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Conference Summary

Retailing in a Global, Multi-Channel World

Prepared by Denise Dahlhoff, Jay H. Baker Retailing Center at the Wharton School, and Pavel Kireyev, Harvard Business School

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Conference co-organized by the Marketing Science Institute, the Jay H. Baker Retailing Center at the Wharton School, and the Fashion Institute of Technology

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Founded in 1961, the Marketing Science Institute is a corporate-membership-based organization dedicated to bridging the gap between marketing theory and business practice. Leading researchers from universities worldwide participate in MSI research programs. As a nonprofit institution, MSI financially supports academic research for the development—and practical translation—of leading-edge marketing knowledge on topics of importance to business.

The Jay H. Baker Retailing Center is an interdisciplinary research center at the Wharton School that was established by Patty and Jay Baker (W'56), former President of Kohl's Corp. Our mission is to be the global leader in retail knowledge by producing cutting-edge academic research; supporting student activities, curriculum development, and career management; and sponsoring industry global outreach initiatives. For more information about the Baker Retailing Center, please visit http://www.wharton.upenn.edu/bakerretail.

Founded in 1944, the Fashion Institute of Technology prepares students for professional excellence in design, fashion, and business by providing the premier educational experience that fosters creativity, career focus, and a global perspective. FIT offers associate of applied science degrees, bachelor of science degrees, bachelor of fine arts degrees, master of professional studies degrees, master of arts degrees, and a master of fine arts degree.

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Retailing in a Global, Multi-Channel World

Prepared by Denise Dahlhoff and Pavel Kireyev

The rules of retail are rapidly evolving. How are retailers and manufacturers responding to the challenge? Drawing on lessons learned from manufacturing, retailing, and academia, the conference addressed the rise of the global consumer, the in-store shopping experience, and managing the retail experience across multiple channels.

Denise Dahlhoff is Research Director, Baker Retailing Center at the Wharton School, and **Pavel Kireyev** is a doctoral student at the Harvard Business School.

Overview

This conference was co-organized by the Marketing Science Institute (MSI), the Wharton School's Jay H. Baker Retailing Center, and the Fashion Institute of Technology (FIT). It took place on June 20–21, 2012, on FIT's campus in New York City. Approximately 150 participants included senior executives from the retail, consumer goods, and related industries, and leading academics in marketing, retailing, and global management.

Reflecting the three sponsoring organizations' objective to connect academic perspective with industry practice, the conference was a dialog between practitioners and academics on current retail topics. It featured presentations and panel discussions on the new rules of retail, new business models, multi-channel retailing, in-store experience, and the global consumer.

The conference addressed timely retail topics. Novel and constantly evolving technology, increasingly global markets, multi-channel retailing, and new retail start-ups have generated a lot of change—truly paradigm shifts—at an unprecedented pace.

Opening Remarks

Joyce Brown, President, Fashion Institute of Technology
Jay H. Baker, Former President and Director, Kohl's Corporation; Chairman, Jay H. Baker Retailing Center; Trustee, Fashion Institute of Technology

Patty and Jay Baker endowed FIT's Jay and Patty Baker School of Business and Technology in 2001 and Wharton's Jay H. Baker Retailing Center in 2002, as well as a number of scholarships at both schools and a study and event space for Wharton School students. Apart from financial support, the Bakers have been closely involved with the organizations they endowed, including through regular interactions with the Baker scholarship recipients.

The seeds of the Bakers' support for leveraging academic thought leadership for the retail industry were planted by Barbara Kahn's 1997 marketing class project for Kohl's. The students' insight informed Kohl's entry strategy for the crucial New York market. The success of this project sparked Jay Baker's vision of developing an academically based center at Wharton with close industry-academic collaboration.

The 600 Wharton students who have pursued business careers in the retail industry since 2003 are a testament to the Baker Retailing Center's mission. A new gift to the Baker Retailing Center in 2010 has expanded the center's mission to include leading-edge knowledge creation and global engagement.

The New Rules of Retailing

Michael Dart, Principal Head of Private Equity and Strategy, Kurt Salmon

The New Rules of Retailing, coauthored with Robin Lewis, examines the history of retailing, its successes and failures, the drivers of contemporary success, and future trends.

The history of retailing can be viewed in three waves. The first, from 1850 to 1950 in Western economies, is persistent in many developing countries today. It is characterized by fragmented communities, poor infrastructure, and limited disposable income/purchasing power. This was an era of producer power, with significant excess demand and limited supply. Producers determined what was manufactured and distributed their goods through local, general stores or catalogs.

The second wave, from the 1950s to the mid-late 1980s, was characterized best by the Western economies of that time. The markets saw an increase in infrastructure, production, and the ability to distribute goods (proliferation of points of distribution). In this era, supply caught up with demand. Mass retailers emerged in the 1960s, and The Gap launched its integrated specialty model in 1969. National department stores developed. Marketing became necessary to drive demand, and retailers such as Ralph Lauren and Levi Strauss created brands.

In today's third wave, technology drives new business models, increases availability, and boosts consumer power. The consumer is empowered by more and cheaper access to products, increases in variety, and micro-segmentation. Furthermore, a decrease in production costs drives supply upward. For example, t-shirts cost 50% less to make now than in the 1980s. Consumers not only have access to retailers 24/7, they also have smarter access to information. For example, Amazon's price-check can be used on any product with a bar code. In the future, smart devices may suggest similar products to consumers based on scanned bar codes. As a result of these changes, the physical store is now just another distribution center.

There are five major shifts in retailing today. The first shift is from just purchasing products to demanding experiences. Neuroscientists say that the level of customer satisfaction increases if the product is experiential and decreases if it's material. Furthermore, experiences generate a unique element of product differentiation. Consider the following experiences:

- Purchasing pants off a shelf in a department store versus experiencing the "nightclub" environment of Abercrombie & Fitch
- Purchasing coffee in a can versus experiencing the Starbucks environment
- Shopping at Safeway versus Trader Joe's, where the choice is simple (and thus the stress of selecting from a broad assortment is eliminated) and the experience is customized
- Shopping at CompUSA versus the Apple experience, which is oriented around the user and focuses on education and self-discovery in relation to technology

The second shift is from conformity to customization. Consumers want to differentiate themselves by purchasing customizable products. Consumers can build their own products, as is the case with the Nike 228 format. Machinery in the store allows consumers to design their own custom shoes.

The third shift is from plutocracy to democracy. The mainstream consumer has easier access to luxury brands, as is the case with Vera Wang, who expanded her product line from luxury bridal gowns to mainstream clothing sold at Kohl's.

The fourth shift is from "new" to "new and now." A dramatic decrease in the product development life-cycle corresponds to a more frequent consumer demand for new products.

The final shift is from self to community. Rue La La, a luxury retailer, included a notice on its site to direct consumers to donate for the Haiti earthquake disaster instead of consuming luxury, thereby gaining support from the consumer community. Negative backlash is possible as well, as was the case with KitKat and palm oil. A viral YouTube video relating KitKat's use of palm oil to the destruction of rainforests reduced the brand's image. Companies need to react quickly to community backlash.

Given the shifts in consumer behavior and changes in the retailing environment, what does it take for a company to be successful? Three elements drive success.

The first is neurological connectivity with consumers. Retailers need to create experiences that interact with the five senses and the mind. Behavioral research identified that rats exposed to a maze in which some walls were painted orange experienced a surge in dopamine and visited the orange regions more frequently than did rats in a plain maze. Similarly, retailers make subtle changes in the retail environment to entice consumers. It has also been observed that the excitement of shopping generates dopamine for consumers. At Zara, the anticipation of uncovering a new product may increase consumer dopamine. Gilt Group and Lululemon always add new colors and exclusive gear to their assortment to generate new experiences for consumers. Consumers visit Apple stores to play with and learn about technology.

The neurological connection must exist throughout the shopping experience, from pre-shopping anticipation to consumption. In a market with an oversupply of products, having a good product is the price of entry.

The second element of success is preemptive distribution. Preemptive distribution allows retailers to undercut their competition by reducing consumer costs. For example, in suburban St. Louis, Kohl's placed a store in between JC Penney and its core customer—the working mom— thereby gaining an advantage in distribution.

Similarly, dollar stores sometimes encircle a Walmart to gain preemptive access to consumers. In the online retail domain, Amazon's distribution centers are strategically located close to UPS centers to facilitate next-day delivery. A more futuristic distribution mechanism implemented by Tesco in South Korea allows consumers to shop for groceries using digital panels in the subway, with products delivered directly to their home. Another example is the Adidas digital wall of shoes.

Third, retailers must command a superior value chain by increasing collaboration, creating and testing products to shrink managerial decision time and increase the efficiency of collaboration, and accelerating response to demand. An example of success in this area is Zara. When Madonna was touring Spain, she wore a particular blouse that drew the attention of consumers. By the time she arrived in Barcelona, Zara had the blouse in stock and available for sale, thereby overcoming competition by responding quickly to demand.

What are the implications of these retail trends? The book predicts that half of all brands and retailers will disappear. Those retailers incapable of directly communicating with consumers and adapting to the shift in retail will fall out. Stores will become mini-malls, leasing space to other retailers to run branded outlets.

Wholesale brands such as Microsoft and Ralph Lauren will open additional retail stores to allow for preemptive distribution and to command greater control over the customer experience. Online retailers will open showrooms and physical stores to allow consumers to interact with and learn about products. We will observe an increase in virtual retailing. Increasingly more technology will be available in stores. The Army, for instance, allows recruits to play military-related video games in recruiting centers. Finally, brands will need to establish a global presence to grow. Small pop-up stores such as those in Asia will proliferate as consumers demand more convenient shopping.

Retailers that will do well in this environment are those that build themselves around customer experience and data-driven execution (e.g., Macy's). Now is one of the best times to be in retail because of the massive changes and paradigm shifts taking place.

Panel: The New Rules of Retailing

Moderator: Michael Dart
Panelists: Marty Staff, Former CEO, Hugo Boss; Jennifer Hyman, Cofounder and CEO, Rent the Runway

Marty Staff, Hugo Boss

The recent history of retail features three distinct eras: the era of the store (e.g., Bloomingdale's) in the 1980s, the era of the designer (e.g., Giorgio Armani) in the 1990s, and the era of the consumer in the 21st century. The current customer-dominated era challenges retailers with high customer demands in terms of convenience, customer service, delivery and return options, and pricing.

Key rules in this era of retail are:

Number 1: Every great business is replicable. Competitors copy ideas fast, as Studio 54, Lotus, Marquee, Pastis, and Balthazar have shown. Competitors will challenge any business model unless it has a non-replicable advantage, such as Toyota established through a short delivery time of custom-ordered cars or Apple through an unparalleled customer experience. With time, however, many business ideas can be replicated.

Number 2: You may break the rules only if you know them. Steve Jobs and Mickey Drexler (J. Crew) are prominent examples of rule breakers. Both Apple's and J. Crew's assortments are carefully curated and simplified, and J. Crew collaborates with partners on certain product categories, such as accessories.

Number 3: Men define themselves by family, job, and hobbies, not clothes. Everything else is like toothpaste (i.e., men don't give it much thought and replace and replenish only when they have to). The low importance of suits on men's priority ranking reflects in a low willingness to pay: 80% of suits sell at less than $300. Furthermore, America is casual (half of all men rarely or never wear suits) and cheap. Men have a McDonald's view of clothing. Quality isn't that important, which makes a $10 t-shirt acceptable to many men.

In addition, America cherishes free time, which it views as a measure of success. Spending on apparel as a percent of annual household income has declined for two decades, while spending on entertainment has increased in direct proportion.

Number 4: A brand is more than a functional item. For example, the headphones by Beats by Dr. Dre are not just an audio device but also a fashion accessory.

Number 5: Love what you do. Bob and Melinda Blanchard, who are serial entrepreneurs and enthusiastic advocates of pursuing one's dreams, are role models in living what they love.

Jennifer Hyman, Rent the Runway

Rent the Runway was initially created as the "Netflix for fashion." The idea was to give women the accessibility to a luxury dream closet without having to spend a fortune on designer dresses and accessories. However, Rent the

Runway's members (over 3 million women) turn out not to be driven as much by saving money on dress rentals as by the opportunity to feel like Cinderella for a special occasion. For women, the emotional experience of feeling like Cinderella is similar to men's enjoyment of renting a luxury car, such as an Aston Martin, and showing it off to friends.

Here are observations about the new retailing and consumer landscape:

1. People create themselves as brands. Everyone is in the business of image creation through their carefully curated social media sites. The image that they paint is often an expression of aspiration and who they ultimately want to be.

2. Social media impacts people's behavior in a variety of ways. One is that photo sharing on social media has spurred the purchasing of new clothes and the desire for women to have a rotating closet and a new outfit in each photo (note: the number of photos a woman has online typically increases as her age decreases). In addition, while friends traditionally influenced shopping at the mall by giving feedback on outfits and purchase decisions, the "like" button has become the social proof. Rent the Runway provides a platform for customers to share their Rent the Runway experiences, and even photos, with other customers. And what we have seen at Rent the Runway is that a woman is 2–3 times more likely to rent a dress that has a photo review.

3. A single customer represents a network of (potential) customers. Because people are in touch with their network before, during, and after the purchase for feedback and advice, they expose additional people to the retailer. Customers' connectedness also mitigates the paralysis of choice due to large assortments, since customers receive product suggestions based on what friends have bought or recommended.

4. Celebrity culture is prevalent. We live in a "Kim Kardashian-ized" world obsessed with celebrities. Social media gives more information on the personal life of celebrities, including meal, outfit, and leisure choices—all in real time. The constant exposure makes many women want to live a celebrity lifestyle with access to as many outfits as they see celebrities wear in social media pictures. In fact, the average American woman buys 64 new apparel items each year.

5. Experiences are more sought than products. There is a trend among average Americans to favor buying experiences and memories over material things because they promote a customer's self-confidence by helping brand themselves as interesting and unique.

Ninety-eight percent of Rent the Runway customers rent dresses by designers that they have never worn before. In the same way that the Polo brand sold at Macy's introduces new customers to Ralph Lauren, Rent the Runway similarly introduces a new customer to its 175 designer brands. The power behind Rent the Runway is building brand affinity, which could one day save the department store business.

The customer and employee experience is important for Rent the Runway. Old-fashioned customer service, such as at boutiques through personal stylists, promotes customers' bonding with a brand. The personal touch and trusted conversations are key features of the brand experience. In order to connect more with loyal customers, Rent the Runway recently opened a showroom in NYC where customers can schedule personal styling sessions.

Rent the Runway pays great attention to employees' job happiness, since it has an immediate impact on customer service. The company also tracks customers' net promoter score, which at scores in the 80 range is higher than that of other e-commerce brands that are known for their customer service.

What traditional retailers can learn from retail start-ups such as Shoedazzle and BeachMint is the use of celebrities as marketers and spokespeople. These companies have done a good job of branding themselves as if the celebrities are seamlessly tied to the company as founders.

The American Shopper Landscape

Steve Coffey, Chief Research Officer, NPD Group

A consumer survey identified the characteristics of the modern shopping landscape in the U.S. The tracking panel traces path to purchase information by surveying consumers on their store-visit and purchase decisions. Data includes store visited, day, spend, and categories purchased, if any, across all retail channels.

The study finds that consumers make 19.3 million store visits per year, of which approximately two-thirds result in a purchase. The majority of visits are to general merchandising stores, with only 22% corresponding to food and drug retailers.

For general merchandising retailers, conversion rates remain stable throughout the year, regardless of seasonal effects. Conversion rates vary significantly across different types of retailers, with warehouse club stores leading with an 85% conversion rate and jewelry and furniture stores lagging with conversion rates near 30%.

As with conversion, cash register ring varies significantly as well across different store types. The most commonly purchased category after groceries is apparel, with software, furniture, and music being the least common.

Walmart dominates the general merchandising market with 27% of all yearly shopping visits. In online retail, Amazon leads with 22% of all shopping visits. Music, software, and electronics are highly dependent on online visits, but on purchase occasions, apparel dominates.

Diving deeper into the apparel category, the study finds that the appeal of purchasing apparel online depends on the product. Items such as jeans, socks, intimate apparel, children's wear, and men's suits tend to be purchased more offline, whereas items such as outerwear, sweatshirts, women's swimwear, and women's dresses tend to be purchased more online, suggesting a possible trade-off between fit and assortment in the decision to shop in-store or on the Internet.

Panel: New Business Models in Retailing

Moderator: John Deighton, Harvard Business School and MSI
Panelists: Dini Rao, Chief Merchandise Officer, Lot18; Diana Williams, VP of Products and Cofounder, Joyus

Dini Rao, Lot18

Lot18 set out to change the way America buys wine. Lot18 delivers wine directly to consumers, works with small wineries, and offers a simple set of choices. The business model empowers consumers and small wineries.

Wine is one of the largest-growing markets in the U.S. However, only 5% of consumers buy wine online (in comparison, 75% buy airline tickets online). Most wine purchases are consumed within 30 minutes of purchasing, so the waiting time associated with online purchase corresponds to the low online purchase rate.

Selecting the right wine is another challenge for consumers, as wine can be very personal. Many people feel intimidated because of the plethora of choices available, and many wine stores aren't good marketers.

The company seeks to offer customers personalization, replenishment, and discovery. Lot18 specialists taste all wines and help narrow down choices. The company only offers a small, carefully curated selection of wines. The staff tastes

10–15 wines for each wine that appears on the website. The company only reaches out to high-quality wineries. Since consumers want to recreate experiences through wine, the website includes a detailed tasting note and winery visit experience description to help guide consumers. Lot18 offers a "trial price," or a very attractive price, to encourage customers to try a wine for the first time.

The wine industry is difficult to operate in, due to myriad and geography-specific legal compliance issues. Lot18 helps wineries reach consumers in a different way, by offering a platform to interact directly with buyers.

Diana Williams, Joyus

The Joyus business model involves curating inventory and selling in-season merchandise through videos. ROI is driven by video content, that is, content is commerce. Consumers can view videos of different formats that feature products. Furthermore, videos are shareable and syndicated, allowing for increased exposure to products.

The videos presented at Joyus differ in style: some are expository, some are "how to," and others offer recommendations. Users have full control over when and how they view the videos. Merchandise is paired with a video and a product expert, who presents the product, thereby generating trust. Over time, customers become loyal purchasers not only because of the products but because they grow attached to the product expert personalities in the videos. The cost to produce a video leveraging all of Joyus's production services (including shooting, hosts, editing, etc.) can range from $750 to thousands of dollars, depending on the length of the video, number of edits, and the vision. The costs vary, depending on which services were used. Joyus owns a production studio.

The company tracks a number of metrics to stay informed on consumer response to video commerce (what content is accessed, etc.). Most of the users (40%) make it past the 50% mark in the video. The highest rate of engagement is in the beauty category. Conversion is optimized at 2.20–2.40 and at 3.20–3.40 minutes into the video. Viewers also jump between videos and look at certain sections. Joyus makes navigation easy.

The essence of the brand is merchandise, personality, and affinity, which builds trust between Joyus and customers. The brand balances authenticity and inspiration. "Girlfriend marketing" conveys both glamour and accessibility.

Key takeaways include the idea that video can add voice to a brand. It's a merchandising platform. Views can drive acquisition and ROI. Personality leads to brand affinity. Videos are not just for branding—different editorial formulas can generate different customer experiences and optimize conversion.

Multi-Channel Retailing

Barbara E. Kahn, Director, Jay H. Baker Retailing Center, The Wharton School, University of Pennsylvania

Rapid developments have shaped multi-channel retailing in the recent past, driven by technology and centering around the consumer. The number of channels has exploded, and multi-channel operations have evolved to omni-channel businesses to offer customers a seamless experience across channels. Many initially online-only retailers now have an offline presence. The multitude of channels has spurred interactions between channels and created operational and managerial challenges.

Important challenges are the often-cited showrooming by offline channels for online purchases (although showrooming goes the other direction as well), offline returns of online purchases, crediting of appropriate channels for business revenues, and adaptable incentive systems.

This new retail environment has created a multitude of research questions. What is the role of geographic location? How has consumers' price sensitivity changed as a consequence of the new pricing models offered by online e-tailers? What are the tax implications when the purchase transaction occurs in the cloud?

The optimal assortment variety is always an important consideration in the retailing environment. Consequently, it is reasonable to ask how assortment issues vary as a function of the new channel opportunities. Given that physical storage isn't as limiting for online stores as for physical stores, online assortments can be multiple times larger than offline assortments.

How do consumers make decisions when there is a lot of choice? Can assortments be too large? The "jam study" conducted by Iyengar and Lepper (2000) provides one perspective. In this study, two tables were set up in a store, stocked with six and 24 different jam jars, respectively. While more shoppers (60%) took samples from the table with more jam options, only 3% of them used the $1 coupon they were given to purchase one of the jams. In contrast, 30% of the shoppers who had looked at the smaller selection purchased jam using the coupon. The authors concluded that too much choice could have negative consequences on the buying decision. They suggested that people might delay making a choice, make worse choices, and may be less likely to be satisfied with them.

But does a large assortment always lead to a choice deferral? Another experiment (Kahn and Wansink 2004) presented first and fourth graders with six and 24 colors of jellybeans. The children picked an average of 5.9 and 14 jellybeans, respectively. Thus, more variety increased consumption, which is consistent with insights from nutritionists (more choices make us eat more), economists (variety is preferred to more of the same), and statisticians (higher likelihood of finding something we like).

However, the jellybean experiment was not designed to show that more *actual* variety increased consumption (as that was expected), but rather to show that *perceived* variety was the important consideration. The study design contained four different combinations of the number of jellybean colors (6 vs. 24) and the way of presentation (organized vs. scrambled). The jellybeans were either presented in an organized fashion, such that each square box contained just one color, or in a scrambled fashion.

When six colors of jellybeans were presented in an organized fashion, both children and adults picked fewer jellybeans than when the colors were scrambled (5.9 vs. 10.7 and 13.1 vs. 20 jellybeans, respectively). However, with 24 colors, the results reversed. In this case, both children and adults picked more colors (14 and 26.8, respectively) from the organized display than from the scrambled display (8.7 and 14.6, respectively). The explanation offered was that it was not actual variety that mattered but perceived variety. For a small assortment (only 6 colors), the scrambled conditions offered more perceived variety and increased consumption. But in the case of 24 colors, the scrambled conditions resulted in too complex an assortment and thus reduced the perceived variety. Hence, the perceived variety was larger in the 24 organized condition, and thus more jellybeans were chosen.

The big takeaway here is that retailers should be concerned not just with actual variety, or the number of SKUs in the assortment, but with how much variety the consumers perceive there to be. If there is too little variety, people will not be attracted to the choice set, and retailers should work to increase perceived variety. However, if there is too much perceived variety, retailers need to provide tools or structure to reduce the complexity.

There are several ways to reduce assortments that offer too much variety. First, retailers can help consumers learn their preferences, which will help customers parse the variety. Research has shown that consumers can understand complicated offerings if they are broken down by attribute rather than shown as a full gestalt alternative.

Interestingly, online retailers offer to break down items into their attributes and allow consumers either to sort the assortment based on attribute or figure out their own preferences on an attribute basis (Huffman and Kahn 1998). However, bricks-and-mortar stores do not have this flexibility and often show the fully assembled alternative, without the ability to break it down into its attributes. For example, in bricks-and-mortar furniture stores, consumers are offered assembled sofas, each of which represents a complex combination of attributes, whereas an online custom sofa store allows selecting a sofa attribute by attribute (e.g., fabric, color, type of arm). This kind of selection process breaks down the decision into digestible pieces and helps customers learn their own preferences. It makes customers more ready to make a choice, more satisfied, and more apt to recall their choice. In-store technology can be used to facilitate shoppers' decision-making process this way.

Second, retailers can make shoppers' decision making easier by organizing assortments according to how customers organize products in their mind (Morales et al.). If the external and internal structures don't align, people experience mental stress, which encumbers their interest in shopping and purchasing decisions. Again, online features such as the ability to sort and filter assortments can facilitate decision making. Even the organization of offline assortments can benefit from this approach. The optimal way to organize assortments may not be to align the shelf perfectly with shoppers' mental organization but to be slightly mismatched to stimulate some amount of browsing to expose customers to more choices.

Third, retailers can facilitate shoppers' decision making by depicting choices visually or verbally (Townsend and Kahn). While visual depictions like pictures of meals on Chinese restaurant menus increase the perceived variety, they also increase the perceived complexity. A way to lower the perceived complexity for shoppers is to present a verbal description of the items. This might sound counterintuitive because text requires more mental effort to process than a picture, but the task of having to read descriptions forces shoppers to slow down and to take the time to process the information and make a decision, thus lowering the perceived complexity.

On the other hand, one way to increase the perceived variety of small assortments is to use interesting sounding color and flavor names (Miller and Kahn 2005). This can increase the likelihood of purchasing. Ambiguous (e.g., millennium orange, friendly green, lucky brown) and atypical, specific colors (e.g., cookie monster blue, rainslicker yellow) evoke a greater likelihood of making a choice than typical color names. This is due to increased cognitive effort in processing an atypical, ambiguous color or flavor name and the satisfaction people get from successfully solving this "mental puzzle." People also presume that marketers want to convey a positive message and thus infer favorable product attributes by filling in missing information (Gricean theory). Product categories with non-descriptive, interesting color and flavor names include nail polish, paint, sports drinks, and roses.

In conclusion, ways to increase the perceived variety and thus likelihood of buying more items include depicting products visually and using affective, creative labeling. As for the optimal variety for an assortment, it can be large or small, depending on the specific industry and company. While Apple does very well with 50 SKUs, Walmart reintroduced SKUs that it had cut previously. Customers have become used to large actual variety given online stores' lower inventory cost. To reduce the perceived assortment complexity for customers, retailers can offer smaller, curated assortments, let customers choose products attribute by attribute as opposed to presenting readily assembled products, and use visual and verbal product depictions in a way to make their mental processing easy for customers. Finally, structuring the assortment into more categories can influence people's perception of variety. Organizing assortments the way people structure the product category mentally facilitates their decision making, although a slight mismatch might be beneficial to evoke a certain amount of (unplanned) searching.

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Panel: Multi-Channel Retailing

Moderator: Barbara E. Kahn
Panelists: Krista Berry, Executive Vice President of Multi Channel Commerce, Kohl's Department Stores; Avi Goldfarb, University of Toronto; Brendan Hoffman, President and CEO, Bon-Ton Stores, Inc.; Sucharita Mulpuru, Vice President, Forrester

Krista Berry, Kohl's Department Stores

Retail formats have evolved rapidly over the last few years, from physical stores to e-commerce and multi-channel and most recently to omni-channel models. This evolution has been driven by technological innovation (e.g., SKU codes, iTunes, Kindle), novel sales models, and new companies (e.g., eBay, Twitter, Gilt, Groupon, Zappos, Foursquare).

Omni-channel has become a strategic growth imperative for companies. It incorporates aspects of retailing, branding, and entertainment and offers retailers a way to be a part of people's daily life, including their usage of new media. Omni-channel is a consumer-centric approach that delivers a seamless shopping experience with a consistent message and caters to consumers' preferences regarding products, recommendations, and marketing practices. Retailers have to be good observers of their customers; they must also be agile and respond quickly to developments. Omni-channel also implies a device-agnostic and—perhaps eventually—device-free experience.

In the last 12–18 months, retailers have focused on omni-channel logistics, optimizing the network of distribution centers and inventory systems. A key to a successful omni-channel experience is to have the right digital content and to bring online content offline. Examples of omni-channel innovation are digital services such as virtual consultants in the beauty section of stores, in-store virtual fitting rooms, and personalized information (e.g., expensed daily calories to help consumers keep their calorie budget balanced), mobile wallet, and improved

CRM systems (e.g., to offer consumer-specific, proximity-based promotional offers).

Avi Goldfarb, University of Toronto

What distinguishes online from traditional offline retailing is the reduced cost of visiting a physical store. At the same time, people live in an offline world, which influences their tastes, options, and choices. People who live near each other and within their local vicinity tend to like the same things. Social networks are also local. Furthermore, there are aspects of the online buying experience that can be unappealing, including the difficulty of inspecting non-digital products, time-consuming and expensive shipping, and the challenge of returning merchandise.

Thus, even though online retailing overcomes geographic barriers, offline factors (including local retail options and local preferences) matter to online retailers.

Recent research, based on data from Amazon and data on new store openings, measured the degree of substitution between online and offline retail (i.e., the trade-off between the convenience of online shopping and its shortcomings). It turned out that all consumers use the Internet for convenience, selection, and price. However, consumers' usage of the Web varies by where they live.

Convenience is the leading factor driving online-offline channel substitution. Offline competitors affect the sale of popular products the most, especially in geographies with a population of less than 100,000. In other words, if a local Walmart offers a certain product, people are more likely to buy it there rather than order it with Amazon. People tend to buy online what they can't buy offline at local stores.

Thus, offline stores are important competitors of online retailers. Online purchases might focus more on less popular niche products. Given that online needs differ by geography, online marketing should be customized according to the local offline retail options and variations in tastes. For example, "long tail," or niche, items should be highlighted in locations with dense offline retail options, while in suburban and rural locations the online convenience should be emphasized. Offline factors also impact online behavior in other ways: preferences are shaped by people's immediate local social environment, including from online communication, which is often local.

Generally, the significance of online retailing differs between urban and rural areas. In urban areas, customers shop online for convenience. In rural areas, customers shop online to access new products and to overcome their isolation from physical local stores.

As customers increasingly use mobile channels to access online platforms for shopping, location matters even more. In a study about the use of the same website based on mobile access and access from a stationary computer, local content turned out to be twice as important in the use of mobile access. Thus, the offline world will matter even more as online activity becomes increasingly mobile.

Brendan Hoffman, Bon-Ton Stores, Inc.

Technology and its infrastructure have changed rapidly since the beginning of online shopping in the early 2000s. Back then, Internet access, especially at home, was through dial-up systems, and people mostly used their faster work Internet access to shop online. Thus, most sales occurred during people's office hours during the week. For example, when a national weekday of mourning was announced in January 2007 for U.S. President Gerald Ford's passing, retailers expected their online sales to be affected since people would not be in the office that day. With the advancement of home Internet access, shopping patterns moved more to evenings. To reach leisure-time shoppers, including parents who had put their children to bed, the timing of promotional e-mails moved accordingly.

Shoppers' media habits have made retailers rethink their marketing approach. For example, shoppers now use their cell phones during store visits, necessitating a different kind of marketing outreach. For Bon-Ton, the continued development of its multi-channel offering is part of its business strategy.

Sucharita Mulpuru, Forrester

While offline sales still dominate retail, the share of Web-influenced offline purchases has been growing, with a predicted 44% of total retail sales by 2016. This leads, for instance, to the "showrooming" effect, where offline stores are used to browse and online stores are used for purchase. At the same time, there is an inverse correlation between online research and online purchase across categories. This study finds that consumers are not flowing to the Web to complete transactions!

Given Amazon's and Zappos' aggressive pricing and "break-even business model," how can offline retailers compete? Retailers have put a few practices in place. First, offline retailers have sought out smaller stores and shorter, more flexible leases. They have placed pop-up stores in people's daily paths and environments, within malls but also around entertainment venues and sports and community events.

Second, retailers have forged new partnerships with manufacturers. An example is the Finish Line's collaboration with Nike. The focus is on value creation and a unique offering for the customer rather than price discounting.

Third, innovation in fulfillment has given retailers who have offline delivery an opportunity to satisfy customers' desire for convenient, fast, and no-cost delivery of items ordered online. For example, U.K.-based department store John Lewis offers select Waitrose grocery stores as pickup locations for merchandise ordered online. It solves the last-mile delivery challenge of online orders. Walmart.com offers select FedEx branches as pickup locations. Relay Foods, a Virginia-based online grocery retailer sourcing from local farmers and retail vendors, has made central pickup locations in the community a pillar of its business model to address the costly last-mile challenge. The company's value added to the consumer is to make local merchandise available from multiple sources, consolidate the ordered items, and offer it for customers' pickup at a designated relay location. Omni-channel retailers such as Best Buy and Sears also offer pickup of online orders at their stores.

Fourth, new profit models have developed. They include marketplaces that feature a range of vendors and high-margin online stores such as Skinit, which offers white label merchandise that can be customized by customers with their favorite designs.

Multi-Channel Marketing

Craig Elbert, VP of Acquisition Marketing, Bonobos

Bonobos specializes in men's pants, but has expanded to other lifestyle categories. Its core customer shops online, is 20–35 years old, and is highly educated with a good sense of humor.

Bonobos' mission was twofold. First, to create a design avoiding the "diaper butt" present in most male khaki pants, it designed pants with a curved waist band to address the issue of poor fit. Second, to reduce the hassle of purchase, Bonobos adopted a vertical e-commerce approach to retail by marrying the catalog retail model with the Internet.

Traditionally, in online retail, products differ in two dimensions: price and sizing. Suits and shirts, for instance, have a high price and need careful sizing, making them difficult to sell online. Bonobos reduces the risks of online purchase by offering free shipping and lifetime returns with "ninja" customer service, designed to help consumers best understand their preferences.

Bonobos explored potential strategies by placing a series of little bets and harvesting those that seemed to work. For example, they established "Guideshops" in retail outlets, featuring a limited assortment of products with Guides—experts trained in fit and style—to help consumers understand the options. The shops offered a personalized experience and were designed to be consistent with the traditional online Bonobos experience. A second strategy involved a partnership with Nordstrom. Bonobos has now set up shops in Nordstrom stores (its goal is to have 20 in total), where Nordstrom sales associates, trained by Bonobos, sell the firm's products. So far this practice has yielded excellent returns.

The customer experience needs to be the same across different channels, so that the customer does not feel like he or she is interacting with a different brand. To integrate the customer experience, Bonobos remains in constant dialogue with consumers through social media.

The Global Consumer

Steven Frumkin, Dean, Jay and Patty Baker School of Business and Technology, Fashion Institute of Technology

In recent years, many barriers to international trade have come down, increasing incentives for firms to search for growth markets and opportunities to reduce costs. Firms entering global markets need to consider four issues: country of origin, culture, pricing, and corporate social responsibility.

To stay competitive internationally, retailers need to take into account the pricing policies of rivals, exchange rates, the quality and uniqueness of their product, what the market requires, and how compatible the product is with the market. The top reasons for failure include overestimation of potential, entrance in an incorrect niche, lack of a unique product, and underestimation of competition intensity.

Retailers must take into account the different characteristics of the markets they intend to enter. For example, in the Indian retail market, the majority of stores are family owned and will frequently allow for trade or delayed payment. Most income is used on basic necessities. In Japan, the population tends to be older than average, so grocery retailers use lower shelves and lighter baskets.

Retailers must understand which products and services are appropriate internationally and understand the rationale for providing different versions in different markets. Retailers must also understand how different promotional practices and branding strategies may work in overseas markets. Finally, they must grasp the complexities of pricing and international distribution.

One of the more challenging and important aspects driving the competitiveness of a global firm is its understanding of culture. Culture may be subtle and difficult to interpret for individuals not directly involved in it. For example, Arla Foods suffered a significant backlash when Muslims chose to boycott Danish products, following the publication of images of the prophet Mohammed in a Danish newspaper. Global marketers must understand the cultures and customs of the regions in which they will be doing business to improve their marketing strategies and make them more appropriate.

Culture, in itself, is a complex phenomenon. Culture is transmitted from one generation to another. It draws on values, ideas, attitudes, and symbols. There are physical aspects to culture, characterized, for example, by the tools and clothing people use and wear. There are also non-physical elements, such as religion and beliefs. Any group of individuals, characterized by similar traits, that distinguishes itself from others can be considered a culture. The notion of consumer culture is becoming more salient in global markets as consumption patterns define groups of people. Consider, for instance, the phrases "pub culture," "coffee culture," "fast-food culture," and "credit card culture." Consumption cultures appear and spread more quickly as consumers become increasingly interconnected through technology. Within culture, notions such as religion and aesthetics define consumption patterns in international economies.

China offers a final example. A very popular, growing economy for new entrants, China is characterized by multiple varied and disparate cultures, each having its own needs and preferences. The majority of the country is rural, with a per capita disposable income of $117. China consists of several large regional markets and many smaller niche markets, making it difficult to identify one particular type of consumer. In general, however, all consumers are very price sensitive. Chinese laws and regulations are often obscure and difficult to understand. The lack of infrastructure makes distribution more difficult. Brand piracy challenges both foreign and domestic companies. Chinese consumers show strong loyalty toward domestic brands and products because of trust and familiarity, cost, and patriotism. Advertising has less of an effect than it does in domestic markets. Chinese consumers are known to be more averse to traditional advertising and more reliant on the recommendations of friends and colleagues. To build a brand in China, retailers need to understand the needs of the target region, carefully design an advertising strategy consistent with the local culture, and think of a meaningful brand name to promote.

Panel: The Global Consumer

Moderator: Steven Frumkin
Panelists: Ken Erickson, CEO, Pacific Ethnography; Neil Cole, CEO, Iconix Brand Group, Inc.; Melinda Lorenz, Fashion Institute of Technology, Former Global Marketing Director, L'Oréal Cosmetics

Ken Erickson, Pacific Ethnography

Pacific Ethnography's studies in China, which are based on ethnographic participant observation in real-life settings such as people's homes, have generated vast in-depth insight into Chinese consumer behavior. Objects of studies have included people's toothbrushing behavior and usage of mobile phones, laptops, and video games. A general take-away has been that understanding China and its consumers is complex and challenging and requires continuous effort. Findings are often geography-specific, and behavior changes over time.

A study about Chinese consumers' domestic life, including the significance and usage of the kitchen and bathroom and cleaning habits, revealed that the meaning of "clean" in China is very different from its Western understanding. In China, bathrooms provide no storage room (e.g., cabinets) because the bathroom is considered a wet place.

Given the country-specific market conditions, some foreign products and retailers have been successful in China because of their adaptation to the local market. Generally, for Western retailers to be successful in China requires local partners. Examples of success are Subway, McDonald's, KFC, Walmart, Buick, and the iPhone. Unsuccessful examples are Avon (with the initial direct-to-consumer selling approach), Best Buy, Home Depot, Whirlpool, and Barbie. Some international retailers adapted their strategy and positioning to fit the local market. For example, IKEA in China is considered a place for snacks, housewares, and furniture ideas that customers can share with custom furniture makers. In some product categories, Chinese companies simply do better than foreign competitors, such as in electric scooters, solar water heaters, subways, airports, kung fu movies, and also in e-commerce.

China has two distinct markets: urban (40% of the population) and rural (60%). Naturally, retailers have focused on urban markets, which however are closely connected to rural markets because of consumers', including migrant workers', social networks of family and friends in rural areas.

It is important for marketers to understand the four different generations living in today's China and their understanding of products and retail. The Long March generation is retired, lives with family, helps with child care, relaxes and enjoys, and receives gifts. The Transition generation consists of new grandparents who work, don't use the Internet, use only a few global brands, and get their brand knowledge from children. The Consumer generation is made up of new, working parents who are concerned about food and product safety, own a smartphone, travel, and will buy a car or motorbike. Finally, the Wired generation goes to school or works, associates with its peer group, lives a digital life (i.e., owns a smartphone, blogs, watches movies online, and provides Web advice), and shops at UniQlo and online retailer Taobao.

Young people, who typically live in shared spaces with college or work peers, learn about new products from the friends they live with. They use products communally, including personal care items, house cleaning products, and computers.

Store formats that work in the U.S., such as big box electronics stores, may not work in China. For example, a typical layout of an electronics store in China offers branded computers (e.g., by HP, Lenovo, Haier) on the bottom floor, peripherals on the second, and pirated merchandise on the third.

When Walmart entered China, local store managers invented commonalities between Walmart founder Sam Walton and Chairman Mao, leader of the Chinese Revolution, to fit store management practices with their Chinese perspective. In China, Walmart is perceived as a clean, fun place to socialize and for families to spend time.

Taobao offers a new way to engage consumers by allowing a comparison of product features, putting no pressure on customers, and offering features to share product recommendations with peer users. Shopping customs such as returns and exchanges are becoming more common in China. Trust in the authenticity of brands and the safety of products is important for market success and can be an issue for customers, especially in certain product categories. Traditional mom-and-pop stores, the traditional core of Chinese retailing with about 70% market share for fast-moving products, has been a convenience channel. Only strong brands and packaging are trusted. While the decision making by business owners and managers in this channel about the assortment, in-store product display, and other retailing aspects are opaque, it deserves attention because of the channel's importance.

Like in other countries, the retailing landscape, including the prevalent store formats, has evolved over time. While in the 17th century, shopping streets lined with small stores were the dominant format and found even in the Emperor's Summer Palace, in the 20th century, department stores made their entry to Chinese cities.

Neil Cole, Iconix Brand Group, Inc.

In 2005, Iconix transformed into a brand management company that owns, manages, and licenses brands to retailers and manufacturers, mainly in the apparel and accessories industries. Its portfolio includes brands such as Joe Boxer, Candie's, Sharper Image, and the Peanuts. Given the fascination with American culture around the world, Iconix set out to license its brands globally. It looked for strong licensing partners with operations in the target territory, industry expertise in the specific market, and a network of retail and wholesale relationships similar to Iconix's distribution network in the U.S. It now has partners for Latin America (Falic Group), Europe (The Licensing Company), India (Reliance Brands Limited), and China (Novel Fashions/Silas Chou).

Iconix's international sales have grown tremendously over the last few years, with a goal of generating one-third of sales from global business by 2014, up from 22% in 2011. The source for growth are new territories (Middle East, South East Asian, Russia, Japan) and leveraging existing platforms, including its international joint ventures, its Walmart partnership, and the Peanuts brand.

The global product and merchandising strategy of the Mossimo brand, which in the U.S. is available at Target stores, illustrates Iconix's approach to localize. For example, at Target in the U.S., the merchandise is casual, in Australia it is surf-oriented, in Chile it is focused on evening wear, and in India it is more traditional.

Another example of Iconix's localization strategy is the Peanuts brand. Appealing to a range of demographics and suitable for a variety of products and distribution channels, it has a strong global platform. It is licensed in over 40 countries and has more than 1,200 licensing agreements. The main markets are Japan, the U.S., Europe, East Asia (without Japan), and Latin America, with two-thirds of sales coming from outside the U.S.

In the U.S., consumers see the Peanuts brand licensed mostly in entertainment categories, including for seasonal Peanuts cartoon specials by ABC, MetLife, Hallmark, and Cedar Fair Amusement Parks. While Peanuts-branded products have not yet been fully licensed in the U.S., Peanuts merchandise is popular in Japan. The design, color palette, and product type are localized for the Japanese market. Ten Snoopytown stores market Snoopy products throughout Japan, and Cartoon Network Japan airs Snoopy films. Snoopy is also popular in China, where it is positioned as a fashion lifestyle brand and distributed through 4,500 branded retail outlets for apparel, intimates, accessories, footwear, and hosiery. There are also Snoopy bakeries in Hong Kong, China, Singapore, and Malaysia.

In China, the number of Iconix brands' stores, namely Candie's, Badgley Mischka, London Fog, and Rampage, is projected to grow from 200 to 550 between 2010 and 2012. The brands have also been adapted to the local market. For example, Candie's is slightly more youthful than in the U.S. and is localized for fit and fashion trends. However, its ads feature American models. Badgley Mischka's positioning of glamour and luxury is consistent with its positioning in the U.S. In contrast, London Fog is a large sportswear and lifestyle brand in China, while it is an outerwear and accessories brand in the U.S.

In sum, having great brands, strong partners abroad, and a localized marketing strategy has helped Iconix grow around the world.

Melinda Lorenz, Fashion Institute of Technology, L'Oréal Cosmetics

When L'Oréal acquired Maybelline in 1996, it had to overhaul its global strategy. The packaging, merchandising, and advertising were outdated, the brand had limited international presence (only 10% of sales was global), and the global marketing was done by the U.S. marketing department. Maybelline's global relaunch strategy involved new products, packaging, advertising, merchandising, wider and better distribution, and, importantly, local brand management and marketing adaptation to make the product feel like it was made specifically for the individual market.

The case study of Maybelline's Wet Shine lipstick, which was launched in 90 countries, illustrates the local adaptation strategy. For example, while the packaging is pink in the U.S., it was changed to grey-silver for Japan to make it appear higher quality to Japanese consumers. Maybelline uses the brand suffix "New York" consistently across countries as part of the brand positioning and perception. While the same Western model was shown in the lipstick ad in the U.S. and Japan, and other countries, Brazilian actress and former model Camila Pitanga was featured in Maybelline's ad in Brazil. In addition, in Brazil, the lipstick name was adapted to "Water Shine," because in Brazil, "water" has a stronger association with shine and different shades than "wet" does.

For an ad for sponge-applied powder, Maybelline used an Asian-looking model, because Asians perceive their skin as different from Western women's skin. It also used a different merchandising concept in China, where beauty advisers explained and demonstrated new products to customers, many of whom had never used mascara, eye shadow, and foundation.

Panel: The In-Store Experience

Moderator: Jeffrey Inman, University of Pittsburgh
Panelists: Michael Gould, CEO, Bloomingdale's; Kelly Riemer, Virtual Reality Project Manager; Nicole Thayer, Shopper Insights and Category Management Virtual Reality Leader, Kimberly-Clark Corporation

Michael Gould, Bloomingdale's

The goal of the retailer lies more in engaging the consumer than in providing them with assistance. Nearly 50% of consumers entering a store will not see anything new. Customizable products provide a platform for engaging the consumer. The shopping experience deals with people's senses, thereby generating an opportunity to create a relationship in the store. Entertainment-based methods, such as in-store social gatherings, create an environment for consumers to experience. Data on purchases and demographics enhances analytic capabilities. All of these factors contribute to the customer experience and hence the profitability of the retailer.

Kelly Riemer and Nicole Thayer, Kimberly-Clark Corporation

Kimberly-Clark is a large consumer packaged goods corporation with over 50,000 employees and net sales of $21 billion. The main purpose of the virtual reality team is centered on how to best understand the shopper and disrupt traditional shopping behavior.

Virtual reality technology allows individuals to visualize and interact with something that may not exist physically. The technology is applied to model the shopping environment in three dimensions, test and identify actionable insights, narrow down solutions, and translate insights into practice. In the retail setting, shoppers navigate a virtual cart to find products. Shopping decisions are recorded and analyzed. Eye-tracking technology traces which products the consumers examine and generates data for actionable insights. The Kimberly-Clark virtual reality team provides consulting services and solutions for retailers interested in drawing on consumer shopping behavior.

In 2009, Kimberly-Clark brand Kotex integrated virtual reality technology to plan the launch of the female hygiene UbK product line. The teams conducted both traditional and virtual reality analysis to identify opportunities and recommendations in this category for teens and young women. The product subsequently experienced great success.

Nevertheless, multiple challenges remain in virtual reality research. First, it is difficult to validate virtual reality methods and compare them to in-store research and other traditional forms of research. Second, it is difficult to find partners with a good balance of research and technology expertise. In the future, virtual reality technology must be standardized for easier implementation across different projects. Industry standards and vendor consortium should yield lower costs for researchers. Finally, technology ideas and solutions must be driven forward to keep up with business and research needs.

Conclusions

John Deighton, Harvard Business School and MSI
Steven Frumkin, Fashion Institute of Technology

At $5 trillion, the retail industry is an enormous industry of great macroeconomic significance. The conference covered a lot of topics and provided plenty of material to think about. The range of retail formats, organizational models, and collaborations is remarkable, as the comparison of licensing company Iconix, which owns 27 brands, with a brand like Maybelline illustrates. Neiman Marcus's partnership with Bonobos is an example of a unique collaboration between retailers.

In the history of retail, phases of equilibrium have alternated with periods of turmoil. Often, technologies have spurred disruptions of society and commerce. In the more recent past, the Internet has been a crucial innovation with an impact vaster than the railroad at its launch. We should brace ourselves for the concept of revolution. Most likely, breakthrough innovation with disruptive potential will come from online-based retailers. Traditional retailers should adapt their businesses to stay competitive in this new environment.

Conference Summary

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