, it is not as effective in making sure that those customers also visit other stores in the mall. Traditional mall anchors, such as department store retailers, feed all the other, smaller stores in the mall with a continuous stream of shoppers. Apple Stores do not do that—at least not yet.

What are the advantages and disadvantages of having an Apple Store in a mall, from mall owners’ perspective? From other retailers’ perspective?

For mall owners and operators, an Apple Store increases mall traffic, which enables them to use traffic data to demand higher rents of other tenants. However, many tenants have come to recognize this tactic and request that mall operators exclude Apple from the calculations during negotiations. Furthermore, mall operators find themselves in a weak negotiating position with Apple, which can demand virtually anything it wants from them. For other retailers, the presence of an Apple Store again promises increased store traffic, though they have to find ways to attract that traffic into their own stores. Furthermore, they likely pay more in rent per square foot at a mall with an Apple Store than in a mall without one.

*Photo Credit:* The McGraw-Hill Companies, Inc./Jill Braaten, photographer

Extended Credit Required= NBusiness Unit Rights = MHE World Asset Source= McGraw-Hill Companies
RFID Use Reaching a “Tipping Point”

Dan Alaimo, Retail Wire, March 30, 2015

The benefits of radio frequency identification (RFID) have become so evident and so compelling that vast numbers of not just retailers but manufacturers as well have already adopted the technology. According to a recent survey of hundreds of retailers and manufacturers, more than half of all retailers (57 percent) already use RFID. Another 21 percent plan to implement it within two years. Although the numbers are slightly lower for manufacturers, 48 percent still indicated that they relied on RFID, and 18 percent planned to implement it within a year. The reasons for this growth include both the reliability of RFID and the improved capabilities it offers the supply chain. For example, if retailers and manufacturers work together to tag products at the very moment they are produced, the supply chain becomes more efficient, can achieve far better inventory accuracy, and can support innovative retail delivery options (e.g., buying online and picking up in the store).

Retailer Coalition Makes for Stronger Loyalty Program

Karen Bells, Retail Wire, March 23, 2015

Taking a page from collaborative loyalty programs already in place in other nations, American Express plans to launch the Plenti program with seven partners. When consumers shop with any of the coalition partners, they can earn points that they can redeem with any of those partners. The seven initial members—Hulu, AT&T, RiteAid, Exxon, Macy’s, Nationwide, and Direct Energy—have paid to join and will also pay performance-based fees to support Plenti. Although American Express is the driving force and administrator of Plenti, consumers can use any form of payment and still earn loyalty points. The Plenti program will share web and mobile platforms, yet American Express has vowed that customers’ transaction data will never be shared across the partners; it does not want potential consumers worried that their pharmacist will learn which reality television show they chose to watch last night. Although the initial roster of coalition members is set, American Express also anticipates great success, based on surveys of consumers, and thus requests by other companies to join Plenti. They are welcome to do so, as long as they exhibit a strong customer commitment and do not compete directly with any of the members that already have joined the coalition.

Eight Things Retailers Need to Know about EMV

David Dorf, Retail Wire, March 3, 2015

A new global standard for detecting counterfeit credit cards has been set, prompting credit card companies and their customers to add EMV-enabled cards to their offers and wallets. As these consumers descend on retailers, the stores need to be ready. By October, if they accept a counterfeit credit card because they have not upgraded to EMV-capable terminals, those retailers will be liable for any losses, not the banks. Thus, stores already should have started testing EMV terminals, though many retailers admit they have not done so yet. Then, they need to start getting ready for contactless terminals, because even though the current standard supports both contact and noncontact methods, the latter is growing in popularity. Moreover, the new terminals require consumers to insert their credit cards, and leave them there throughout the purchase process, rather than just swiping them. Thus, retailers have some educating to provide, which may lengthen check-out times in the short run. Finally, when it comes to fraud, the EMV cards are not a panacea. Although they ensure the card is not counterfeit, they have no impact on data transmissions, which have been the sources of most of the recent major data breaches suffered by retailers. In addition, these cards offer no greater protection to online sales, so the implementation of the new technology might simply shift the focus of thieves, from offline to online retailers and their customers.
Amazon’s New Store Is All About Exclusives

George Anderson, Retail Wire, March 12, 2015

What makes a product exclusive? According to Amazon, exclusivity actually stems from a lack of distribution, not any traditional sense of the term. Thus, in its Amazon Exclusives shop, the retail giant features small brands that have gotten initial funding from Kickstarter, as well as a few innovations that were featured on the television show Shark Tank. The idea is that some great ideas appeal to a lot of consumers who want to be the first to adopt, but those ideas and those consumers don’t always wind up in the same place. For example, maybe a sea-loving, aspirational surfer lives in the U.S Midwest, where few stores sell surfing gear. But on Amazon, this consumer can purchase the Tower inflatable paddle board he or she saw on Shark Tank last week and hold on to it until the next time a coastal vacation is possible. By leveraging its massive platform, Amazon hopes to bring innovative new brands to a wider audience, as well as grant its loyal shoppers exclusive access to items that they cannot find virtually anywhere else, including LED-enabled bicycle gloves by Zackees that allow riders to signal their turns in advance.

Costco Ends AmEx Exclusivity Deal

Tom Ryan, Retail Wire, February 17, 2015

Costco Will No Longer Take AmEx Cards in U.S. Stores Starting in March 2016

Marianne Wilson, Chain Store Age, February 12, 2015

For 16 years, Costco and American Express have maintained an exclusive contract, such that the retailer accepts only American Express cards, debit or cash cards, or cash. But in what is a notable blow to the credit card issuer, Costco has announced that when that contract expires at the end of March 2016, not only will it allow the use of other cards, but it will not support purchases with American Express anymore. Although it remains unclear which card issuers Costco plans to align with after next year, observers posit that the reason for the shift is the higher average fees that American Express charges to retailers that accept it. In losing this exclusive contract, American Express expects to suffer earnings losses for approximately two years. The effects on Costco and its customers remain uncertain. If customers are used to pulling out their American Express card to pay for their bulk items, will they be annoyed to learn that they need to reach back into their wallet for another alternative?

West Coast Port Gridlock Hits Inventory at Macy’s and Home Depot


When the operators and dockworkers at the ports on the U.S. West Coast started fighting, the effects reverberated far beyond the docks. Although the argument seemingly has been resolved by now, the effects of the work stoppage are still looming for retailers. Because they could not receive shipments from overseas through these ports, much of their spring and summer seasonal merchandise looks likely to be delayed. At Home Depot, the delivery delays stretched past two weeks, and the potential for long-term disruptions to the supply chain are keeping executives on edge. Macy’s suffered delays to approximately 12 percent of its merchandise, leading it to predict negative effects for its gross earnings, sales, and expenses for the next quarter or two. Still, these stores likely fared better than other retailers that also manufacture all the products they sell. Department stores often have allowances, such that they can return any delayed, unsold merchandise to the maker. Retail manufacturers may wind up stuck with spring products, arriving to be stocked in their stores, but just in time for fall sales.