RETAILING MANAGEMENT

11E

Newsletter for Instructors

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Amazon Set to Counter Temu and Shein with its Own Fast-Fashion Service

Use with Chapter 2, "Types of Retailers," Chapter 3, "Digital Retailing," Chapter 6, "Retail Market Strategy," and Chapter 12, "Managing the Merchandise Planning Process"

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Amazon is set to launch a new service that focuses on shipping low-cost fashion wear, household goods, and other products directly from warehouses in China. This initiative comes about as Amazon faces increasing competition from low-cost e-commerce platforms like Temu and Shein. The new channel will sell unbranded fashion and household products, shipped directly to U.S. consumers within 9–11 days of the order. This strategic move signifies a shift from Amazon's usual practice of routing goods sold by Chinese merchants through U.S. warehouses, as well as its clear attempt to leverage the supply chain advantage that competitors like Temu and Shein currently enjoy.

By shipping directly from China, Amazon can offer products at lower prices, similar to those of its competitors. The new line of offerings will feature a range of unbranded items, many priced under $20. This initiative aims to cater to the growing demand for affordable products while still protecting Amazon's hard-won reputation for convenience and reliability. In addition, it targets more price-sensitive customers who are willing to wait longer to receive their purchases, in exchange for lower costs. Finally, this decision reflects Amazon's strategic effort to take advantage of a U.S. statute that allows shipments valued at $800 or less to enter the country without facing certain tariffs, potentially giving Amazon an edge in price competitiveness.

In launching this new service, Amazon strongly signals its determination to defend its market share in the United States against the rapidly growing competitors Temu and Shein, both of which have successfully attracted U.S. shoppers with their low prices, extensive product ranges, and avoidance of the expenses created by the promise of fast delivery. In addition to achieving comparatively faster delivery times, by shipping directly from China, Amazon is using its marketing capabilities to make its bargain items especially visible and offering highly appealing promotional campaigns.

The service is expected to start accepting products before the end of 2024. By integrating this direct shipping model, Amazon hopes to maintain its leadership in the e-commerce market while offering a broader selection of low-cost items that will appeal to a wider customer base. This move underscores Amazon's commitment to adaptability in a fiercely competitive retail landscape.

Discussion Questions:

1. How might Amazon's decision to ship products directly from China affect its overall brand perception among U.S. consumers?
2. What are some of the potential logistical challenges Amazon will face when adopting this new direct shipping model, and how might it address these challenges?

Sources: Tracy Qu and Sherry Qin, "Amazon Takes on Chinese Rivals Temu and Shein With Plans for New Discount Service," *The Wall Street Journal*, June 27, 2024; Annie Palmer, "Amazon Plans to Launch Discount Store in Bid to Fend Off Temu and Shein," *CNBC*, June 26, 2024.

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Why the Walmart Model Doesn't Translate to Healthcare

Use with Chapter 2, "Types of Retailers," and Chapter 5, "Customer Buying Behavior"

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Walmart's retail model is widely celebrated for its efficiency and cost effectiveness. But does a retail model work when applied to healthcare? Even with its robust infrastructure and immense market presence, Walmart's attempts to revolutionize health care delivery have not met its expectations of success. Instead, the company closed its health care division, which comprised 51 primary care centers in five states and telehealth services, citing the lack of a sustainable business model, the challenging reimbursement environment, and escalating operating costs as the key determinants of its decision.

In retail, success hinges on volume sales and cost savings, achieved through economies of scale. Walmart excels at achieving these goals by streamlining operations and negotiating low prices from suppliers. However, health care is inherently different. It requires personalized care, trust-building, and adherence to regulatory standards that do not align neatly with Walmart's traditional retail strengths. The complexity of patient care, which entails nuanced medical needs and personalized treatment plans, clashes with the one-size-fits-all approach that works well in retail.

Walmart's health care experiments, including Walmart Health centers that offered primary care, dental services, and mental health counseling, was ambitious. The model struggled to achieve scale effectively. A particularly significant challenge related to the effort to integrate comprehensive health care services into existing retail settings. Health care providers and patients alike often found the setting incongruous with their expectations of traditional medical service environments, creating problematic issues in terms of trust and perceived quality of care.

Moreover, Walmart's approach to health care lacked a seamless integration with existing health care systems and electronic health records (EHRs), which are crucial for the coordinated care that today's patients and consumers expect. This disconnect impeded the continuity of care, an essential component of effective health care delivery. In addition, the health care workforce is widely distinct from retail staffers, requiring specialized training and professional development. Walmart's retail-centric human resource practices were not equipped to handle such employee demands efficiently or effectively.

Other retailers seeking to disrupt and benefit from health care offerings have faced similar hurdles. For example, both CVS Health and Walgreens have ventured into health care service provision, but they have struggled to scale their operations to match the personalized, nuanced demands of health care consumers. Furthermore, these companies have appeared unable to integrate retail and medical cultures, address the sophistication and complexity of health care regulations, and meet the needs of highly specialized medical staff. Their models, even if slightly more successful than Walmart's, due to the resources available from their pharmaceutical experience, offer a further illustration of the challenges of translating retail efficiency into health care success. In turn, both these companies are scaling back their experimental health care operations.

The challenges faced by Walmart and other retail disruptors highlight a critical lesson: Health care complexities require more than just applying existing, cost-efficient, high-volume, retail approaches. Successful health care delivery demands a patient-centric model that emphasizes quality, continuity of care, and integration with broader health care systems. In these areas, traditional retail models fall short.

Discussion Questions:

1. How can retail companies better integrate health care services into their existing business models to address the unique challenges of the health care sector?
2. What lessons can be learned from the challenges faced by Walmart Health, in terms of scaling and integration with existing health care systems?

Sources: David Wainer, "Why the Walmart Model Doesn't Work in Healthcare," *The Wall Street Journal*, July 5, 2024; Katie Adams, "Healthcare Is a Frontier Not Even Walmart Could Conquer—And It's Not Looking Great for Others Either," *Med City News*, May 1, 2024; Giles Bruce, "Why Hospital Executives Think Walmart Health Failed," *Becker's Health IT*, May 1, 2024.

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Fast Retailing Group Maintains Impressive Pace with Expanding Global Footprint

Use with Chapter 4, "Multichannel and Omnichannel Retailing"

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Fast Retailing, the parent company of popular brands like Uniqlo and GU, has shown impressive financial growth in the first half of 2024, with a 9.5 percent increase in revenue (to $19.84 billion) and an 18.1 percent jump in operating profit (to $2.85 billion). A key factor in its success is its customer-centric approach, focusing on high-quality, functional, and affordable clothing, as exemplified by innovative Uniqlo products like HEATTECH and AIRism.

Its GU label also targets a younger audience with trendy, affordable fashion, thereby complementing Uniqlo's offerings. By employing such a dual-brand strategy, Fast Retailing can to cast a very wide net, appeal to a diverse range of fashion preferences, and guarantee that it has something to offer that will appeal to every type of consumer. Smart strategic partnerships with brands that are established global powerhouses—from Disney and Star Wars to globally known athletes like Roger Federer—have further expanded its market reach.

Another global trend also supports its success, namely, widespread interest in Japanese culture, with its emphasis on functionality, quality, and simplicity. These philosophies align well with Fast Retailing's core values and also boost its appeal. Founded in 1963 as a textile manufacturer, the company's deep expertise in textiles has driven continuous innovation, allowing it to develop and introduce to the market special fabric technologies that compel customer interest and engagement with its brands.

Currently the world's third-largest apparel retailer, Fast Retailing thus is closing the gap on H&M. Having already surpassed this rival in terms of market capitalization, Fast Retailing is pushing to do the same in terms of revenue. Its aggressive international expansion in North America, Europe, and Southeast Asia positions it to gain more ground. The company's future plans include expanding into high-growth potential markets, enhancing digital offerings, and dialing up sustainability initiatives.

Discussion Questions:

1. What challenges might Fast Retailing face in its quest to surpass H&M in terms of revenue?

Sources: *Kate Hardcastle, "Fast Retailing: The Global Giant Satisfying Customers Across Continents," Forbes, July 12, 2024.*

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Where Can You Find Gen Z Shoppers? At the Mall!

Use with Chapter 5, "Customer Buying Behavior", Chapter 8, "Retail Locations," and Chapter 9, "Retail Site Location"

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Shopping centers in the United States are experiencing a notable resurgence, such that their vacancy rates have reached their lowest point in two decades. This trend represents a significant shift in the retail landscape, demonstrating the adaptability and resilience of brick-and-mortar establishments, even amid the growing dominance of e-commerce.

One of the primary drivers of this revival is the transformation of shopping centers into mixed-use hubs. Many modernized shopping centers now feature a blend of retail, entertainment, residential spaces, and dining, promising comprehensive lifestyle destinations. As these various tenants vie for space, the centers enjoy higher occupancy rates, as well as less risk of tenant redundancy and more robust tenant mixes. These changes cater to evolving consumer preferences for convenience and experiential shopping, especially among Gen Z consumers, offering more than just a place to purchase goods. They also represent venues for social interaction and leisure activities.

The rise of mixed-use developments thus has made shopping centers more appealing to broader audiences, especially when they incorporate services that cater to daily necessities. For example, many malls now also include fitness centers, co-working spaces, medical clinics, and/or entertainment venues, transforming them into community-centric spaces. This diversification attracts a wider range of visitors. Furthermore, their embrace of flexible working hours has resulted in higher foot traffic during the afternoon, balancing out visits in the morning and late-evening hours.

The shopping behavior of Gen Z consumers also has been crucial to this resurgence of shopping centers. Unlike previous generations, Gen Z exhibits a strong preference for in-person shopping experiences, including the tactile and social aspects that can be attained by visiting malls. This demographic's inclination toward physical retail has played its part in the increased foot traffic and lower vacancy rates. Gen Z's engagement with malls thus appears to be revitalizing this particular retail experience, driving a resurgence in popularity and contributing to the regained vibrancy of shopping centers.

For the retail industry, the resurgence of shopping centers signifies a renewed period of innovation and adaptation. Retailers increasingly adopt omnichannel approaches, and from this perspective, physical stores can complement their online presence. This hybrid model enhances customer loyalty and provides a seamless shopping experience across multiple channels, blending the convenience of online shopping with the experiential benefits of visiting physical stores.

Discussion Questions:

1. How can shopping centers balance traditional retail with the growing demand for experiential and service-oriented offerings?
2. What strategies might shopping centers implement to sustain their relevance and success in the constantly evolving retail landscape?

Sources: *Joe Gose, "What Retail Apocalypse? Shopping Centers Are Making a Comeback," The New York Times, June 9, 2024; Ashley Ahn, "Malls Have Rebounded Thanks to an Unlikely Source: Gen Z," LA Times, January 19, 2024; INSTORE Staff, "U.S. Malls Making a Comeback: Study," INSTORE Mag, April 5, 2024.*

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Wake Up and Smell the Competition: Inside the "Coffee Wars"

Use with Chapter 6, "Retail Market Strategy"

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Faced with the vast choices on most coffee shop menus—orange creamsicle Frappuccinos, pink drinks, and pumpkin spice lattes, to name just a few—it's easy for consumers to become rapidly overwhelmed. What is the force driving the introduction of all of these new drinks?

Originating in Milan, coffee bars were first created as casual public meeting places, where people could gather to chat or work. Both the décor and menu were purposefully simple; offerings were limited to coffee, tea, and basic espresso drinks. But as the U.S. market for coffee has evolved (thanks Howard Schultz!), coffee chains have raced to keep pace, offering more and more choices in the hope of retaining a bigger proportion of the large and growing consumer base.

In addition to these influences of consumer trends, external factors, including climate change and ethical regulations, have made the production process for coffee more unpredictable and expensive. As the supply of high-quality beans grew scarce, many shops began innovating and developing drinks that might appeal to coffee drinkers, even without a coffee base. Global trends reinforce such efforts: Beverages popular in Asia and Eastern Europe have been more widely introduced into mainstream American culture, such that matcha and chai currently represent integral selections on most coffee shop menus.

These expanding menus are not limited to large coffee chains. The race also has been joined by smaller, regional chains and independent coffee shops, all determined to produce the most innovative and delicious specialty drinks. In addition, substantial sales growth in the coffee sector comes from iced beverages, whether in the form of iced coffee, smoothies, energy drinks, or Italian sodas. Other stores also have expanded their food menus, ranging from simple sandwiches to complicated pastries.

But cafés are experiential places too. Some coffee shops thus aim to expand their offerings by granting customers opportunities to understand what goes in to coffee production. Certain businesses have invested in more advanced brewing techniques, demonstrating their sophistication and capabilities to their consumers. Others have created rituals and traditions around the preparation and presentation of drinks. In support of such experiential offerings, many stores have been remodeled, introducing adaptable café layouts and smart ordering systems. Even if these spaces are not conventional meeting places, they can serve as social statements and introduce an aesthetic that represents the brand.

Of course, each of these changes also creates problems. Larger menus, more complex rituals, and increasing order volumes put escalating pressure on employees. Even when larger corporations, like Starbucks, have chosen to implement scheduling algorithms to maximize labor efficiency, certain stores have opted to hire fewer than the recommended number of workers, in an attempt to save costs. Amid such chaos, naturally, some retailers buck the trend and seek to simplify, disenchanted by a seeming state of never-ending competition. Smaller, fixed menus have begun reappearing, especially in independent shops, which tout themselves as a calm, straightforward alternative. These sit-and-sip spots have become cult favorites, praised for prioritizing function and convenience over image, as well as for returning to the Italian inspiration that sparked the coffee consumption revolution in the first place.

Discussion Questions

1. Are pressures for coffee companies to constantly innovate sustainable long term?
2. What factors might be driving a counter-trend toward menu simplification?

Sources: "2024 Coffee Market Trends: Expert Insights," GourmetPro, August 4, 2024; Bill Saporito, "There Are a Bazillion Possible Starbucks Orders—and It's Killing the Company," The New York Times, August 25, 2024; Julie Creswell, "A Funnel Cake Macchiato, Anyone? The Coffee Wars Are Heating Up," The New York Times, September 5, 2024

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Homegrown Chinese Fast-Food Chains Go Toe-to-Toe with Western Behemoths

Use with Chapter 6, "Retail Market Strategy"

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Western fast-food chains once dominated the casual dining landscape in China. The opening of a KFC in a Chinese city was considered a significant milestone in the region's development. Today, China hosts 10,000 KFC outlets, more than double the number in the United States, along with approximately 7,000 Starbucks coffee shops and 6,000 McDonalds outlets. This influx of foreign capital and prestige initially made it challenging for local competitors to establish themselves and compete. However, the dynamics are shifting.

Today, Chinese fast-food chains are increasingly outperforming their Western counterparts. Several local brands have begun to capture significant market share by tailoring their offerings to local tastes and preferences more effectively than foreign brands can do, while also offering more competitive pricing. For example, chains like Tastein and Luckin Coffee have become formidable competitors by offering menus that resonate with Chinese consumers, incorporating traditional Chinese flavors and ingredients into their offerings, and pricing their products as low as one-third the prices demanded by the competing Western chains.

Such responsiveness to market trends in turn has allowed local brands to create a more seamless and convenient customer experience, further boosting their appeal. Another factor driving this notable traction is the Chinese fast-food chains' penetration of second- and third-tier Chinese cities—areas that traditionally have been overlooked by Western fast-food chains—whence many of these homegrown chains originate. According to a UBS survey, inhabitants of these relatively smaller cities, especially those aged between 30 and 40 years of age, are willing to fork out more money on dining out than their counterparts in tier-one cities.

Discussion Questions:

1. How can Western fast-food chains adapt their strategies to compete better with local Chinese brands in the rapidly evolving Chinese market?
2. What lessons should other aspiring fast-food retail chains in non-Western countries learn from the success of Chinese fast-food chains, in terms of capturing market share?

Sources: *The Economist*, "Chinese Fast-Food Insurgents Are Beating McDonald's and KFC," June 6, 2024.

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Going Under: The Decline of Underground Markets in New York

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

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The subway, the train, the metro, the tube—regardless of what you call it, public transportation remains a reliable option for getting around most major cities, none more so than New York. With an estimated 3.6 million people using the subway each week, stores located in underground stations have long offered promising, lucrative spots for retailers. Some vendors sell coffee or pizza; others stock newspapers or food staples.

But rider habits have changed. In particular, online retailers challenge the competitive advantages provided by convenient stalls. Remote and hybrid work have reduced the total number of weekly riders, a trend that started with the coronavirus pandemic. Since pandemic-related closures, almost 75 percent of transit storefronts have closed. For the remaining stores, the New York Metropolitan Transit Authority (MTA) is offering reduced rent, in an attempt to entice them to stay. Lowering the rents for the fewer remaining stores means a substantial decrease in retail revenue for the MTA, at a time when lower foot traffic and the end of congestion pricing already had significantly affected its income.

Therefore, the MTA has committed to bringing retailers and shoppers back to underground stations, through a series of experimental efforts. In older stops for example, the MTA is upgrading water and power lines, which helps create cleaner, more efficient retail locations. It also has announced plans to build retail corridors at busier locations, including Grand Central Madison and the L.I.R.R. concourse at Penn Station. Transit officials hope to incorporate more food and drink options at these locations, placing quick service stops in passages and on the platforms that receive the highest foot traffic.

Some empty storefronts on the Upper West Side also have been repurposed, such that the MTA created a “busking station” for musicians to attract customers. In Midtown, a living art exhibition was installed, filling an empty news stall with plants. The success of these changes still remains to be seen. But shop owners and managers alike remain hopeful—a good sign.

Discussion Questions

1. What has led to the decline in underground retailers at transit stops?
2. Why is the MTA investing money in busking stations and art exhibitions, when these attractions don’t generate rent?

Sources: Dave Carlin, “NYC Underground Retail Spaces at Alarming 75% Vacancy Rate. Here’s How the City Plans to Fill Them,” CBS News, July 8, 2024; Matthew Haag, “The Sad State of Underground Retail in New York City,” The New York Times, July 7, 2024; Huaxia, “NYC Underground Retail in Bleak State: Authority,” Xinhua, July 8, 2024

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Heating Up: The Impact of Climate Change on the Food Supply

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

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As mentions of “Strawberry Fields,” strawberry farms, strawberry shortcake, and strawberry blonde suggest, the popular fruit has long been a part of the public consciousness, deeply embedded in our understand of Beatles music, warm summer days, and childhood joys. But worrying new climate reports predict a dramatic reduction of strawberry crops in the years to come, with relevant implications for consumers, marketers, and retailers.

A recent study from the University of Waterloo investigated the impact of temperature abnormalities on strawberry yields, and the result were deeply concerning. Using a model that predicts the probability of losing crops, the researchers concluded that a rise in temperature of just 3 degrees Fahrenheit could reduce strawberry supply by as much as 40 percent, which in turn would imply both higher prices and scarcity. As the scientists made clear, the strawberry supply is especially susceptible to loss, due to the fragile nature of the fruit and its short shelf life.

But changes in weather have implications for all produce, regardless of type. Fruit is one of the most profitable exports that the United States has; the 2022 market for strawberries alone was valued at more than $3 billion. Farmers in California would be particularly affected by the threats to their crops due to changing weather patterns; the state is responsible for more than 80 percent of the country’s food production and also is a significant exporter to Canadian markets.

The long-term solution to this and other global warming problems must focus on large-scale efforts to reduce average temperatures. In the meantime though, scientists suggest that sustainable farming practices might help reduce disruptions in the food supply in the more immediate term. For example, drip irrigation adds minimal amounts of water to the soil at the root level and has proven successful in protecting crops, as well as conserving water. Likewise, changing growing season schedules to avoid heat waves and erecting large shade structures may protect crops from extreme heat.

Implementing these changes will require sizeable upfront investments, something that smaller growers are ill-prepared to afford. As the climate crisis accelerates though, average temperatures continue to increase at a worryingly rapid speed, meaning that ignoring the problem is not an option either.

Discussion Questions

1. Which stage in the food supply chain is primarily responsible for addressing this crisis? How might retailers support the efforts of their suppliers, to prevent disruptions to their supply?
2. How might growers use sustainable farming practices to address the impact of climate change?

Sources: Fakhri Karray, Kumaraswamy Ponnambalam, and Poornima Unnikrishnam, “Influence of Regional Temperature Anomalies on Strawberry Yield: A Study Using Multivariate Copula Analysis,” MDPI, April 23, 2024; “Researchers Predict Fewer, Pricier Strawberries as Temperatures Warm," University of Waterloo, July 17, 2024; Susan Elizabeth Turek, “Scientists Warn Grocery Shelves May Soon be Missing Pantry-Staple Food Because of Poor Crop Conditions: 'Emphasizing the Importance of Sustainable Farming',” Yahoo News, August 22, 2024

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Chains Bet Big on Automation: Restaurants' Robot Experiments Begin to Take Shape

Use with Chapter 10, "Information Systems and Supply Chain Management," and Chapter 16, "Human Resources and Managing the Store"

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As labor costs continue to rise, restaurant chains increasingly are experimenting with robotic assistants to enhance their operational efficiency and reduce their expenses. Companies like Miso Robotics and Vebu Labs are at the forefront of this technological revolution, developing machine helpers such as Flippy and Autocado, respectively, to automate various kitchen tasks. These innovations promise significant benefits but also pose challenges, particularly with regard to labor dynamics and operational integration.

Flippy, a robotic kitchen assistant created by Miso Robotics, is designed primarily to handle grilling and frying tasks. Equipped with both AI and computer vision, Flippy can flip burgers, cook chicken, and fry foods with precision and consistency. Its installation thus reduces the need for human intervention in such repetitive, physically demanding, often risky tasks. Not only does reliance on a robot ensure a consistent food quality standard, but it also helps cut down on labor costs. Remaining restaurant staff can focus on more complex and customer-facing duties. Already, Flippy robots have been installed in several fast-food chains, such as White Castle.

Autocado, developed to assist with avocado preparation, addresses another, particularly time-consuming kitchen task, especially for establishments with a strong focus on Mexican cuisine. That is, the machine can halve, pit, and scoop avocados quickly and efficiently, ensuring a consistent product while freeing up kitchen staff for other tasks. Chipotle has introduced Autocado to streamline its guacamole-making process, revealing its potential to enhance both speed and consistency in food preparation. If all goes to plan, Autocado will be operationally effective in Chipotle restaurants by the end of the year.

The growing, expanding adoption of these robotic solutions addresses several critical challenges for the restaurant industry, including labor shortages, rising labor costs, and the need for improved food safety and consistency. These technologies allow restaurants to offer faster service while maintaining their standards, even during peak hours. Furthermore, automation reduces the risk of injuries associated with repetitive tasks and hot cooking surfaces, thereby improving workplace safety.

Along with their various benefits though, robotic solutions also present challenges. The integration of robots into kitchen operations requires significant upfront investments and ongoing, potentially costly maintenance. Other concerns arise with regard to the impacts on human employment; automation could displace some jobs traditionally held by human workers. However, proponents argue that robots can take over the mundane tasks, while allowing employees to engage in more value-added activities, which promises to enhance their job satisfaction and overall productivity.

Discussion Questions:

1. How might the customer experience be affected by increased automation in restaurants?
2. What strategies can restaurants implement to ensure the smooth integration of robotic technology without disrupting operations?

Sources: Heather Haddon, "Rise of the Restaurant Robots: Chipotle, Sweetgreen and Others Bet on Automation," *The Wall Street Journal*, July 11, 2024; Melissa Kravitz Hoeffner, "Chipotle Debuts New Guacamole-Making Robot, Autocado," *Forbes*, July 12, 2023; Heather Haddon, "Sweetgreen Hires Kale-Shooting Robots to Speed Up Service," *The Wall Street Journal*, October 16, 2023; Angela L. Pagan, "Flippy, The Burger-Flipping Robot, Is Making Moves," *The Takeout*, January 16, 2024.

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Parting Ways: Walmart Sells Stake in Chinese E-Commerce Company

Use with Chapter 10, “Information Systems and Supply Chain Management,” and Chapter 12, “Managing the Merchandise Planning Process”

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There are few retailers that can boast the same range of products as Walmart. Where else can you buy groceries, home goods, electronics, and clothing, all in the same store? In some locations, auto parts or firearms are also available. It’s a one-stop shop, a veritable goldmine for everything a consumer could want ... which is also what makes Walmart so seemingly well suited for global e-commerce.

And yet, Walmart’s entry into foreign markets has not been particularly successful. In 2016, Walmart sold its Chinese online market, Yihaodian, to JD.com, the largest retailer in China. The partnership allowed JD.com to integrate Sam’s Club China into its overall corporate structure. In return, Walmart acquired a 5 percent stake in the existing e-commerce company and enjoyed access to JD.com’s more established distribution and fulfillment channels within China.

Despite the benefits it attained through this collaboration though, Walmart recently announced its decision to divest from JD.com, as well as its renewed focus on developing its own core operations in China. The divestiture will allow Walmart to expand and develop its Sam’s Club operations independently, as well as direct critical capital to areas that offer greater growth potential.

Even if Walmart’s choice to sell its shares was somewhat unexpected, it was not altogether shocking, according to experts. Aligning the interests of global corporations in rapidly changing economies is always difficult, and recent economic trends in China have made this effort especially challenging. In particular, JD.com dominated the Chinese e-commerce space almost exclusively for many years, but new competitors, like Pinduoduo, as well as social media–integrated commerce platforms, such as Xiaohongshu and Douyin, have rapidly challenged that dominance. On the flip side, JD.com’s massive size makes rapid adaptation to changing economic conditions difficult, especially if it also hopes to ensure the growth of its subsidiaries, including Walmart. In this sense, Walmart’s decision to divest appears to signal a general lack of confidence in JD.com’s ability and motivation to ensure the best interests of Walmart or Sam’s Club in the long-term.

The dynamic partnership and resulting alliances help underscore the inherent challenges that global partnerships face. They also highlights the importance of risk mitigation strategies for partners. Companies entering foreign markets need to find ways to diversify their investments, while also focusing on their core strengths. Other companies might do well to follow Walmart’s lead and undertake a careful evaluation of whether their international partners can manage rapid fluctuations in global markets, especially in regions with quickly changing economic conditions.

Discussion Questions

1. Which companies should reevaluate their strategic partnerships in global markets?
2. How can a company better manage its strategy in a country with a rapidly changing economy? What about in a country with a fairly stable economy? Are the risk mitigation strategies for both types of markets the same?

Sources: Daisuke Wakabayashi and Claire Fu, “Walmart Dumps Entire Stake in China’s JD.com,” The New York Times, August 21, 2024; Laura Dobberstein, “Walmart Clears Out Its Shares of Chinese E-Tailer JD.com,” The Register, August 22, 2024; Nickie Louise, “Walmart Sells Stake in JD.com to Focus on Its Own China Operations,” Tech Startups, August 22, 2024; OpenAI ChatGPT, "Assistance with Research on Walmart's Divestiture from JD.com and Its Implications," ChatGPT, August 25, 2024.

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Dime a Dozen: McDonald's Introduces Kiosks that Accept Cash

Use with Chapter 10, "Information Systems and Supply Chain Management," Chapter 16, "Information Systems and Supply Chain Management," and Chapter 17, "Store Layout, Design, and Visual Merchandising"

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Even as economic transactions evolve to become increasingly cashless, there are still a few places where it's nice to have money—the ice cream truck, a farmer's market, and fast-food chains with dollar menus. In a way, McDonald's is the perfect place to spend the last few bills burning a hole in your pocket. And now, it's gotten a little bit easier.

McDonald's recently introduced self-service kiosks that accept cash and provide change, a marked improvement from current devices that require credit card payments. The devices currently are available only in a handful of locations; they are optional for franchised stores. As they get more widely implemented in locations across the country though, screens behind the counter will be modified as well, to encourage customers to order at kiosks.

The shift to digital orders has been hastened by recent customer service data, showing that self-service models are often more efficient. Because it takes less time to place an order, they support more frequent visits. The screens also consistently offer well-placed suggestions, resulting in more add-ons per order. Furthermore, customers are already accustomed to the process, considering that online orders through phone apps and delivery services make up around 40 percent of McDonald's sales. Thus, customers likely will find the kiosks beneficial, though others might reject the additional burden imposed on them by the retailer, which forces them to take on yet another role.

The embrace of kiosks also could reflect a less savory motivation. In this view, McDonald's installation of self-service machines represents a response to union demands. Higher minimum wages established in various states have forced corporations to pay their workers more, prompting some of them to explore non-human service options. For example, California's minimum wage for fast food workers has reached $20 per hour. Rejecting such allegations, McDonald's has committed to reassigning cashiers to other roles, including bringing food to customers who order digitally or entering new "guest experience lead" roles, to assist consumers with any technical difficulties that might arise.

These and other new roles also might become increasingly necessary. Implementing the kiosks will add some potentially unforeseen complexities, in that the restaurants' supply chains will need to expand to support mobile ordering and delivery, together with traditional service interactions and self-service options. Thus, more employees might be assigned to preventing customer errors or shoplifting, both of which typically increase with the use of self-checkout models.

Discussion Questions

1. What other industries might replace customer-facing service roles with digital models? Which industries should not? Why?
2. What are some advantages and disadvantages of implementing a self-service checkout model in fast food? Is the effort worthwhile?

Sources: Daniela Sirtori, "McDonald's Rolls Out Kiosks that Take Cash, Pushing Diners away From Cashiers," The Economic Times, September 11, 2024; Nathaniel Meyersohn, "McDonald's Touchscreen Kiosks Were Feared as Job Killers. Instead, Something Surprising Happened," CNN, September 20, 2024; Taylor Herzlich, "McDonald's Rolls Out Self-Serve Cash Kiosks That Could Make Human Cashiers Obsolete," New York Post, September 11, 2024

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Controversial Changes to Sam’s Club Membership Policies Drive Discussion

Use with Chapter 11, “Customer Relationship Management”, and Chapter 16, “Human Resources and Managing the Store”

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Sam’s Club has introduced a series of controversial changes to its membership policies, sparking significant debate among its customer base. The wholesale retailer silently implemented a new policy, requiring shoppers to pay an additional fee for access during designated hours—8:00 a.m. to 10:00 a.m. on weekdays and 8:00 a.m. to 9:00 a.m. on Saturdays. According to this policy, members of its Plus loyalty program may gain exclusive access during those early hours, whereas other Sam’s Club Membership holders lack such privilege.

In response, customers, members, and critics have entered into widespread discussions and expressions of concern, particularly on social media platforms. The reason this change seems so notable is its challenge to a traditional access model, which previously allowed any Sam’s Club members to shop freely, without restrictions, once they paid for their membership.

In another notable change, the company has revised its delivery policy for its most premium Plus members. Previously, these members enjoyed the perk of free delivery with no minimum purchase requirement. The new policy instead mandates a minimum cart value of $50 to qualify for free delivery. This adjustment marks a clear departure from the previous benefit and has been met with backlash from members who believe the underlying value of their premium membership has diminished.

That is, the primary concern among Sam’s Club members appears to be the threat of substantial erosion of the benefits, for which they initially signed up and paid a premium. The added membership upgrade required to gain access to the special shopping hours, combined with the new delivery minimum, even for Sam’s Club Plus members, thus appear to be alienating some loyal customers. If the changes drive members away, rather than enhancing their shopping experience, the initiative could prove detrimental.

In addition to members and critics, these policy changes also have been noted by Sam’s Club's competitors, such as Costco. Some members expressing their dissatisfaction on social media already have threatened to switch their allegiance to Costco. Such sentiments highlight the potential risks that Sam’s Club, just like any retailer, faces when it attempts to implement change and adopt a new initiative, with regard to customer retention and brand loyalty.

From a strategic point of view, the policy adjustments likely are aimed at managing operational costs and improving profitability. However, the immediate negative reaction from the customer base suggests that the changes may not align well with member expectations and could harm the company’s reputation in this highly competitive retail landscape.

Discussion Questions:

1. How can Sam’s Club balance operational cost management with maintaining customer satisfaction and loyalty in light of these recent policy changes?
2. What strategies can competitors like Costco employ to capitalize on Sam’s Club's controversial changes and attract disaffected members?

Sources: Dennis Limmer, “Sam’s Club Makes Controversial Membership Policy Changes,” *Retail Wire*, July 7, 2024; Maya Lanzone, “PAY UP ‘You Gotta Pay the Price,’ Sam’s Club Customers Fume as Policy Forces You to Pay More for Certain Hours,” *The U.S. Sun*, July 1, 2024; Pilar Arias, “Costco Rival Changes Key Perk Policy, but It Could Backfire,” *Fox Business*, July 7, 2024.

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Thick as Thieves: Lobbying Group Retracts Claim About Shoplifting

Use with Chapter 16, “Human Resources and Managing the Store”

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Remember 2021? It was a tough year for everyone. The coronavirus pandemic made in-person meetings difficult, and jobs and relationships suffered for it. Businesses struggled to survive in the new reality, and reports emerged of a global economic recession caused by pandemic closures.

That sense of panic amplified reports about other sources of profit losses during this time, creating a widespread atmosphere of fear in the market. Therefore, when the National Retail Federation (NRF) released the troubling results of a study, it sent shockwaves through an industry already primed for more bad news. In particular, the NRF reported that organized retail crime accounted for $45 billion in annual losses for retailers, almost half of the $94.5 billion in total loss from store merchandise.

Many media organizations were quick to amplify the claim, adding to already extensive coverage of shoplifting in the press. We even discussed it in these abstracts (see “What Can Retailers Do about Retail Theft?” from October 2023). News outlets blasted the monetary figures far and wide, creating coverage that, in retrospect, appears to have been overly sensational and stirring. Just like any sensationalism in journalism can do, it elicited a response. Major corporations, including Walgreens and Target, closed several stores in 2021, citing the high likelihood of shoplifting in those locations. Others, such as Ulta Beauty and DICK’s Sporting Goods, cited organized crime as a significant detriment to their efforts to achieve profitability. Lobbyists and policy makers also cited the figures in support of their ongoing efforts to curb online retailers, claiming that much of the stolen property was ending up on websites.

Not so fast though. The NRF has formally retracted its claims, acknowledging that one of its analysts misread some Congressional testimony and then added the mistake to the report. The original claim, made by Ben Dugan, the former president of the Coalition of Law Enforcement and Retail, estimated that the overall cost of shrinkage was $45 billion in 2016—not that this was the amount lost only to organized shoplifting, or that these figures were representative of losses suffered in 2021.

Despite this substantial difference, the NRF insists that its overall conclusions remain accurate and that organized retail crime represents a serious, rampant problem. The group later released a statement defending its position, highlighting how organized shoplifting affects retailers of all sizes, across all areas of the United States. Now that experts are taking a closer look at the data though, they point to other evidence that indicates shoplifting in most major cities has decreased by 7 percent since 2019. Trevor Wagener, chief economist of the Computer & Communications Industry Association, also argues that organized shoplifting actually is responsible for only about 5 percent of all retail theft.

In reality, the true extent of the problem is still widely unknown. Most relevant data are collected from individual retailers or jurisdictions, based on police reports. Such statistics need to be reviewed with caution, because it is unclear how many retailers actually report thefts to law enforcement or how often. The embarrassing incident offers a teachable moment though, and it suggests the need for reviews of data collection methods. The retail industry and law enforcement would have to come together to provide such reviews, which also might require concerted efforts to define accurate, uniform criteria for identifying and measuring shoplifting incidents.

Discussion Questions

1. What factors might explain the wide range of statistics produced about organized retail crime currently?
2. What criteria could the retail industry and law enforcement use to ensure a more accurate, representative sample of data is collected?

Sources: Anne D’Innocenzio, “Retail Group Pulls Back on Claim Organized Retail Crime Accounts for Nearly Half of Inventory Loss,” Associated Press, December 7, 2023; Eduardo Medina, “Retail Group Retracts Startling Claim About ‘Organized’ Shoplifting,” The New York Times, December 8, 2023; Katherine Masters, “US Retail Lobbyists Retract Key Claim on ‘Organized’ Retail Crime,” Reuters, December 5, 2023

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Tidbits

Unsubscribed: How a New Law Is Making Customer Service More Straightforward

No matter how rich, powerful, or mature we get, some frustrating encounters cannot be outrun. And like death and taxes, customer service calls seem to be inevitable. But a new U.S. administrative policy could make such regular occurrences at least a bit easier. A new regulation, the “Time Is Money Initiative,” proposes ways to curb the corporate practices that, in the past, have enabled companies to put the burden of customer service on the customer. This proposal, compiled through the cooperation of multiple federal agencies, including the Federal Trade Commission (FTC) and Consumer Financial Protection Bureau (CFPB), suggests rules to simplify the process of cancelling subscriptions and reoccurring payments, in an effort to address a widespread customer complaint. Its “click to cancel” provision would require companies to make cancellation options simpler and more immediate. Other mandates attempt to reduce companies’ uses of automated systems and guarantee consumers ready access to live agents. Whereas the U.S. Chamber of Commerce has come out against the proposed legislation, arguing that the new regulations would increase the operational costs for businesses and stifle innovation, many consumers have responded favorably. Companies have already begun to draft their own responses, including introducing more efficient cancellation and assistance platforms and revising cancellation policies to provide more transparency. Such measures might help them enhance customers’ loyalty and their own brand reputation, which could offset the potential increase in operational costs. Subscription services in the more regulated environment envisions by this bill might see shrinking profit margins and higher costs, or else increased innovation and creative solutions to the new requirements. Only time will tell.

Sources: Sara Ruberg, “Canceling Memberships Is a Pain. New Biden Administration Rules Aim to Make It Easier,” The New York Times, August 15, 2024; Adam Hardy, “White House Takes Aim at ‘Corporate Tricks’ that Waste People’s Time and Money,” Money, August 12, 2024; Adam Marshall, “The Government Wants to Make Cancelling Subscriptions Easier,” Tech.co, August 13, 2024

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