



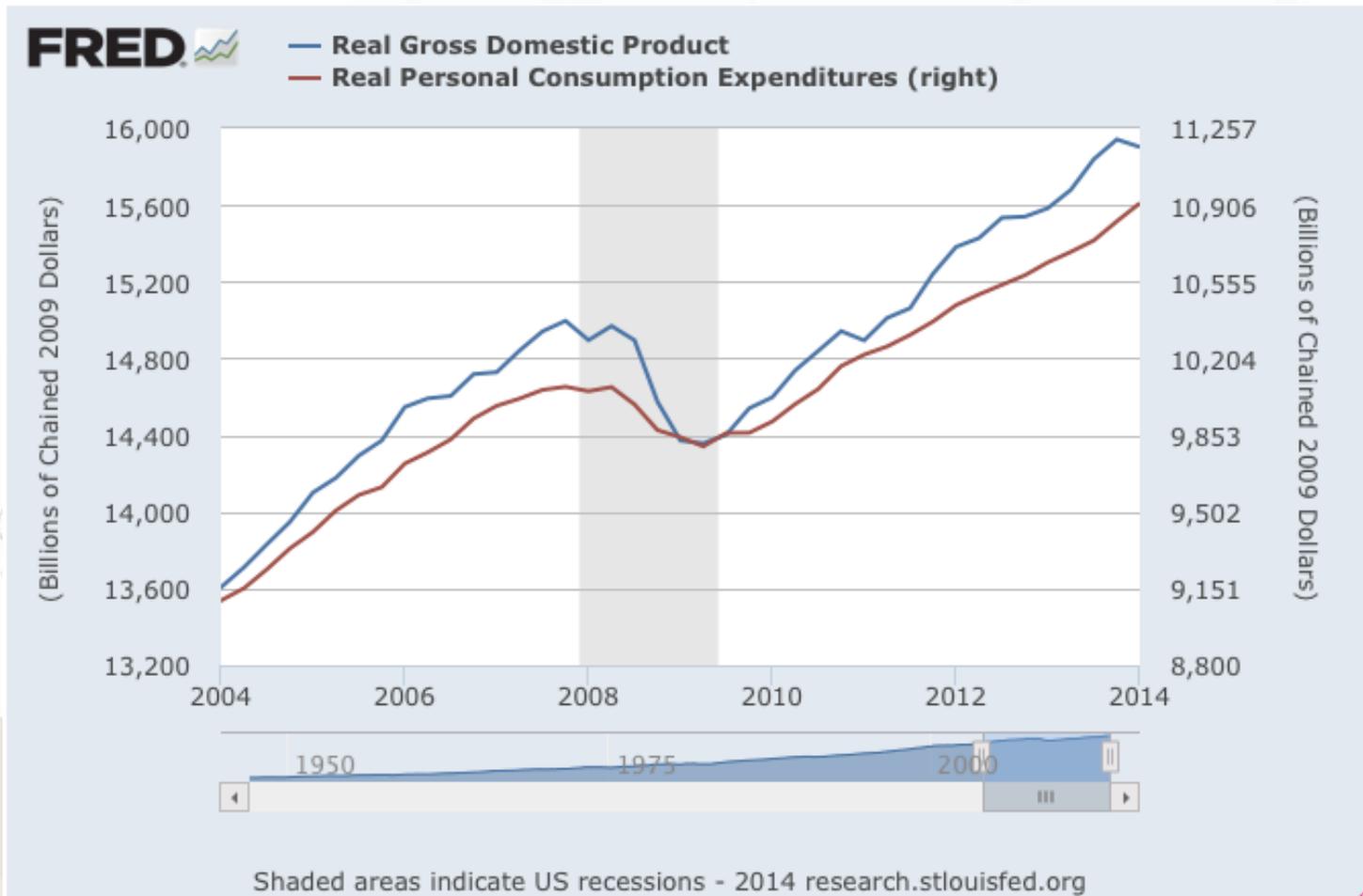
Dr. Anne Macy
West Texas A&M University



What Does Shopping Tell Us About the Economy?

June 17, 2014

Consumption matters



- 66% to 70% of GDP
- $Y = C + I + G + X - M$



Macro to Micro

- Try to connect how the students and their families shop to the overall numbers
- Demonstrate the interaction between households and firms
- Focus on Retail Sales – about 1/3 of consumer spending
 - Retail Sales have been up but slower
- Who was up in May?
 - Automobiles
 - Grocery stores
 - E-commerce

Automobiles and Restaurants

Retail Sales





How and where are we shopping?

- Value Migration
 - Low-cost
 - High-value
- Consumers will pay up for items that provide “extra value”
- Consumers will go to the lowest price producer of items in which they see no extra value or uniqueness
- A sale requires *trust*



Trend: More e-commerce by everyone

- Not just Amazon anymore
- Not just technology items
- Switch from computer/laptop to phone
- No longer need the high-speed access from work
- More purchases on mobile devices
 - Immediate reaction (impulse buying?)
 - Immediate results
 - A new way to entertain oneself?

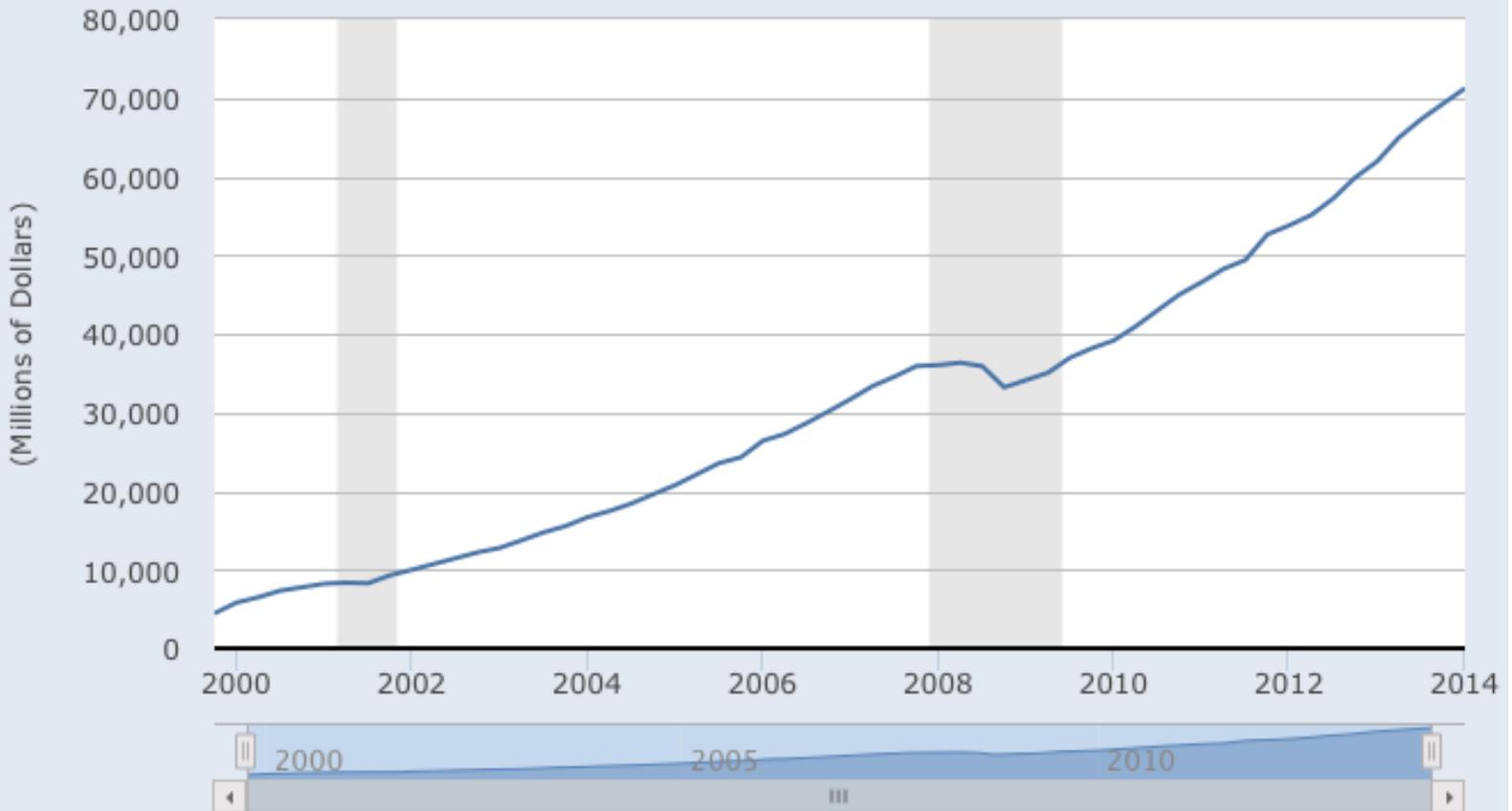


E-commerce is growing

Still has lots of room to grow

FRED

— E-Commerce Retail Sales



Source: U.S. Department of Commerce: Census Bureau

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

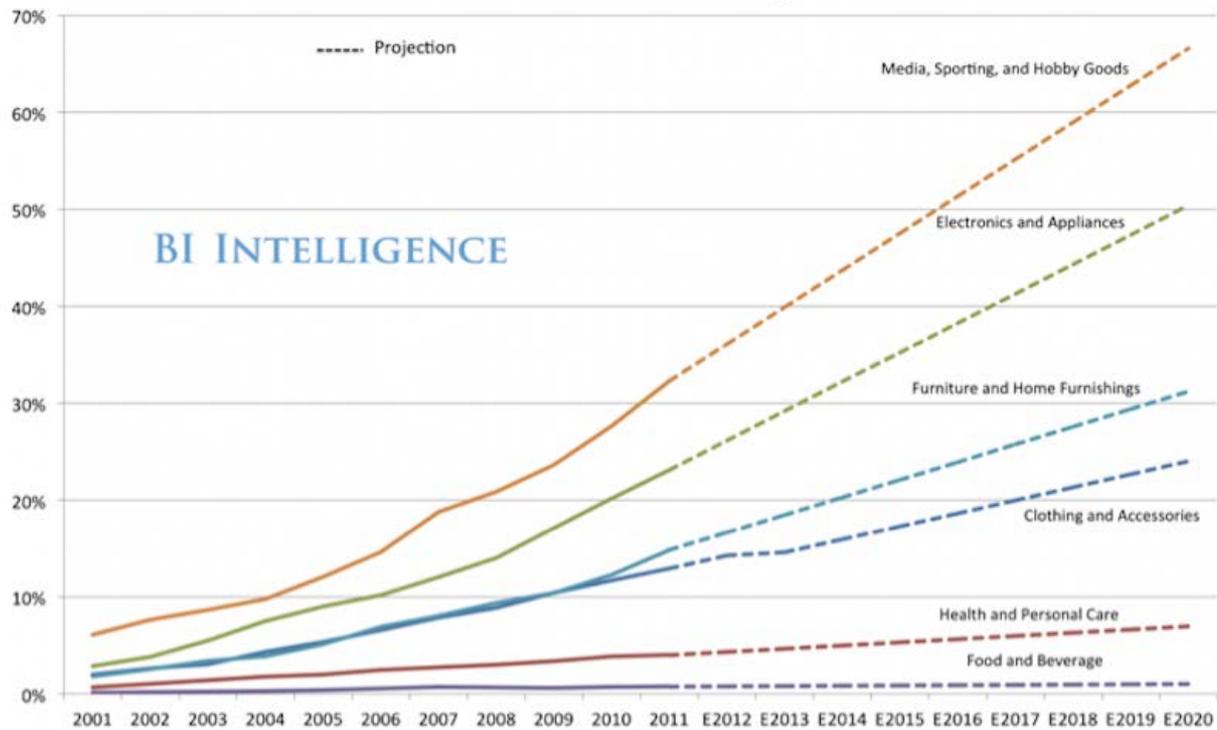
Many traditional stores are closing





What do we buy online?

Percent Of Retail Sales Attributable To Online In Selected Merchandise Categories (U.S.)



Source: U.S. Census, Internet Retailer, BI Intelligence Estimates



Websites

Not just a tombstone anymore

- Convey information
- Geared to buying
- Geared to make buying easy - navigation
- Need to be usable/readable on a mobile device
- Lack of information on small screen
 - Creates a need for reviews
- Activity ideas:
 - Ask students to find one website that is easy to use for purchases and one that is not easy to use
 - What makes Amazon's webpage so great?



Amazon

Profit Margins below 1%

- Front page has purchase ideas
- Good search engine including refinement
- Ratings
- Shopping cart stays

- Activity ideas:
- Dynamic pricing
 - Leave item in cart for a while to see what happens to price
- Amazon owns Zappos
 - Compare prices



Razor thin margins

Retail always has had low margins

AMAZON

Year	Net Profit Margin
2007	3.2%
2008	3.1%
2009	3.7%
2010	3.4%
2011	1.3%
2012	0.2%
2013	0.4%

WALMART

Year	Net Profit Margin
2007	3.4%
2008	3.5%
2009	3.5%
2010	3.5%
2011	3.5%
2012	3.6%
2013	3.5%

Amazon: Margins are like a retailer not tech company

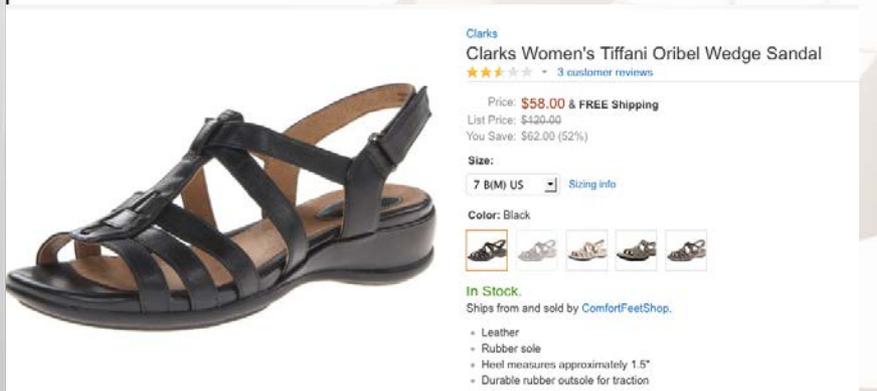


Dynamic pricing

Different storefronts – same company

AMAZON

ZAPPOS



Clarks
Clarks Women's Tiffani Oribel Wedge Sandal
★★★★☆ - 3 customer reviews

Price: **\$58.00 & FREE Shipping**
List Price: \$420.00
You Save: \$62.00 (52%)

Size: **7 B(M) US** [Sizing info](#)

Color: Black



In Stock.
Ships from and sold by ComfortFeetShop.

- Leather
- Rubber sole
- Heel measures approximately 1.5"
- Durable rubber outsole for traction



Clarks Tiffani Oribel
★★★★☆ 14 Reviews



SALE
~~\$120.00~~
\$107.99
Ships Free!

Black

7

Choose Women's Wid

Don't see your size?

Add to Cart

Add to Favorites



iOS or Android?

- iOS is on fewer phones but
- iPhone users buy *more*
 - Various studies show 2X to 5X the dollar value
- iPhone users buy *more often*
 - Various studies show about twice as often
- One reason new apps first arrive for Apple over Android



Trend: Delivery times continue to decrease

- Comparative advantage
 - Shopping experience
 - What if no store?
 - Focus on website or app
 - What can I provide you that others cannot?
 - Speed
 - Reliability



Amazon Prime

Success at 2013 holiday

- Amazon Prime
 - \$99 a year
 - Free two-day shipping
 - Lots of other free stuff
- Amazon pushed Prime right after it had to start paying taxes in major states
 - Needed a new comparative advantage

The screenshot shows the Amazon Prime website interface. At the top, there's a navigation bar with the Amazon Prime logo. Below it, a large banner features a woman listening to music and a man using a laptop, with the text "New Prime Music over a million songs" and "Fast shipping and more". A prominent yellow button says "Start your 30-day free trial". Below this, there are three main promotional sections: "NEW - Prime Music" with a collage of album covers and a tablet displaying a music interface; "When you want it, when you need it" featuring a stack of cardboard boxes with the Amazon logo; and "Rated A for Awesome" with a collage of movie and TV show covers and a tablet displaying a video interface. Each section includes a headline, a brief description of the benefit, and a "Learn more" link.

amazonPrime

New Prime Music over a million songs

Fast shipping and more

Free Two-Day Shipping, plus exclusive access to movies, music and Kindle books.

Start your 30-day free trial

After your free trial, Amazon Prime is just \$99/year. Cancel anytime.

See the gift of Prime.

NEW - Prime Music

Over a million songs. Hundreds of playlists.

Unlimited music streaming

Introducing Prime Music, our new benefit that gives you unlimited, ad-free access to over a million songs and hundreds of custom-built playlists. Now you can listen to the music you love and find new music that fits your taste. It's like having a backstage pass that lets you access your favorite musicians.

Learn more

When you want it, when you need it

FREE Two-Day shipping with Amazon Prime

Need a last minute gift? Can't get out of the house? Realize you forgot to pick up something? With FREE Two-Day Shipping from Amazon Prime, your shopping problems are solved. You get unlimited deliveries with no minimum order size, and with 20 million eligible items, the options are practically limitless. From big to small, A to Z, home to office, and everywhere in between, satisfying that shopping itch—or need—is just two days away.

Learn more about all the Prime shipping options

Rated A for Awesome

Watch unlimited movies and TV shows with Prime Instant Video

It's always prime time when your options include blockbuster films and popular TV shows. Watch on your TV, laptop, Fire TV or choice of more than 600 devices. You can also take them anywhere with your Kindle Fire. With over 40,000 choices, there's always something for everyone to watch.

Browse movies and TV shows

Trend: Personalization

Not just initials

- Trend of personalized items
- Eliminates the ability to resell item unless at substantially reduced price
- Personalized coupons

The screenshot displays the Walmart.com website interface. At the top, the Walmart logo is accompanied by the tagline "Save money. Live better." and a navigation bar with links for "Value of the Day", "Weekly Ad", "Store Finder", "Registry", "Gift Cards", "Track My Orders", "My Account", and "My Lists". A search bar is present with the text "Search Home" and a "Go" button. A "My Cart (4)" icon and "My Store: Canyon" are also visible. Below the navigation, a breadcrumb trail shows "Home : Personalized Gifts".

The main content area features a promotional banner for "FREE SHIPPING on nearly everything*" with a "Learn more" link. Below this, a large section titled "Treasured gifts" with the subtitle "One-of-a-kind designs for the ones you love." is displayed. This section includes a blue baby blanket with a name tag that says "Nolan" and a date "4-15-13", a framed photo, and a small box. A red badge indicates "Baby Gifts from 14.97".

Below the "Treasured gifts" section, there are three smaller promotional tiles:

- Bedding Sets from 29.88**: Shows a bed with colorful patterned bedding.
- Cool college styles**: Includes the text "Take your dorm room to the next level." and a "Shop Now" button. It features a blue and white striped pillow and a yellow coffee maker.
- New ways to make it personal**: Shows personalized items like a pillow with "KEEP CALM AND BE MARRIED" and a name tag "NELSON".
- Personalized gifts for graduates**: Shows a framed photo of a graduate with the name "Benjamin Paul".
- Personalized gifts under \$20**: Shows a heart-shaped pillow with initials "JF" and a black pouch with the name "Rachel".

On the left side of the page, there is a navigation menu with the following categories:

- All Departments**
- Personalized Gifts**
- By Occasion**: Anniversary, Baby Shower/ New Baby, Birthday, Christmas, Easter, Graduation, Housewarming, Religious, Wedding, Shop all Occasions
- By Recipient**: For Baby, For Boys, For Girls, For Grandparents, For Her, For Him, For Pets & Pet Lovers, Shop all Recipients
- Decor**: Bedding & Bath, Canvas Wall Art, Christmas Stockings, Decorative Items, Door Mats, Ornaments, Personalized Furniture



Ebay threat

- Personalization removes the threat of bulk buying and reselling on Ebay

The screenshot shows an eBay product listing for "New Clarks Women's Tiffani Oribel Wedge Sandal Black Le". The listing includes a product image with a "FREE SHIPPING" banner, a breadcrumb trail, and purchase options. The price is listed as US \$64.95. The seller is "bh".

ebay Shop by category

Back to search results | Listed in category: Clothing, Shoes & Accessories > Women's Shoes > Sandals & Flip Flops

FREE SHIPPING

New Clarks Women's Tiffani Oribel Wedge Sandal Black Le

Item condition: **New with box**

US Shoe Size (Women's): - Select -

Width: - Select -

Quantity: More than 10 available / 2 sold

Price: **US \$64.95**

Buy It Now

Add to cart

13 watchers

[Add to watch list](#)

[Add to collection](#)

Free Shipping

New Condition

BillMeLater New customers get \$10 back on 1st purchase
Subject to credit approval. [See terms](#)



Unique

A world of ME

- One child family
 - In U.K. 47% of the families have only one child
 - In U.S., of those families with kids, 43% have just one child
 - One in every five homes
- Personalization allows everyone to be unique
- People expect that the product is individualized
 - Very specific
 - Not just S,M,L,XL but
- Willingness to pay a little but once someone provides it for free; it becomes a free good

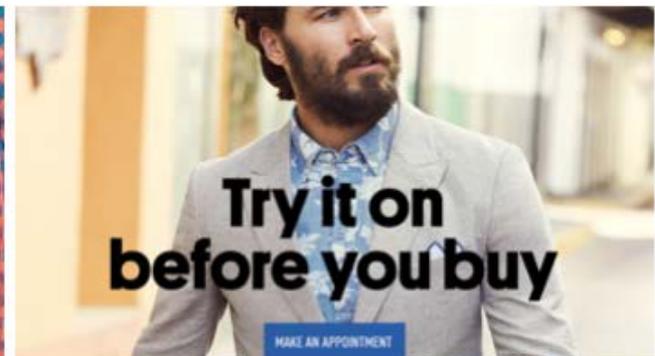
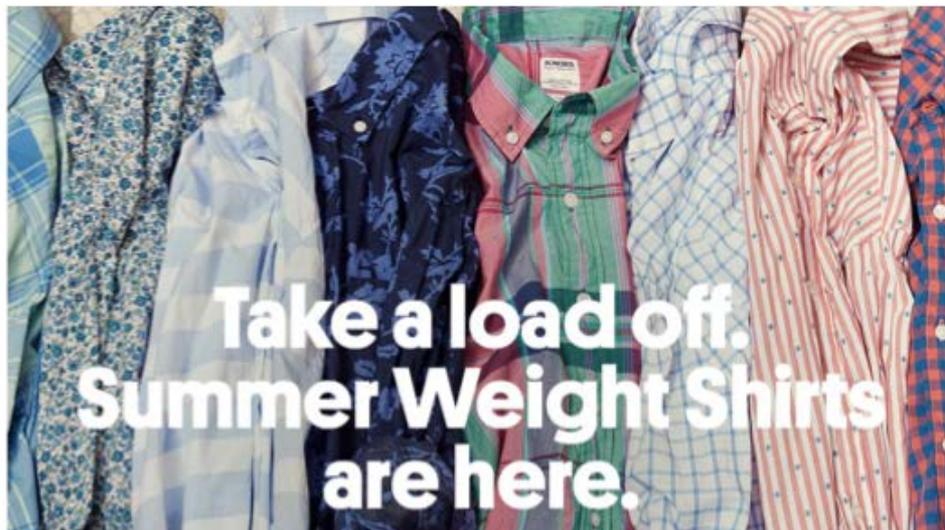


Bonobos

Online Men's Retailer

BONOBOS [New](#) [Pants](#) [Suits & Blazers](#) [Shirts](#) [More](#)

[Free shipping both ways.](#) [Your Account](#) [Your Cart](#)



- Adding physical stores
- Small footprints sometimes within department stores
- You find the size and style you want and then can just buy online



Lowe's & Sephora

3-D

- See your renovation and get item list
- ModiFace's 3D Augmented Reality Mirror
- Improve in-store experience to keep customers returning
 - Augment online shopping





Price Discrimination

Race to the top or to the bottom?

- First – each individual; firm takes all consumer surplus
- Second – bulk discounts
- Third – based on an attributes or groups
- Internet allows firms to find your maximum willingness to pay
- Consider airline ticket prices



Price Discrimination Meets E-commerce

- The market goes to the main retailer so it gets market share
- For a time, the firm can charge a little more
- Unless it is something that other firms cannot mimic, competitors arrive and market share moves
- Price discrimination works best for *inelastic* demand but lots of what we buy online is *elastic* demand
 - Brand or store loyalty?



Rocket Internet

Mimic successful internet businesses



[ABOUT](#) [TEAM](#) [VENTURES](#) [OFFICES](#) [JOIN US](#) [INVESTORS](#) [PRESS](#)

WELCOME TO
ROCKET INTERNET
THE WORLD'S LARGEST INTERNET INCUBATOR

- Linio
- Easy Taxi
- Dafiti
- Home24
- Paymill
- Zalando
- Lamoda
- Lendico
- Carmudi
- Namshi
- Jumia
- Zando
- Foodpanda
- Lazada
- Zalora
- The Iconic



Banks can profit, too

Each swipe is data

- Debit card holds a huge amount of information about your shopping habits
- Prior purchases combined with GPS on your phone make for usable data
- How much of this information is private?
- Is it ethical for banks to sell this information?



Trend: Security

Three New Details From Target's Credit Card Breach

2 million Facebook, Gmail and Twitter passwords stolen in massive hack

Twitter says 250,000 accounts have been hacked in security breach



Cost of security breach

From a Texas A&M webinar

Consequences of a Security Breach Cont'd

Below is a list of the estimated expenses incurred as the result of a security breach:

- Costs related to forensic investigation to determine the magnitude of the breach-varies
- Notifying cardholder - \$1-\$2 per person
- Card re-issuance costs - \$25 per card
- Credit monitoring - \$100 per person
- Reimburse issuing bank for card misuse – unlimited
- Fines and lawsuits (Visa levied \$4.6 million in fines in 2006)
- Preserving your institution's reputation – priceless!



Examples of a Security Breach Cont'd

The theft or exposure of a mere 10,000 accounts can cost well over \$1 million dollars as shown below:

Expense	Amount
Independent forensic investigation	\$10,000 (or much more)
Notifying cardholders (\$1.50 average cost X 10,000)	\$15,000
Card re-issuance costs (\$25.00 cards X 10,000)	\$250,000
Credit monitoring (\$100 per person X 10,000)	\$1,000,000
Total costs that can be estimated	\$1,275,000

Reimburse issuing bank for card misuse	\$ unlimited
Fines and lawsuits	\$ unknown
Damage to institution's reputation	\$ unknown



Trend: Outlet stores

Many items are specific to the outlet stores

- Nordstrom's
- More Rack stores (140) than traditional stores (117)
- Are outlet stores gateways to traditional stores?
- Do outlet stores dilute brand?

GRAND OPENING

This spring we are excited to open new stores across the United States! Join us at 8:00am—before our doors officially open—for music, breakfast treats and more! Enter for a chance to win one of thirty \$100 gift cards. Plus, one lucky winner will receive a \$1,000 gift card and early access to the store.* Doors open at 9:00am. Check out our upcoming locations below!

*Winners must be present at time of drawing. No purchase necessary. See store for details.

<u>OPENS APRIL 3</u>		<u>OPENS MAY 1</u>	<u>OPENS JUNE 5</u>
<u>SHOPS AT ORCHARD PLACE</u> SKOKIE, IL	<u>RIVERSIDE PLAZA</u> RIVERSIDE, CA	<u>SUN CENTER</u> COLUMBUS, OH	<u>MANHASSET CENTER</u> MANHASSET, NY
<u>LINCOLN PARK</u> CHICAGO, IL	<u>WOODLAND PLAZA</u> TULSA, OK	<u>BUNKER HILL</u> HOUSTON, TX	
<u>MAYFAIR COLLECTION</u> WAUWATOSA, WI		<u>FULTON STREET</u> BROOKLYN, NY	



Gucci & Coach

Gucci now pushing lower priced items

- Aspirational consumers
- Gucci purse vs. sunglasses
 - \$1,000 vs. \$300
- Coach – just about everywhere now
- Saturated market?
- Do I want a purse that a high school girl also has?





Rent The Runway

Have added stores

RENT THE RUNWAY

PRO

FREE SHIPPING + INSURANCE
What's this?

WHAT'S NEW

DRESSES

ACCESSORIES

OCCASIONS

DESIGNERS

STORES

SALE

All | Dresses | Accessories



NHA KHANH

On Cloud Nine Dress

RENTAL \$100 RETAIL \$595



SLATE & WILLOW

Derek Dress

RENTAL \$50 RETAIL \$370



ML MONIQUE LHUILLIER

Never Let You Go Sheath

RENTAL \$85 RETAIL \$398



BADGLEY MISCHKA

Fifth Avenue Showstopper Dress

RENTAL \$35 RETAIL \$750

Trend: Revamp stores

Will they survive?

- Radio Shack
 - Great Super Bowl commercial
 - Did not bring in customers
- Best Buy
 - Decreasing footprint
 - Kiosks
- JCPenney
 - Store redone for a different customer





Starbucks

Becoming a restaurant?

- Added food
- Adding wireless charging
- Continually updating experience
- Leverages social media and online components
- Loyalty card





Trend: Loyalty programs

If not brand/store loyalty, maybe to get the points

The screenshot shows the PointsSelect website interface. At the top left is the logo consisting of five blue dots in a grid above the word "points" in a lowercase, sans-serif font. Below the logo is a horizontal navigation bar with seven blue buttons: "Home", "Our Services", "About Us", "Our Partners", "Newsroom", "Careers", and "Blog". Below the navigation bar is a section titled "FOR MERCHANTS" with a calculator icon. The main heading is "Grow your business with loyalty" in a large, bold, black font. Below this is a paragraph: "Your customers are passionate about loyalty points and miles. Award them by partnering with the biggest loyalty programs using PointsSelect." Underneath the text is a grid of logos for various loyalty programs, including Alaska Airlines Mileage Plan, American Airlines AAdvantage, reward zone, EarlyReturns, Fuel Circle, HawaiianMiles, Icelandair, LifeMiles, IHG Rewards Club, US Airways Dividend Miles, and Virgin Atlantic. At the bottom right of the page are five circular navigation dots, with the second one from the left being green and the others blue.



Trend: Reviews of products

How many stars?

- Firms respond to every comment
 - Especially in industries with lots of competition and easy to compare prices
 - Hotels
- People paid to review
- Stores highlight serial and positive reviewers
- Do you sort by price or by reviews?
- We also review the store
- Retailer is now much more responsible for both the store and the products that it sells
 - Circuit City and the televisions it sold



Trend: Make shopping fun

Victoria's Secret – focus on college women (or are they girls?)

PINK GIRLS ON THE GO

Get everything you love about PINK Nation on the go with our iPhone®, Android™ and iPad® apps! Download them now for the latest PINK happenings and for brand new exclusive content you can't find anywhere else.

FUN FACT

More than 3 million PINK girls have our apps!



How does a firm stay trendy?
First mover on trend



Social Media

What is trending?

Planet Retail
Powering Retail Decisions

TWEETS 8,296 PHOTOS/VIDEOS 275 FOLLOWING 546 FOLLOWERS 20.4K FAVORITES 457 More ▾

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📍 Global
planetretail.net
🕒 Joined March 2009

📷 275 Photos and videos

Planet Retail @PlanetRetail · 3h
REPORT: Western European Grocery Trends, 2014 by @D_Gray5 With consumers continuing to feel the squeeze from... plnt.re/1vsqCsn (£)

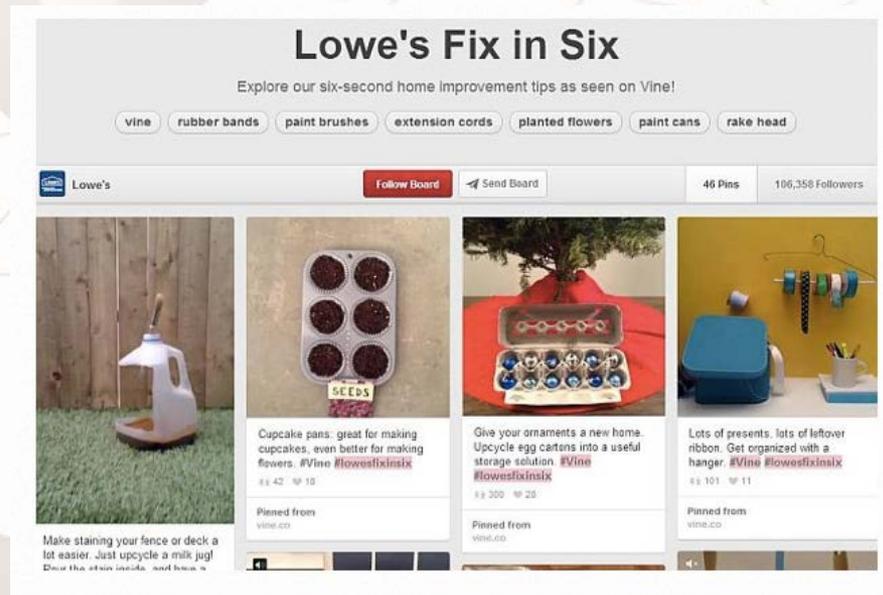
Planet Retail @PlanetRetail · 5h
INSIGHT: #Publix urban - a work in progress by @tackett_kelly Last month, Publix, the employee-owned regional... plnt.re/1shZUEq (£)



Pinterest

What I want to be not who I am

- Retailers can use to promote but doesn't always look like advertising
- Appeals to aspirational shoppers





Trend: Success is hard to maintain

- Customers have low brand and store loyalty
- Coldwater Creek
 - Bankruptcy
- Chico's
 - Decline in mid-market retail sales
- Family Dollar
 - Low price isn't always enough
- Compare to Sears' longevity at or near the top from the 1950s – 80s



Retail shake-up

EXPANDING

All 2014 U.S. Retail Industry Domestic and International Store Openings:

1600 7-11 (Japan)

1500 Starbucks (China, through 2015)

1000 Subway (Europe)

800 Tim Horton's (U.S., Middle East through 2018)

700 Dollar General

525 Family Dollar

375 H&M (U.S., China, Australia, Philippines, India)

300 McDonald's (China)

300 Wal-Mart (small format)

223 Dollar Tree

200 O'Reilly Auto Parts

180 Sub Zero Ice Cream & Yogurt (China)

130 ALDI (U.S., 650 stores through 2019)

120 Nordstrom Rack (through 2016)

115 Wal-Mart (large format)

100 Dunkin Donuts (through 2017 in India)

100 Starbucks (Malaysia, through 2017)

90 Samsung (Best Buy Canada Kiosks)

CLOSING

Complete List of U.S. Retailers Closing Stores, Going, Bankrupt, and Going Out of Business in 2014:

370 Family Dollar

365 Coldwater Creek

360 Dots

300 Blockbuster

300 Sears

225 Staples (through 2015)

223 Barnes & Noble (through 2023)

200 Radio Shack

180 Abercrombie & Fitch (by 2015)

175 Aeropostale ("over the next several years")

170 Jones Group (by mid-2014)

155 Sbarro

150 American Eagle Outfitters

150 Rent-A-Center

145 Brown Shoes / Famous Footwear

128 GameStop

125 Children's Place



Trend: Living-shopping communities

Make shopping local



Smaller footprint
Older families





Closing Thoughts

- Major restructuring of retail
 - Painful process
- The question is how will we shop in 5 and 10 years not just next year
- Lesson on how to be successful on thin margins



Thank you!



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