

THE PENNSYLVANIA STATE UNIVERSITY
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FROM BRICK TO CLICK & CLICK TO BRICK:
THE RETAIL E-VOLUTION

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ABSTRACT

This is a story of how an octopus and a hippo changed the world as we know it.

The new age of business revolves around data, technology, and the incredible capabilities said advancements have brought every company and consumer in the world. The retail sector, in particular, has been completely transformed and catalyzed because of the revolutionary vision of companies like Amazon or Walmart. They have focused on creating new strategies that are fueled by data and technology, and furthermore, being the ones who *create* the consumer expectation; no customer knows what they need to make their life better or more convenient...until Amazon or Walmart tells them.

This thesis aims to delve into the history and evolution from solely traditional brick and mortar stores to click and mortar stores, and vice versa, and how the octopus that is Amazon and the hippo that is Walmart have disrupted retail as we know it. This publication creates a platform that students and professionals can reference to gain a deeper understanding of the evolution of “brick to click” and “click to brick” over the recent decade and begin to understand where these two animals will take us next.

The main foci include: developing consumer trends, competitive strategies, pricing, operations, product assortment, private label, store formats, and supply chain management. The industries and companies studied includes grocery (Whole Foods Market, Kroger, Instacart, and Blue Apron), wholesale (Costco, Sam’s Club, Boxed Wholesale), department stores (Lord and Taylor, Kohl’s and Nordstrom), home delivery companies, big box retailers (Walmart and Target), private label manufacturing, and the future of the retail store. This thesis aims to examine the entire retail industry.

While there is much change going on throughout the retail industry, I conclude that stores are here to stay, they will just serve in different formats, markets and goals. To meet the needs of the changing consumer preferences, retailers need to adapt their brick and mortar presence to click and mortar, and vice versa; *from brick to click and click to brick: the retail e-volution*. Retail is a harbinger of change, an experience, a thrill that consumer looks for – be it online or in store. By the time I finish writing this thesis, and the reader finishes reading, it’s possible that everything in here will be outdated. What will remain the same time and time again, are the customers, the shopping list, and the desire for “new.” Through all the mayhem and changes occurring in the industry, it’s critical to understand the market in order to position for the future.

“So, stores are here to stay—if we are careful what stores we’re talking about. But so is e-commerce. Ultimately, the real winners will be those retailers who understand how to integrate both. Amazon aims to be that company”

(The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google)

A. Thesis Objective / Methodology

This paper will look at the transformation of the retail industry, both qualitatively and quantitatively. The goal is to use open source data as well as primary resources acquired through interviews, to determine the accretion of this 21st Century industrial revolution. The research and paper will look into the overall transition to online (brick to click) as well as e-commerce gaining physical presence (click to brick), an industry analysis and current state, consumer behavior, and focus on where the future of retail is ultimately headed.

The primary research for this thesis was conducted via data analysis using resources on the internet, journals, as well as tools found through the Penn State University library systems. Secondary data analysis was mainly performed during the months of August – December 2017. With the amount of public information available online, this was the most appropriate way to gather the data in the most organized and relevant fashion.

New York Times Bestseller, The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google, also provided a great resource to this thesis. Scott Galloway's book provided a great analysis on these four "horsemen" and how they are affecting the world as we know it in silos and together. These four have been written about timelessly over the last decade, but Galloway captures their power and staggering success through fundamental questions. "Whether you want to compete with them, do business with them, or simply live in the world they dominate, you need to understand the Four." I was lucky to find this book as a guide to my research and a fun, easy way to read deeper into the industry.

To get an understanding on the future state of retail stores, interviews from various employees and executives at companies were conducted from October 2017 – April 2018. Through the alumni connections from the Smeal College of Business, Center for Supply Chain Research, along with professor recommendations, and LinkedIn, employees at various companies were able to give their industry knowledge to help aid in the expectations of the future of retail. All interviewees, questions, and privacy were confirmed prior to the interviews being conducted. Using their professional experience as well as an interview guide created in October 2017, these executive insights provided a deeper understanding to the overall current state and future of this sector.

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And to all the **faculty and staff in the Smeal College of Business** who have guided me along the way, my passion and drive would not be near what it is today without any of your help.

Chapter 1 - Overview

Far-fetched are the days when waiting up to two weeks to receive a newly purchased product online is considered satisfactory for consumers. Living in a world of instant gratification and endless options, today's customers expect everything about shopping to be seamless, easy, and fast.

Due to the incredible technological advancements, massive growth in resources and capabilities of companies like Amazon¹ and Walmart², the retail sector has undergone an “apocalypse”, a “revolution.” These two powerhouses have created a brand-new paradigm with the integration of retail, entertainment, technology, grocery, food delivery, automotive, consumer products, amongst many other industries.

Consumers have changed drastically, fueled by the power to access immense amounts of information in a matter of seconds, all in the palm of their hand. Long gone are the days where customers spent the time searching through newspaper or magazine clippings to find the best deals, discounts, and sales, or even to simply decide where to shop. Because of Walmart and Amazon's capabilities, they have advanced expectations and forced others to catch up.

Today, in 2018, all of this is done in a matter of seconds via the enabling of smartphone technology. Erik Nordstrom, Co-President of Nordstrom stores, said brilliantly that, “there aren't store customers or online customers – there are just customers who are more empowered than ever to shop on their own terms...” (Kapner, 2017). The new capabilities and offerings have created crazy expectations for consumers, forcing companies not only to keep up, but also to stay ahead of the pack if they want to stand a chance for survival in the long run.

Because of the foresight and advancements of the few (AMZN and WLMT), consumers always expect it and are constantly wanting more. The rest of the pack is forced to catch up and join the leaders or close up shop. Even for some of the longest running companies in the U.S., i.e. Toys “R” Us³, not catching up is causing them to be left out. More so than just playing catch-up, companies need to be taking advancements into their own hands and not venture down the path of “last-resistance.” Amazon is going to be the top retailer in the next ten years because instead of choosing this path and playing

¹ Amazon.com will be referred to as Amazon.com, Amazon, or AMZN throughout this paper.

² Walmart will be referred to as Walmart, Wal-Mart Stores, Inc., WMT, Wal*Mart, or Wal-Mart throughout this paper.

³ On March 15, 2018, Toys “R” Us announced it will shut or sell all of its 735 stores in the US after filing for bankruptcy within the last year.

catch-up, they are leveraging their skill, intelligence, and innovation to create capabilities to provide them with a long-term competitive advantage.

The revolutionary advancements made by the goliath's in Amazon and Walmart have allowed consumers to have lofty and constantly growing expectations for retailers. The magnitude of these shifts has created a fight or flight situation for many companies; they need to stay with the pioneers of e-retail or will undoubtedly find themselves filing for bankruptcy.

1.1 Introduction to Ecommerce in the United States

The importance of this thesis largely is due to the magnitude of e-commerce spending in the United States. Following the internet bubble in the early 2000s, many companies have shut down and started up to meet customers in every aspect they demand. Expanding consumer awareness, financial capabilities and global communication, digital centric business models are expanding the boundaries of relevance in retail.

Simply put: e-commerce, has been in development since the 1970s, and refers to the buying or selling of products and services via the internet. E-commerce has increased over fifteen percent of total U.S. retail sales over the last fifteen years, and it's not showing rates of slowing down, as displayed in Figure 1 below. E-commerce is growing at an increasing rate for its affinity to consumers and growth of popularity.

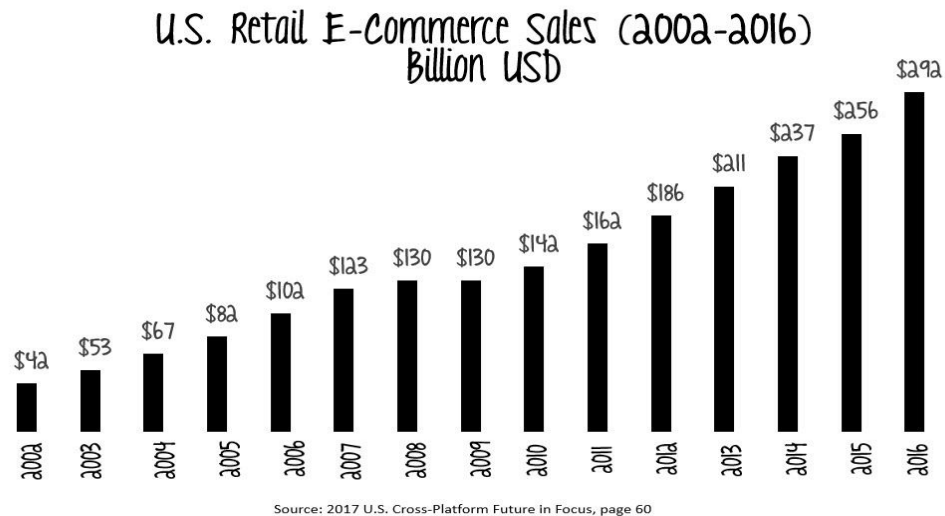


Figure 1: US Retail E-Commerce Sales 2002-2016

Amazon continues to be the leading player in the ecommerce space - earning 43.5 percent of U.S. online sales (2017) while Walmart earns three and a half percent in the same space (Nassauer, 2017). It

is said that for every one dollar spent online shopping in the United States, forty-three cents are spent on Amazon. To display the comparison, see Figure 2, below.

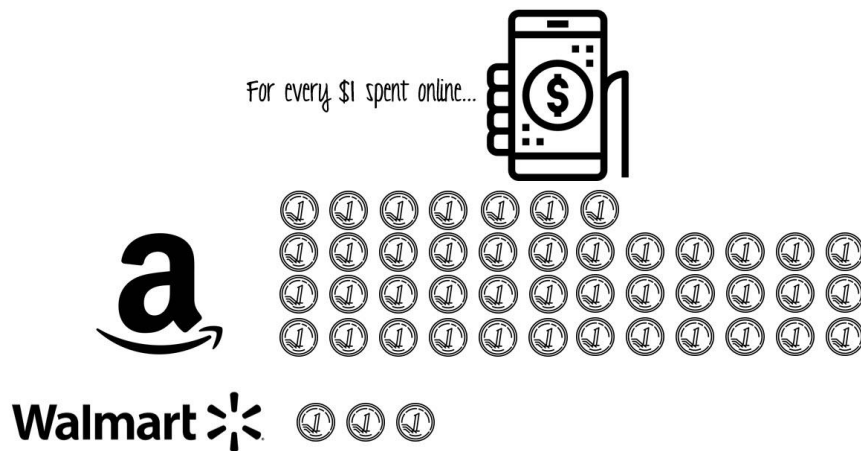


Figure 2: Amazon v. Walmart for Every Dollar Spent Online

As the United States moves to the era of purely omni-channel retail⁴, online spending projections are showing substantial increases over the next decade, anticipating revenues close to \$800B by 2021, as demonstrated in Figure 3.

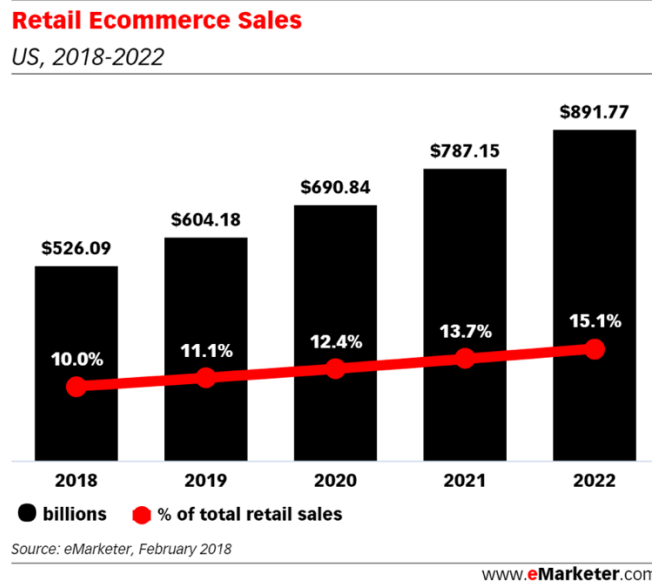


Figure 3: US Retail Ecommerce Sales Predictions

⁴ Omnichannel (also spelled omni-channel) is a multichannel approach to sales that seeks to provide the customer with a seamless shopping experience whether the customer is shopping online from a desktop or mobile device, by telephone or in a bricks and mortar store.

1.2 A brief overview of Amazon.com & Walmart, Inc.

Of the ten biggest retailers in 1990, only two were remaining on the list in 2016: Amazon and Walmart. Amazon (started in 1994) registered more revenue in 2016 (\$120 billion) after twenty-two years of existence than Walmart (founded in 1962), did after thirty-five years in 1997 (\$112 billion) (Galloway, 2017). These two are undisputable market leaders in operating scale, power, and advancements.

1.2.1 Amazon.com

“Amazon’s story: become the earth’s biggest store.

Their strategy: huge investments in consumer benefits that stand the test of time – lower cost, greater selection and faster delivery.”

(The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google)

Unlike any other retailer before, Amazon not only mastered the original segment of industry they sought after – online bookstore but also excelled in every sector they touch thereafter. “If Amazon was an animal, it would be an octopus” (Moore, 2017). Stretching its “tentacles” across almost every consumer facing market imaginable – the once pure-play online book store has truly capitalized itself to the reinvention of brick and mortar and click and mortar retail. “Amazon redefined the shopping experience and expectations: from 1-click ordering to getting your product within two days (or in hours, soon by drone or a truck UPS used to own). (The Big Four)”

On July 5, 1994, Jeff Bezos left Princeton to start an online bookstore out of his garage: Amazon.com. Amazon’s original mission was to position itself as the “earth’s biggest bookstore”, and initially fulfilled orders using major book distributors and wholesalers such as Barnes and Noble. Ever since 1994, Amazon has continuously been revolutionary with distinctive vision; they were operating solely online well before many Americans even had a reliable internet access. Within the first month of its launch, Amazon.com had sold books to people in all fifty states and across forty-five different countries; and within two years of inception, they were selling over 2.5 million books online per year and held approximately \$150 million worth in inventory (Hartmans, 2017). The internet is the fastest-growing channel amongst the largest economies of the world, and Amazon is capturing the majority of that growth within the U.S. (Galloway, 2017).

Today, Amazon’s online book store has expanded from its bread and butter of online retail, to include one of the largest on-demand cloud computing platforms in Amazon Web Services (AWS), logistics, a full streaming package through Amazon Prime, and their very own production studio to go

along with it, Amazon Studios; as of June 2017, Amazon is even a proud owner of a grocery chain! It is hard to find a better company than Amazon to evaluate and credit for the change in the retail sector. Every time a company thinks they may have caught up, in reality, Amazon is a mile ahead. Since 1996, Amazon has introduced fifty-four products, stores and services (Sender, 2018). They are such a well-oiled machine – they seamlessly converted an online bookstore to an e-commerce powerhouse and a multinational conglomerate.

Amazon's brand worth approximates to over \$100B USD, out-pacing companies such as Walmart, Ikea, and digital competitors like Alibaba and eBay (Statista, 2017). Net sales revenue for Amazon have exponentially increased since 2004, as portrayed in Figure 4: Amazon Net Revenue 2004-2017, and trend analysis shows that the company is not short of slowing down any time soon.

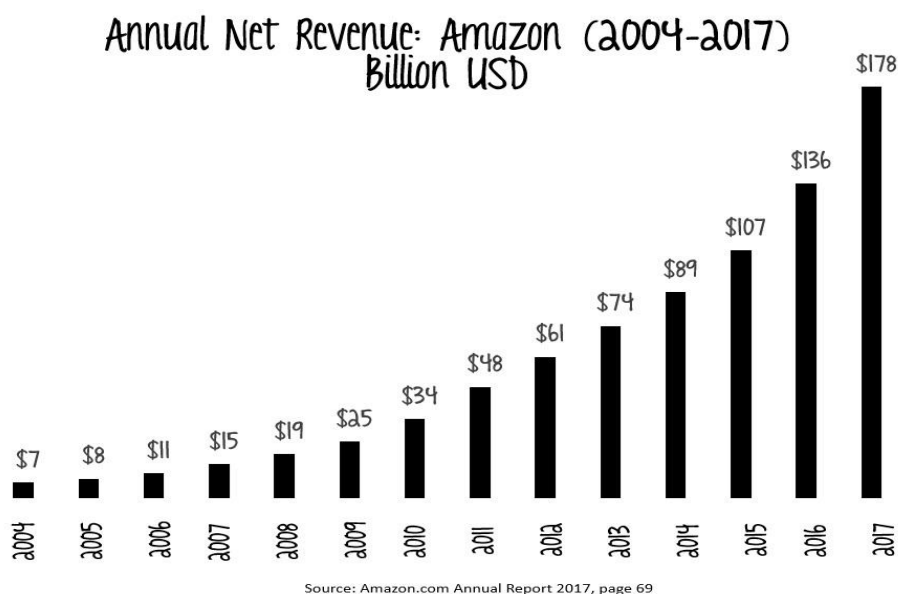


Figure 4: Amazon Annual Net Revenue 2004-2017

With an estimated eighty million plus Amazon Prime members, accounting for approximately sixty-four percent of U.S. households, Amazon has defined and redefined what “the everything” store means to Americans (CMO.com, 2017). More American households have Amazon Prime than those who go to church, have a Netflix account, and watched the most popular show in 2017, as shown in Figure 5 below.

Percent of US Households who...



Source: Leichtman Research Group, American Pet Products Association (APPA), Statista, HBO

Figure 5: American Households with Amazon Prime

The evolution and future of brick and mortar and click and mortar would be incomplete without focusing on Amazon, its disruption, and expansion of its “tentacles.”

1.2.2 Walmart, Inc.

On July 2, 1962, Sam Walton opened the first Walmart store in Rogers, Ark, “built on an unshakeable foundation: The Lowest Prices Anytime, Anywhere.” Over the next five years, twenty-four Walmart stores were opened across the United States and brought in over \$12.7M in sales. Maintaining their original strategy and logic of Every Day Low Prices (EDLP), Walmart has been determined to consistently guarantee the lowest prices for their customers. By 1990, Walmart became the nation’s number-one retailer as Walmart Supercenter redefined convenience and one-stop shopping (Walmart Corporate). Heightened by the success in the United States, Walmart and EDLP spread internationally.

Walmart has been dubbed a “hippo” in recent years because of their innate ability to eat everything and everyone they want. For many years, they were known for their colossal size, tremendous stock-keeping unit (SKU) count, and now, have been enhancing both their online and physical presence mostly through consuming valuable assets through acquisition. Walmart’s pioneering efforts to provide the largest variety at the lowest prices changed the retail industry by providing a spectacular new offering to consumers. Now, they are making a similar impact in their transition to pure play e-tailing. To maintain their power in the growing and shifting industry and compete with Amazon’s quest to reach every consumer need, Walmart has undergone a vast refurbishment; they are transforming their business model to focus on pure e-tailing, transforming their physical stores, and investing in unique marketplaces, all while maintaining their original mantra: Everyday Low Prices.

As one of the nation’s top brick and mortar retail locations, Walmart’s logistics, stores, and leadership have traditionally kept them in the spotlight. Today, by having a growing e-commerce presence as well as expanding recent subsidiaries to include Jet.com, Bonobos, ModCloth, etc., Walmart is maintaining its innovative edge in a time of revolution.

1.3 Alternative Retail Methods

1.3.1 Thriving

Aside from traditional brick and mortar or click and mortar retail models, there are alternative formats that are succeeding today. Over the last year, the “retail apocalypse” took down American brick and mortar mainstays like Macy’s, Toys “R” Us and JCPenney, and there have been a number of theories about their demise, largely blaming the “Amazon-Effect.” As Jeff Bezos’s juggernaut continues to grow, forward-thinking competitors are finding creative ways to succeed—and be what Amazon isn’t before they are (Carr, 2017). “Retail is under huge pressure, but the death of stores is greatly exaggerated,” says Scott Galloway, NYU Stern professor of marketing and author of The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google. Galloway believes that while Amazon will continue to disrupt the market, an increasing number of competitors will discover new ways to respond. “In the age of Amazon, retailers must leverage assets that [Bezos] doesn’t have: When Amazon zigs, retailers must zag” (Carr, 2017).

After years of Amazon leading the way, with very few worthwhile attempts to stop them by competitors, retailers are finally abiding by the Amazon way. Alternative retail models are getting creative and beating Amazon at their own game by reinventing their own brick and mortar store fronts.

1.3.1.A Reinventing the Pop-Up Shop Model

Generic stores and static brands have lost their ability to maintain consumers, especially experience hungry millennials who are more concerned with showing the world their interesting lives on social media. Traditional retailers are now pairing up with digital brands and bringing them into their brick and mortar stores to experiment with new formats and gain consumer insights via the data they collect. Pop-up shops are being established in a variety of shapes and sizes, as well as settings. Locations are ranging from a traditional brick-and-mortar stores, a store-within-a-store, a standalone kiosk or even via a motorized vehicle, inspired by the food truck craze (Retail TouchPoints, 2017). Pop-up shops are becoming popular as they create a sense of urgency and lure shoppers in with exclusive items. These stores are typically designed for spectacle and character, rather than function, with hopes to be widely shared on social media, and thus, stimulating interest.

A survey conducted by PopUp Republic Poll found the top things shoppers look to gain out of a pop-up shop and is demonstrated further in Figure 6 below. The top reasons consumers are visiting pop-up shops are for unique services or products or looking for exclusive only items that traditionally may

only be found on that company's website or social media. Many pop-up shops are going beyond offering solely their products, but also are adding value to customers in the form of personalization, experience and localized assortments. Over the last year the pop-up shop model has become increasingly popular and can expect continued growth into the future.



Source: <https://www.retailtouchpoints.com/features/special-reports/pop-up-stores-become-more-than-just-a-trend>

Figure 6: Key Attributed Shoppers Desire in a Pop-Up Shop

Marquis brands such as, Yves Saint Laurent, Valentino, Kellogg, Unilever and Netflix all have experience with pop-up shops, while Proctor & Gamble brought a Charmin-branded van that contained a private bathroom that drove around New York City throughout summer 2017 to promote their new line of toilet paper.

One of the most notable pop-up shops of 2017 was created by beauty products manufacturer, Coty. Located in New York City's Chelsea neighborhood, Coty opened the facility to promote not only their current portfolio of brands, but also their vision for the entire beauty industry. The store prompts consumers to view them as the trailblazer behind the next big movement. By presenting a new unique vision, people will be inclined to adopt their new trends in order to be the first to do so.

PVH subsidiary, Calvin Klein (CK), has begun using pop-up shops as an exclusivity deal with Amazon to sell new styles and generate buzz. For the first time in their history, CK began selling its new underwear through Amazon, bypassing the department stores that typically have first options on its latest styles. This partnership fuels Calvin's New York City holiday pop-up shops allowing customers to purchase items via the Amazon app, and dressing rooms are enabled with Amazon Echo devices to answer questions, control the lighting and play music – the epitome of a full service and memorable experience. Customers also have the option of embroidering their purchases at the shop. The exclusivity and partnership with Amazon is troublesome for department stores as they will not receive the new styles

until January 2018. Customers are moving digitally and Amazon is the heart of digital shopping, so in return, CK is meeting customers where they want to be: on Amazon.

1.3.1.B Subscription Models

In continuation to vast changes in business models, several subscription services, and/or e-commerce companies are expanding beyond just the catalogue and moving into physical store fronts. An alternative retail model that is becoming increasingly popular and thriving is being done by two giants in online retail, Birchbox and Rent the Runway (RTR). These two have partnered to open a shared brick-and-mortar location in addition to individual sites. "We've seen that physical retail works for us," said Rent the Runway co-founder, Jennifer Hyman. "When you see some of this inventory in person, it's on a whole other level. You see the fabric, you see the quality..." (Bhasin, 2017). Within the permanent locations, there is a strong emphasis on the experience as opposed to product displays; they offer personal stylists, food, drinks, and other salon services.

Rent the Runway and Birchbox are unique in that they are subscription services that send personalized boxes to customers every month. Birchbox launched in 2010 as an online-only makeup subscription service that offers monthly boxes of curated sample-sized cosmetics from a variety of brands and have since opened a brick-and-mortar store in New York City in 2014 (CB Insights Research, 2016). Similarly, Rent the Runway was once a pure online service used to rent designer dresses and accessories for a fraction of their retail prices, but today has expanded to include a brick and mortar store as well. Formerly strictly e-commerce platforms have begun experimenting with brick-and-mortars focusing on providing experiences to their customers. This allows companies to develop a stronger interest, more loyalty and ultimately more sales amongst their customers.

For both of these subscription services, their physical footprint has attracted new customers, given existing customers a place to experiment and allows these companies to better curate their future offerings. The experience strikes a balance between loyal customers who know the brand and introducing the concept to those who are exploring it for the first time. The key to these physical stores is a seamless online transition, especially when customers are expecting from the retailers the ability to shop across all channels.

Subscription boxes offer companies a treasure trove of data, allowing retailers to learn what items customers are responding well to, or what inventory should be phased out. Traditional retailers and brands are following the trend and rolling out their own subscription services, such as Target, Walmart and Under Armour just to name a few. A greater look into the growing presence of subscription services amongst traditional retailers can be seen in Figure 7.

Company	Name of Product	Cost	Items / Proposition	Frequency	Similar Comparison
	Current: Beauty & Baby Box; New: Cat & Jack Box	\$40	Six-seven Cat & Jack Items from popular kids line	Beginning of every season	
	Beauty Box	\$5	Essential products for women including name-branded products (i.e. Maybelline Eyeliner / Tresemmé hair spray)	As desired	BirchBox
	NY&C Closet	\$50	Three garments are sent for unlimited wear, option to purchase permanently.	Monthly	Rent the Runway
	Infinite Style	\$95	Shoppers can rent three times at a time and return items when ready for a new box, can purchase at discount.	Monthly, upon returning all garments receives new box	Rent the Runway
	Gap Baby Outfit Box	\$70	Six pieces of clothing for growing babies.	Every three months	Target's Cat & Jack Outfit Box
	Old Navy Superbox	\$70	Subscription for kids age five through 12, containing six items.	Quarterly	Gap Baby Outfit Box
	"Big & Tall"	Avg. \$39. Clothes / accessories that are kept are paid for.	Boxes catered to big and tall male customers, five items are shipped after taking style quiz.	As desired	Stitch Fix & Trunk Club
	Armour Box	No initial fee, pay for items kept - sold at 20% discount	Four to six items from one of Under Armour's "official outfitters."	30, 60, or 90 days	N/A

Source: <https://www.cnbc.com/2018/02/25/these-retailers-are-cashing-in-on-the-subscription-box-craze.html>

Figure 7: Noteworthy Subscription Models

1.3.1.C Beyond Value Added Services

Another retail model that is thriving in the age of the retail apocalypse is one where stores are going beyond their traditional store-fronts and adding in significant value-added services. Ikea has done this through Task Rabbit as well as Ikea Place.

Ikea has tried breaking out of the big box by introducing two value-added services: assembly help via Task Rabbit as well as augmented reality through Ikea Place. The Ikea Group has bought Task Rabbit, one of the best-known start-ups in the "gig-economy," which will link handymen, movers, or assistants to Ikea customers for help in assembling the products. The first purchase in Ikea's on-demand platform space, Task Rabbit will become an independent subsidiary within Ikea and will provide in-home help for customers as well as build jobs in the areas it works. On March 19, 2018, Walmart announced that they too will be bringing an installation and assembly service, Handy's installation and assembly service, to help customers. The service will be expanded to more than 2,000 of their 5,000 stores by the end of 2018, with the goal to help customers put together televisions and furniture (CNBC, 2018). Services like these will prove to be successful to both men and women who are shopping in the stores looking for a value-added service or any last mile added capability. In getting someone to help assemble a product or provide service expertise is just one example of a value proposition brick and mortars have over online operations.

Ikea is also adding value via augmented reality via Ikea Place. Launched in September 2017, customers can use their phone camera to scan a room and then place Ikea furniture virtually to see how it would look in their homes (Swisher, 2017). Jesper Brodin, CEO of Ikea, said: "(What) we haven't been able to do before is to find easier ways to connect with people so digital opens up massive opportunities for us... In a fast-changing retail environment, we continuously strive to develop new and improved products and services to make our customers' lives a little bit easier..." (Meredith, 2018). Augmented reality letting customers see how items look before they buy, as well as hiring quick and reliable help for assembly, are just two ways in which retail giant, Ikea, is going beyond traditional value-added-services and leveraging technology to differentiate their business. As of March 20, 2018, Macy's announced that they too are launching a virtual reality pilot on their app for their furniture section; the program will allow customers to visualize what the products would look like if they were able to move them around their own homes (Thomas and Reagan, 2018). The idea for this technology is not so revolutionary or proprietary, but now that stores are putting this option out for consumers, it is possible to believe that one day it will become the norm.

Another example of a store that is going beyond traditional value-added services is fashion retailer, Nordstrom. In Nordstrom's new store concept, Nordstrom Local, opened in October 2017 in West Hollywood, CA, shoppers can enjoy manicures, on-site tailoring, order wine, beer, coffee or juice from an in-store bar. While a fraction of the typical Nordstrom store size, Nordstrom Local will not carry clothes but will carry dressing rooms for customers to try on clothes or accessories, with personal stylist services and the ability to order the products online. The idea behind the store is to use the physical store to attract customers who have migrated online (Kapner, 2017). Realizing that customers are looking to shop as a form of entertainment or for an experience, going beyond the act of simply looking at and purchasing items, they are beating customer expectations.

Similarly, Walmart is developing a subsidiary called Code Eight to reach the "high net worth urban consumer," by offering non-traditional services. Being led by Rent the Runway co-founder, Jennifer Fleiss, the store offers a personal shopping service focused on health and beauty, household essentials, and apparel and accessories. Shoppers are able to order products just by texting a photo of them or can message an associate with a general request for a type of product needed and leave it up to the store to do the picking (Del Rey, 2017). Completely different from Walmart's traditional super-store model, testing this store in New York City is a way Walmart is trying to extend beyond their traditional customer and offer something that other retailers do not (yet).

1.3.2 Barely Surviving

While some retail models are getting creative, adapting and thriving, there are many barely surviving and being crushed by the retail apocalypse. Coping with several quarters of declining sales, many department store chains, notably Macy's, Kohl's, and JC Penny, are closing many of their store-fronts. In efforts to save their brand and legacy, the aforementioned companies are focused on making price reductions easier to understand; experimenting with opening smaller store fronts and selling off excess space (Kapner, 2017). Kohl's is leasing store space for grocers, Macy's sold part of their Brooklyn, NY, store to a real estate developer to reinvent into office space, and Target is opening a store on the Lower East Side of Manhattan that will be fueled by Macy's Herald Square location as a fulfillment center and one day plans to move into that location, just to name a few (Kapner and Brown, 2017; Morris, 2017).

Largely because of the decline in mall traffic, Macy's has lost two-thirds of its value since 2015 (Levine-Weinberg, 2017). According to Credit Suisse, in 2017 more than 8,500 stores planned to close their doors (exceeding store closures that happened during the 2008 recession), and a quarter of shopping malls are expected to close in the next five years.

Being faced with one of the most competitive retail environments to date, those who are struggling the most today are the ones refusing to invest in their properties and ignoring the changing consumer landscape. Customers are waking up every day with an expectation, and retail models who will not survive will be the ones who remain close minded to that changing mindset. However, to survive, it is no longer figuring out what is an "optional perk" for retailers to have in their stores, it is looking for that "must-have" technology and advancement to wow customers.

To Sum:

The retail industry is currently going through an apocalypse as well as a revolution, largely fueled by the advancements done by Amazon and Walmart across the integration of retail and technology and the paradigm shift in consumer expectations. E-commerce in the U.S. is increasing at an exponential rate, and retailers who will continue to survive through this revolution will be the ones that have a strong e-commerce platform and can meet customers where they like to shop. Amazon has expanded their operations to include everything today from the traditional book store they were founded on, to: cloud computing services, logistics,

subscription services, production studios, physical brick and mortar stores with revolutionary technologies and most notably, a grocery chain.

Walmart has taken their existing brick and mortar stores and is putting forward an e-commerce first motto through several acquisitions and pioneering their offerings. Alternative retail models such as interactive pop-up shops, subscription models that are opening stores, and those who are going beyond traditional retail locations and incorporating additional value-added services are the retailers that will win in this next era.

Chapter 2 - Brick and Mortar to Click and Mortar

Although the adjective “apocalyptic” has been used by many economists and analysts to describe the overthrowing of the traditional brick and mortar store, Christopher Walton, former VP of Target Store of the Future, believes that it is a poor word choice; rather, Walton says, “apocalypse is a silly word. It means complete destruction. People will always need to buy stuff – retail and physical stores will never go away ... they will just look different...” (Walton, 2017). One of the ways retail stores will look different is through their growth in online.

2.1 The Brick to Click Transition

Over the last few centuries, the retail sector has undergone several revolutions. In the 19th century, the first department stores were created in a response to an increase in consumer demand fueled by the increase in wealth shared among the middle and working classes. New concepts such as fixed pricing, advertising in catalogues, mail order and cataloguing were introduced and became increasingly more common during the 20th century. The next century brought self-service supermarkets, category killer out of town stores, hypermarkets, and vertical retail were all major revolutions. In recent decades, retail has expanded into a massive global industry – valued at over \$22 trillion worldwide.

Technology has enabled the extensive growth, change, and capabilities in retail. E-commerce began in the mid-1990s when, for example, Amazon and Ebay were founded; it has grown to be a \$1.3 trillion business and the latest silver bullet to the retail industry. In the late 2000s and into the 2010s, the concept of multichannel⁵ was introduced - a time when integration across web, social, and brick and mortar is crucial to success.

Historically, brick-and-mortar stores have operated in three categories – specialty stores, department stores and boutique stores. The greatest benefit in B&M is that consumers can touch and feel the products, build a brand connection, satisfy an experience, as well as get entertained in the process (Mustakallio). Especially in fashion retail, being able to try-on clothes or accessories is one of the most important factors in a consumers’ purchase process. Immediate satisfaction and a personal connection are some of the greatest limitations to purchasing online, but in today’s world, the culture around this element of retail is changing. The value of stores is no longer simply the worth of the goods

⁵ Multi-channel retailing is an ecommerce selling strategy that targets customers on various channels beyond a company's website. It is the merging of operations that enables customers to make transactions through different channels – social media, market places and other mediums.

sold in them; but it is the impact they have in translating and encouraging sales online, showcasing their brands and developing holistic awareness.

2.2 Walmart: Paving the Way for Brick to Click

As the nation's top retailer since 1990, Walmart has been an American icon for the traditional brick and mortar. With their growing sales, consumer loyalty, substantial product variety, and a pioneer of logistics practices, many have and will continue to look to Walmart for best practices in running their own businesses. The "Walmart Effect" was coined in the late 20th century to describe Walmart's entry into new markets, offering the lowest prices, and prompting competing superstores to lower their prices or have the inability to raise them (Torry and Stevens, 2017).

Today, just maintaining EDLP is not enough for the nation's top retailer to keep control of their reign. At one point, Walmart appeared to be untouchable, but, not even the preeminent retailer could avoid the e-commerce transition. They began to bolster their online presence, take matters into their own hands and find their own competitive advantages. Walmart's executive team understands the long term strategic value to Walmart and subsidiaries as seen in their plans for the future.

Having interviewed **Executive A**, the takeaway is that Walmart needs to get serious about e-commerce and the use of technology to even remotely compete with Amazon. *"... What's really having an impact on retail is e-commerce. [E-commerce] has grown from being a novelty – ... back in early 2000s only 4% of sales were e-comm and it wasn't growing very fast... During the .com bubble there were questions as to whether or not Amazon was going to survive it and many, many more e-commerce companies were out at that time, but they just went away... [E-commerce] went through this excitement stage and then this stage of admiration... Now its slowly building back to where we have Amazon, who, if continuing on this current growth rate will surpass Walmart, the world's largest company by 2026 in terms of total sales. This was a major wake-up call for Walmart. Amazon growing 3% on [Walmart] revenue is creating a company that will be in the Fortune 500 every year. With the law of large numbers – a 3% growth rate on Walmart is MASSIVE. But we are seeing companies like Amazon growing at a blistering pace – they are 200B+ now and their trajectory is shocking. Walmart is getting serious about e-commerce... Only about 3 years ago now [Walmart has become serious about e-commerce] and has begun to make significant investments..."*

2.2.1 Walmart Establishes E-Commerce First Motto

"When the world was moving online, Walmart was starting to look like a dinosaur. But as companies are realizing that online commerce can only thrive long

term when it's embedded in a real-world infrastructure that includes stores, Walmart is still a force to be reckoned with. It has decades of experience managing tight inventories and efficient delivery systems, and its 12,000 stores can be 12,000 warehouses, 12,000 customer service centers, and 12,000 showrooms. Add in that some customers actually live in their RVs in Walmart parking lots, and you have a very interesting market advantage."

(The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google)

2.2.1.A Walmart Acquires Jet.com

When Walmart acquired Jet.com, one of the fastest growing e-commerce companies in the U.S. in 2016, a paradigm shift happened - the nation's largest retailer changed their motto to "e-commerce first" (Walmart Corporate, 2016). As one of the largest of Walmart's movements into the online space, Walmart acquired Jet.com, a Hoboken, NJ, based start-up online shopping platform that practices dynamic bulk pricing, for \$3B in cash and \$300 million worth of Walmart common stock. Jet had only been in existence for thirteen months before the acquisition, but quickly experienced rapid growth, and in total, raised \$500 million in venture-capital funding from noteworthy investors such as: Goldman Sachs, Google Ventures, and Bain Capital among others (Green, 2017). Although Jet had only \$13.7B in online sales during 2015, equivalent to 1/8 of Amazon's in the same period, the Jet acquisition gave Walmart a team of e-commerce experts to help transform their platforms (Chain Store Age, 2017).

Through the acquisition, Walmart gained human capital in a stronger e-commerce team lead by CEO Mark Lore, and an appeal to younger, tech-savvy consumers, in addition to Jet's algorithms, warehouses, and data. Prior to founding Jet.com, Lore successfully built, and eventually sold to Amazon his first ecommerce business, diapers.com.

Following Walmart's press release on the acquisition, Doug McMillon, president and CEO of Walmart spoke out on the deal and excitement surrounding it. "We're looking for ways to lower prices, broaden our assortment and offer the simplest, easiest shopping experience because that's what our customers want... We believe the acquisition of Jet accelerates our progress across these priorities. Walmart.com will grow faster, the seamless shopping experience we're pursuing will happen quicker, and we'll enable the Jet brand to be even more successful in a shorter period of time. Our customers will win. It's another jolt of entrepreneurial spirit being injected into Walmart..."

The main purpose of this strategic acquisition was to act as an innovative partner for Walmart to develop their product breadth and consumer base. Walmart has never been pursuant of the Urban Millennial, and that demographic is exactly what Jet.com focuses on. In July 2017, about a year after the

acquisition, about 83.6 million people visited Walmart.com, which is half as many that had visited Amazon.com, and Jet.com drew in an additional 10.9 million visitors (Wakabayashi, 2017). Now reaching a more diverse demographic, Walmart and Jet's site traffic has translated to an increase in brand presence as well as their collective market share.

The partnership offers many synergies for both Walmart and Jet.com and is affecting their supply chain off a variety of factors – including customer loyalty, shipping costs and inventory updates. The collaboration was discussed through the executive interview with **Executive B** and showed that the partnership will benefit both companies in ways unforeseen currently. *“The back-end supply chain is very different than the front end. For example, Jet can leverage much of Walmart's supply chain, and be able to post higher end brands on our website that Walmart doesn't. We can achieve higher margins while using one of the strongest supply chains in the world. Be it through using Walmart fulfillment centers, leveraging existing vendor relationships or category specialists who can manage two categories for versatile brands, the partnership provides endless synergies.”* Conclusively, **Executive A** said similar matters along selling products through jet.com and the collaborations they share. *“If you go to a super center today, we carry approximately 140-100k SKUs. That is nothing compared to what you can find online.... Somewhere upwards of 30M SKUs....”* By having this alternative online platform, Walmart and Jet.com will capitalize on their margins, combine industry relationships and knowledge as well as be able to offer a greater product variety. The acquisition has proven to be an incredible fete for Walmart.

2.2.1.B Results of Walmart's Acquisition of Jet.com

Since the deal, Walmart's U.S. e-commerce sales have grown a spectacular sixty-three percent in 1Q18 from 1Q17. In addition to e-commerce growth, their store's comparable sales have grown making 1Q2018 their 11th straight quarter with increased sales, as displayed in Figure 8. Furthermore, foot traffic has increased as well.

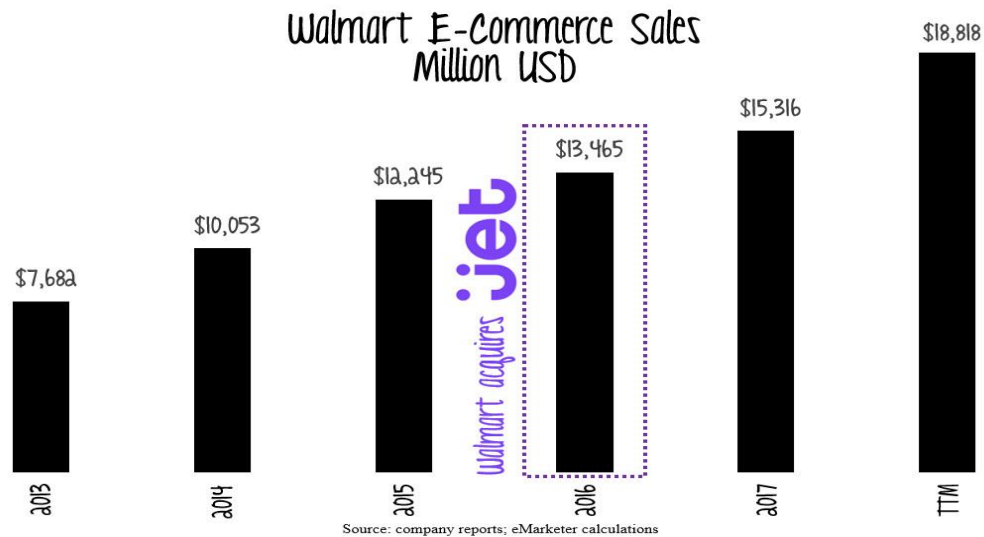


Figure 8: Walmart E-Commerce Sales

Leveraging e-commerce to direct more shoppers to stores, generating sales and protecting already diminishing margins (which are often shrunk significantly due to high shipping costs and inventory management), Walmart has begun offering discounts for orders placed online but picked up in store. “Buy online pick up in store” saves shipping cost and increases impulse buys. Showing the dominance Amazon still has over Walmart in the e-commerce arena, an estimate of data from eMarketer from the 2016-year states that Walmart's brought in total revenue of \$490 billion while Amazon brought \$150 billion; however, in e-commerce sales, Amazon had over \$101.5 billion over the year while Walmart had an estimated \$17.7 billion (Green, 2017).

As Walmart is looking to the future, “[they] want to focus on what the next 10 to 20 years look like, and where the future of retail is going [understanding that retail is moving to an online model]”, said Marc Lore while commenting on Walmart and Jet’s long-term strategy (Grosman, 2017).

2.2.1.C Diametric Opposition: A Walmart - Lord & Taylor Partnership

To evolve how customers are able to shop for fashion via Walmart.com, and adding elements of discovery and inspiration, Walmart announced a partnership with Lord & Taylor in November of 2017. Lord & Taylor was founded in 1826 and is the oldest department store in the United States and one of the country’s premier retailers. Offering high quality fashion apparel and accessories, exciting store environment and seamless service, Lord & Taylor, under Hudson Bay Company’s brand portfolio, is looking to continuously evolve their department store model (Newsroom, Walmart Corporate, 2017). Through the partnership, Lord & Taylor will have a dedicated store on Walmart.com and the Walmart app

– reflecting the premium fashion it is known for, while reaching an entirely new target market. The two diametrically opposed companies are coming together at a time when traditional retailers need to be continuously innovating to reach new markets.

In October 2017, Lord & Taylor announced the selling of their landmark flagship store in New York City (Knaper, 2017). Their physical stores have been seeing a decrease in foot traffic over the years, and the closing of the 5th Avenue store is the latest and most dramatic example of department stores unloading their unwanted space. In a statement from Liz Rodbell, CEO and President of Lord & Taylor, it is clear that the partnership will benefit both companies: “As retail continues to change, this ... creates enormous growth opportunities for Lord & Taylor and our brand partners ... Our customers trust us to deliver high-quality fashion apparel and accessories, and we will soon be able to extend the reach of that offering to new customers ... Walmart.com is a shopping destination that reaches a wide base of customers looking for premium fashion brands. They are a great company for us to work with as we continue to grow our digital presence” (Newsroom, Walmart Corporate, 2017).

Commenting on the partnership, **Executive A** said one of the hopes for the partnership is to drastically increase the perception Walmart has. “...*Unfortunately, there’s a perception of Walmart not being of high end. This perception isn’t intentionally being changed within brick and mortar, but we are changing online...*” However, by increasing their online presence and becoming a destination location, Walmart may be able to (slowly) change these perceptions. “... *getting it out there that we carry products that aren’t just price brand items, but also higher value items or items with a little more premium, we become and start entering into that arena...*”

As the need for every company to strengthen their brick and mortar and digital presence grows, it is reasonable to foresee more unconventional partnerships forming in the near future.

2.2.2 Walmart’s E-Commerce Supply Chain Changes

Following the Jet acquisition, Walmart shifted to implementing new supply chain strategies with startup speeds. Experimenting with kiosks that allow suburban customers to buy online and pickup in store is one new strategy they are working to perfect. In response to Amazon’s rapid delivery options, Walmart too has been testing alternative methods of delivery. Amazon Flex is a system in place where it allows people to sign up to pick up and drop off Amazon orders as they are en-route to their final destinations, a similar system to UberRush. Alternatively, Walmart has recently launched a similar program where it allows employees to make e-commerce deliveries on their way home from work. Excitedly, **Executive A** said, “*Another cool technology we’re adding in is called geo-fencing... If you have your app open and are getting close to a [Walmart/Sam’s Club], as soon as you hit [the] geofence,*

one associate gets a notification that you're close and they will go and get your order ready for you. This allows for less wait time for you when you get into [the store]... This is a technology not quite there yet but we're in beta testing across many locations..."

Aside from using employees to make last-mile deliveries, Walmart is also partnering directly with Uber to complete on-demand grocery deliver requests. As there is a Walmart location within five miles of seventy percent of the U.S. population, the Uber partnership makes a fairly feasible and cost-effective way for both Uber and Walmart to make deliveries to a vast majority of people while minimizing otherwise high delivery costs. Solving the problem of last-mile delivery is a key priority for Walmart. To do so, Walmart is experimenting with all of these methods at the same time. In addition, Walmart also recently acquired same-day delivery system startup, Parcel, to aid in behind-the-scenes logistics challenges.

One concern with regards to e-commerce delivery is missed delivery and package theft. What happens if a package is delivered and the customer is not home anymore? One startup, MailHaven, in partnership with the August Smart Lock, is trying to combat that problem by giving couriers access to enter homes to safely deliver packages. Walmart is said to be on board with this experimenting and testing of this product. Amazon has also been reportedly trying to implement a program like this with Amazon Key. If today's consumers are trusting enough to allow for couriers to enter their homes as a mean to safely deliver their packages, this could be a revolutionary break-through in delivery operations (Ivonye, 2017).

Walmart's acquisitions and partnerships have allowed them to leverage unparalleled supply chain synergies and strategies. Through these partnerships, Walmart is able to experiment and leverage technologies that new entrants to the market generally have over existing legacy brands. Leading the brick to click transition, Walmart's hippopotamus hunger and size is causing them to be the leader in this movement.

To Sum:

Walmart is pioneering the brick to click transition through their partnerships and acquisitions and leveraging their existing e-commerce platforms.

Retailers that will survive the apocalypse will be those who not only have a strong brick and mortar presence, but also pioneers who can find opportunities to differentiate their e-commerce platforms as well as use their existing stores to fulfill their online operations.

Chapter 3 - The Overall Transition to Online

While it may seem that the value explosion brought by the technology revolution comes from the addition of new features and capabilities, its greater contribution comes from removing obstacles and time killers from our daily lives.

(The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google)

Retails' reinvention story is just getting started – fueled by the number one enabler: technology. As in any evolving industry, it is evident that as retailers are responding to a changing and challenging environment, some will succeed while others fail. Retail is part of our everyday lives in a way most industries are not; if a national brand closes stores or files for bankruptcy, we feel a personal impact or connection to the demise (National Retail Federation, 2017). The proliferation of digital technology is exponentially making retail competition more complex. Consumer power is stronger than ever before, commanding control over shopping choices and making influence (rather than affluence) the foundation of control (A.T. Kearney, 2017).

The new retail model must be built with a consumer focus, with the foundation being the creation of new capabilities for consumers, making their lives and shopping experience easier and more enjoyable, both online and in stores (Lempert, 2017). In-store shopping is an experience, a thrill that the consumer looks forward to, and digital shopping must mimic that practice. Increases in e-commerce sales (estimated to account for a one-third of total retail sales by 2030) have left retailers little choice regarding the decision to adopt e-commerce as a component of their direct to consumer (D2C) operations (Thomas, 2018). And even more so, fast delivery isn't enough – consumers also want deliveries to be free.

Looking at Walmart's success with the acquisition of Jet.com, other brick and mortar stores are being forced to take the same initiative: re-invent themselves and rewrite their history books if they want to stay alive much longer.

3.1 Where Being Online Isn't Key: Certain Niche Markets

While investing in online and bolstering their e-commerce platform worked for America's largest supper center, in some niche markets there is a large spot for pure brick and mortars to thrive on their own. Contrary to the overall transition to online, large gaps in America's rural sectors and non-traditional markets are fueling the success of low cost, huge variety stores, outlet stores, and bulk retail alike.

3.1.1 Adding Stores in a Low Cost, High Variety Sector

Dollar General has become rural America's store of choice and is planning on opening over 900 stores in 2018, which is as many stores as Macy's, Sears, and JC Penny combined closed in 2017. Has Dollar General missed the memo that brick and mortar stores are closing nationwide, or are they onto something bigger?

Unlike most traditional big box retailers, Dollar General seemingly expands when rural America struggles. Targeting shoppers who earn a house hold income of \$40,000 or less, Dollar General's business model emphasizes low prices and convenience. Dollar General is currently operating 14,000 stores across the U.S., and an astonishingly 242.33M out of 323.3M U.S. House Holds (seventy-five percent) live within five miles of a Dollar General (only seventy percent of the U.S. population lives within five miles of a Walmart store). The stores are designed to be smaller, making the shopping experience more convenient and quicker than visiting a big box retail store (Unglesbee, 2017).

Dollar General has positioned themselves in the lower end market, which has protected them from companies like Amazon, which traditionally targets middle to up end markets. Dollar General has gone beyond understanding their consumer in designing their stores, but also with their product offerings and partnerships with suppliers as well. For example, many items in the store are sold in mini-bottles or small bags, making the final purchase cheaper than a trip to Walmart which may be down the road. Prices are also marked in five cent increments, making it easier for their target market to estimate the total price. Many customers who frequent Dollar General said they often felt overwhelmed by trying to calculate their end price, struggling to figure out if they would have enough money or subsidies to pay for their final bill. Another example of Dollar General meeting their target market is by them working with their suppliers to create products that connect with the shoppers. Coca-Cola, for example, created a line of soda can labeled "Service Member" and "Military Spouse" to meet customers connections (Nassauer, 2017). Without the high tech and advanced omni-channel presence, Dollar General has been able to grow their business through a greater understanding of their customers and pursuing what everyone else is not.

Building their retail model around the customer, Dollar General's 14,000 stores yielded more than double the profit of Macy's in 2017 and has shown a \$22B market value to eclipse the largest U.S. Grocery Chain, Kroger, which has revenue five-fold over. In the 3rd quarter 2017, Dollar General posted net sales of \$5.9B, an eleven percent increase from the 3rd quarter of the previous year (NASDAQ, 2018). Dollar General is a great example that doubling down on what you do best pays off in the long run. Companies need to focus on their own value propositions and capitalize on what makes them great.

3.1.2 Outlet Stores

Having price information available with the ease of a click of a button, customers have become relentless bargain hunters. Consumers are now instilled with a deflationary mindset with constant sales and discounts. Why buy it today when it will be cheaper in a few weeks? Searching for the cheapest and best deals online is much more efficient than physically browsing stores and sales. Today, many retail brands and department stores are opening outlets as a way to sell exclusive product lines at a reduced price.

With pricing and inventory information readily and easily available, outlet stores appeal to value conscious customers; their generic strategy is to be a best cost producer. For traditional factory outlet stores, who pride themselves on having a “hidden treasure” element (most factory outlets do not have a stand-alone website), there is a positive spillover for customers who began shopping at outlets stores to increasing their spending at traditional retail stores. Customers who started shopping at an outlet increased their annual retail-store visits from three and a half to five times per year and spent an additional \$155 at retail stores, a thirty-four percent increase over what they previously spent (Soysal, 2018). As for customers who started shopping at both retail and outlet stores, but previously only shopped in retail stores, they increased their spending in retail stores proving that cannibalization and brand dilution are not factors when new outlets open. Interestingly, females prefer discounted retailers (thirty-eight percent) over full-price retailers (thirty-one percent), while males are more likely to shop at full-priced retailers (forty-two percent) rather than off-price (eighteen percent), discovered in a new survey conducted by first insight (Thomas, 2018).

Understanding all of this is critical for traditional retailers who are looking to experiment with opening off-price locations as another variant for their consumers. "Men are destination drivers. ... They go in stores to touch and feel," First Insight's Greg Petro said. "They like to execute deal [at stores] and then bring items home with them... the data suggests women are more price sensitive and more bargain hunters ... and are more apt to execute a deal on value or price than men are... men are willing to wait longer but don't necessarily do their research ahead of time..." (Thomas, 2018). Knowing this, retailers can design their stores dedicated for men to be clear to navigate and clearly show discounted prices. For women, who have shown affinity to stores like those under the TJXStores portfolio, having a “treasure hunt” element in the women’s section and thus allowing them the opportunity to find their own bargains, can prove to be successful. Understanding turn-over rates as well as what type of products men versus women prefer via which medium, retailers can design their stores to meet their customers in the best ways possible and thus, generate the most sales.

The more channels a consumer uses and has exposure to, the more they spend; having additional channels to choose from reinforces existing shopping habits. Department stores like Nordstrom (Nordstrom Rack), Saks Fifth Avenue (Saks Off Fifth), Lord and Taylor (Find @ Lord and Taylor), and Bloomingdales (Bloomingdales Outlet), have also been experimenting with outlet stores of their traditional locations. For all of the department stores aforementioned, each has a growing website presence for their “off-market” store. By having both the traditional brand department store, as well as the outlet store coupled with the online version of both models, retailers are meeting customers on a variety of channels, price points, and selection – adding more touch points to their customers.

In the same ways which off-price retailers such as TJX Stores and Ross Stores continuously see growth in the wave of brick to click, providing customers with the unique products they cannot find online or in a traditional retail stores gives an additional value of benefit to these store models. Companies like TJX Stores and Ross pride their business models on a “treasure hunt” in which customers never know what products will be in the store at the location or time they visit. Yet, while product information and items are so easily available online, this retail model provides an extra level of satisfaction and excitement for customers.

3.1.3 Wholesale Retailers

Wholesale retailers, such as Costco and Sam’s Club, are also experiencing difficulties in the overall transition from brick to click. The business model for wholesalers can be described as: thin margins, large volumes, adding value for customers who enter its stores, and a membership-based model which encourages customers to buy in bulk (Team, 2017).

As resistance to buying large or bulky products is waning, customers are becoming more comfortable with ordering a vast variety of bulk products online, it’s not unusual to see everything and anything being sold via e-commerce. *“...We sell it all... We sold 1000 turkeys to a reverend in Baltimore for Thanksgiving. We sell chairs, Q tips, alcohol. If someone emailed in and said ‘hey can you get us 1000 of x,’ there is a good chance we would go get it. Part of our unique skill set is that we are nimble enough to make moves like that. We have an entire webpage dedicated to ordering pallets (or truckloads) worth of anything we carry...”* said **Executive C**.

Looking for alternatives in an effort to boost performance and leverage parent-company, Walmart wholesale subsidiary, Sam’s Clubs, is taking a new angle to utilize their properties – transform the stores into an e-commerce distribution for both Walmart and SamsClub.com. Announced on January 11, 2018, Walmart said that it would be shutting down ten percent (sixty-three stores) and transforming twenty percent of the stores being closed (twelve stores) into e-commerce fulfillment centers. “...to

better serve the growing number of members shopping with us online and continue scaling the SamsClub.com business," said Sam's Club President and CEO, John Furner (Jones, 2018). Historically, Sam's Club locations have cannibalized their parents' stores, by carrying too similar of a product offering and being too close in location (about 1/3 of Sam's Club stores share a parking lot with Walmart Stores.) Walmart is often the biggest competitor to Sam's (Bowman, 2018). Realizing that real estate has just as much value serving online customers as ones in-store, converting those locations to e-fulfillment centers will help the company accelerate deliveries, expand its available inventory, and provide benefits both for Wal-Mart and subsidiary brands, like Jet.

Warehouse-based retailers like Sam's Club and Costco have historically generated their revenue streams fueled by member fees. Today, with a growing array of e-commerce and brick and mortar stores, the two mentioned above are having to adjust to an environment where customers can buy anything and everything, in bulk alike, across various channels. Their customer value proposition is no longer unique and, therefore, businesses need to adjust their business model in order to compete with the increased online competition. Be it what Walmart has done with existing Sam's Club stores or what Costco and Boxed Wholesale are doing in their own spaces, being a pure wholesaler that is operated in the same fashion for the last century is no longer successful in today's retail environment.

3.1.3.A Costco

Costco has always been a retail anomaly. From their no-frills warehouse model, and over 4,000 SKU in store, to their popular in-house private label, Kirkland, the complex and nuanced company has been able to thrive in good times and bad (Peterson, 2014).

Utilizing their bulk purchase and membership model, Costco sells all its products nearly at cost. Annual earnings of \$2.7 billion come almost entirely from their membership fees (Aristofanis, 2017). Costco focuses on its managing razor thin margins of three percent to ensure customers are receiving the lowest prices for the greatest values.

This unique retail model for Costco seems to be resilient thus far, but Costco is realizing the importance of a strong online presence and is investing resources into it as well. Keeping up with online sales growth, Costco has made improvements to its website, launched two new delivery options as well as a mixed buy online/pick up in store option. Proving success, Costco reported that its online sales had leaped 43.5 percent in the most recent quarter (Jones, 2018).

Costco shows itself to be hardly a dying business, reaching almost ninety million members with a ninety percent retention rate and continued new store openings, averaging twenty-five per year since 2012 (Tepper, 2017). However, as online delivery service expectations grow and bulk quantities can be

ordered through other sources, Costco needs to either adjust to reinvent the environment if they want to continue to survive and thrive.

It can be said that Costco remains resilient to the growing shift to online for the value-added services they give to customers and the unique position they hold in their share of the wholesale market. Costco's customer service, for instance, is unparalleled to any other company (except maybe Amazon) and they build great trust amongst their consumers. For example, in January 2018, one woman returned her dead Christmas tree to Costco after the holiday season and was able to get a full refund (Hinchliffe). From personal experience, my family is aware that you can return just about anything to Costco, new, used or damaged, with no questions asked.

Aside from being a leader in customer service, the popularity of Costco's private label brand, Kirkland, also sets them apart from other wholesale retailers and engages customers to keep on coming back. Kirkland has become a highly regarded private-label brand across all categories they service: Wine & Spirits, grocery, health and beauty, home and kitchen, and so forth. In addition to brand recognition, the Kirkland products are also valued at great quality. For example, many people believe that the Kirkland Vodka (\$29.99 for a 1.75L), is made in the same plant as Grey Goose Vodka (\$46.49 for a 1.75L, sold at Costco) (Chowhound.com; Costco.com). For many companies alike, boosting their private label offerings online or in-store is a way to gain customer loyalty to specific brands as well as to capitalize on their own businesses.

3.1.3.B Boxed Wholesale

Boxed Wholesale, a New York based start-up, has taken off as a digital alternative to stores such as Costco, BJ's and Sam's Club, and offers about 1,600 different bulk goods from paper towels to potato chips. Boxed was created out of the founder's New Jersey Garage in 2013 (Clifford, 2017). Boxed has signed exclusive deals with brands to only carry one of a certain type of item, and as a result has been able to lock in more attractive prices than many retailers get. In doing so, Boxed is able to survive on their business model without membership fees and offer free delivery across the continental U.S. on orders of more than \$49 (Konrad, 2018).

Boxed Wholesale has become the online wholesaler for millennials, removing subscription fees. Boxed Wholesale has expanded its operations to include same-day fresh delivery in New York City, alcohol delivery in California, and their own private label. By devoting their resources toward their online presence and a fleet of brick-and-mortar fulfillment centers, Boxed Wholesale is focusing on their future with "a more millennial-focused experience," as quoted by Chieh Huang, CEO (Salpini, 2018).

In order to compete with the likes of Amazon, Boxed takes a strategic approach. When asked about the issues a company like Boxed faces in the current retail environment, **Executive C** said, *“...The biggest and hardest challenge is to figure out how to differentiate from the likes of Amazon. The goal is to make your company useful and likable so that even when acquisitions like that of Whole Foods come, you don't inherently lose. A lot of this comes from building the kind of brand people want to be associated with while it the core problem they are looking to solve is being solved...”*

One way Boxed is positioning itself for success is through their private label. They created their private label to engage their customers in a unique way, through maintaining a modern and minimalist approach to design. Boxed has been incredibly successful with this business unit, and it is accounting for twenty percent of their overall sales. The aforementioned **Executive C** said that Boxed altered their go-to-market strategy to include the private label in order to differentiate themselves and better compete. *“... [Private label] is margin positive and it's brand defining. Check out Fruitmojis and other Prince and Spring products that Boxed is adding to its private label list. Also business to business sales [for private label]. Offices, schools, hotels, resellers, etc. buy in higher volumes at higher frequencies. You can also reduce waste and increase efficiency and margins by delivering without otherwise needed pieces of dunnage...”*

3.2 Supply Chain Implications of Brick to Click

To understand how brick and mortar stores have changed with the overall transition online, it is critical to explore how the supply chain has been affected and the implications that come of these changes. A rapidly changing and challenging landscape is demanding for new approaches to many retailer's supply chain practices. The industry dynamics and environment are presenting challenges but also extraordinary opportunities for retailers to reinvent their operations and gain unforeseen competitive advantages.

Today, the maximum delivery time the average customer is willing to accept for an online order is just around 3 days. **Executive H** said, *“...[we are] trying to work out how to best play a “wave of change” that we haven't seen before ... the rule book isn't written, so we're testing different approaches to meet the three corners of the demand pyramid: customer, seller, stakeholder marks of making money... everyone's becoming increasingly more demanding, we're just trying to figure out how to give everyone what they want...”*

3.2.1 Supply Chain Models for Brick to Click Operations

As brick and mortar stores move online, traditional supply chains need to be reconfigured to meet both online and in-store ordering. Various creative combinations of last mile delivery have arisen over the last decade as online orders have increased, coupled with the shortage of drivers. Amazon has obliterated traditional supply chain expectations with their two-day, two-hour, and one-hour delivery, and now other retailers are in a race to deliver the same expectations or better to their customers.

3.2.1.A Buy Online, Pick-up in Store

One of the fastest growing trends in supply chain operations for a brick to click model is the buy online, pick up in store concept. By allowing customers the option to buy their product online and pick it up in the store is a win-win for retailers and customers alike. Retailers save shipping costs, drive foot traffic to stores, and impulse purchases naturally increase. For inexpensive and even heavy items, there is no cheaper way to get the products to consumers than to have them come into the store and pick it off the shelf themselves.

In an effort to push more customers into stores while raising margins, Walmart has quietly raised prices for some food and household items on its U.S. website. The hope is that shoppers will come to the store for the best price and place larger orders online, offsetting the cost of shipping using the economies of scale that Walmart is well known for in their traditional big box stores. Product listings on Walmart.com show an “online” and “in the store” price option with the online price option trying to match Amazon’s value. With ordering purely through Walmart.com, Walmart offers free two-day shipping on millions of items on any order above \$35 in an effort to match Amazon Prime (Nassauer, 2017). An online and in-store price comparison for two products can be seen in Figure 9.

<u>Item</u>	<u>Price</u>	
	<u>Online</u>	<u>Store</u>
Kraft Thick n' Creamy Macaroni & Cheese Dinner	\$ 1.48	\$ 1.28
Twin-Pack Betty Crocker Hamburger Helper	\$ 3.30	\$ 2.50

Figure 9: Online v. In-Store Price Comparison, Walmart

For Walmart, who strives to maintain EDLP, practicing this pricing is nothing short of a sell out to compete with Amazon. Is Walmart showing a lag in their online operations, trying to redeem margins, or is the online growth becoming too expensive to maintain? For a legacy brick and mortar operation, moving online contributes to margin degradation considering the capital requirements. But, those who want to build long-term success need to invest and innovate in transformative projects, even if it means foregoing their short-term goals. Amazon has always operated with razor thin margins and

even incurring losses for many years. Walmart and other retailers on the other hand, do not have that ability. For Walmart to win, they need to innovate.

Aside from saving purely through the pick-up in store option, there are other reasons shoppers choose to utilize the buy online pick up in store option. Fifty-Seven percent of online shoppers surveyed said they had picked up an online order in a store in the last year, to avoid shipping fees as the number one reason (Investpro, 2017). There are many additional benefits as to why shoppers would be willing to pick up their purchases in-store, as shown in Figure 10 below.

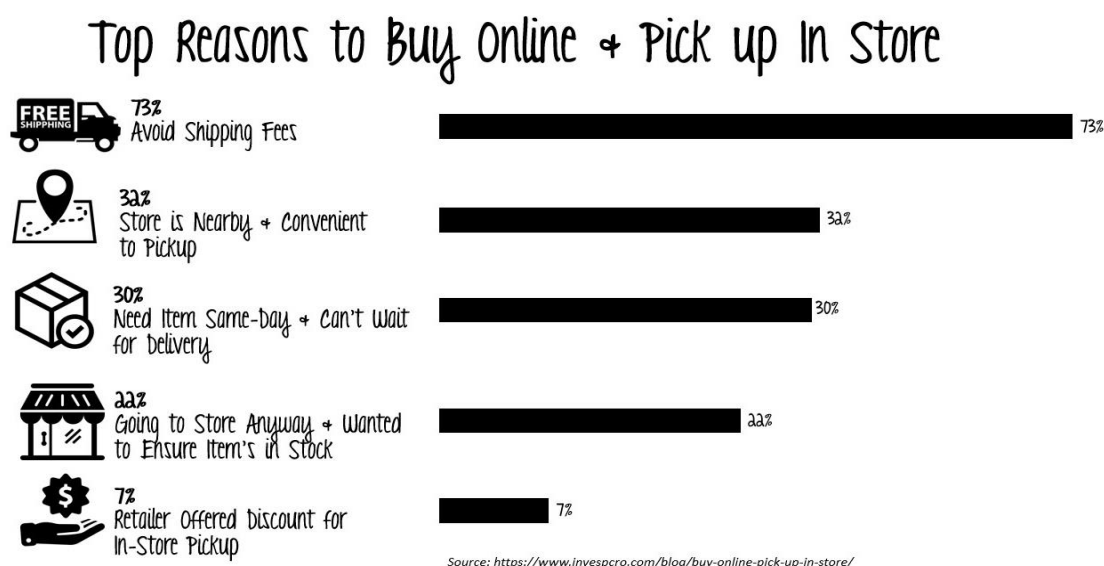


Figure 10: Top Reasons for Buy Online, Pick Up In-Store

3.2.1.B Alternative Options for Delivery

Retailers have been rapidly looking to enhance the efficiency of their last mile delivery process, trying to meet the unprecedented demands of consumers. From lockers to employee delivery, new methods for last mile delivery are improving as retailers are looking to shorten their supply chains while still getting the products to more customers with less costs and faster.

Walmart began using store employees to make last mile deliveries for online orders in select markets. Launched in April 2017, the program began in a small market in New Jersey and northwest Arkansas. Store employees opt to sign up to do deliveries on their way home from work to earn extra cash. Staff use a mobile app to opt into the program and set how many packages they want to deliver, size and weight limitations, and when they are willing to make said deliveries. In terms of legitimacy, workers who participate in the program are subjected to additional background checks, motor vehicle record inspection and must have insurance. Instead of starting a “gig economy” like Uber, “associates

are already starting where packages are – they’re probably leaving work and going home anyway – and our routing algorithm is designed to minimize the incremental time and distance that an associate would have to spend driving to make these deliveries...” says Walmart spokesperson Ravi Jariwala (Perez, 2017).

In addition, Walmart has previously tested routing last-mile delivery through Uber, Lyft, and Deliv, but with utilizing their own staff, they are enabling their employees to earn extra money and gain a stronger connection to the company, all while not transferring reliance to a third party. Looking to the future, this is why Walmart will win while other retailers may continue to struggle. By taking the problems and solutions into their own hands, they are becoming self-sufficient and maximizing all gains they can achieve.

Another popular alternative to minimize traditional shipping costs is via the use of locker services. Locker services are, “...*Good for [3PLs] and good for consumer. For consumers: they want a range of choice, convenience, etc. [and to decide] where, when, and what’s delivered... [It takes] 1.6-2 attempts to get an e-commerce package delivered... [for 3PLs the] cost to do that is multiply [the cost of the driver by the number of attempts] to get true cost to deliver. If we can create agile solutions where [customers are] happy because [they] choose where, when how to receive [the package] and we [3PLs] are happy because [dropping a shipment is] always done on one delivery [we both win]. The beautiful thing about lockers delivery is it’s not just one [package], but hundreds... [As a result] scale of the cost of delivery goes down significantly... it’s a fantastic win-win...*” as explained by **Executive H**.

With over 2,000 locations in fifty or more cities, Amazon has set up lockers at which customers can pick up their packages at a convenient time and place (Amazon Locker Delivery, 2018). While checking out their order, customers simply need to select a locker location as the shipping address, and when they go to retrieve their package, they enter their unique locker code, and take their package. This system has become increasingly popular in urban areas where package theft is high, and many customers are opting to use the lockers for safe and convenient delivery.

Walking home from work and want the package on the way to the next meeting? Order it to a locker and pick it up on the way. Flying to another city and need an item forgotten at home? Order it to a locker across any of the metropolitan cities involved and pick it up upon arrival.

Amazon has expanded their locker service to be able to handle returns and keep items for up to three days before it is returned for a refund. Revolutionizing convenience in an omnipresent world, locker pickups are an easy way for customers, and big businesses like Amazon, to ship products to customers while saving a tremendous amount of time and effort on the last mile of delivery.

Following Amazon's lead with locker usage, FedEx and UPS both found an alternative to minimize shipping costs and maximize customer value during the 2017 holiday season. FedEx and UPS created locations within drug stores and supermarkets where customers could pick up new packages or drop off ones they wanted to return. FedEx's version, called "FedEx OnSite", opened parcel counters in 7,500 Walgreens Boots Alliance stores across all fifty states, and in more than 500 grocery stores, including Kroger and Albertson locations (Schlangenstein, 2017).

FedEx too is constantly looking for different ways to meet their customers wants and needs. In an interview with **Executive D**, "... [we are] looking across the board to [increase] shipment and consumer accessibility not just during the holiday season, but all year long. For consumers, research is telling that it's about access points – what are all the different ways I can have this product delivered? Can I have it to my house, can I have it delivered, can I pick it up at the store, can I pick it up at Walgreens because that's around the corner and I don't have to find a FedEx office / UPS store? [E-commerce is] all about increasing access points for pickup and delivery..."

And proving success with the holiday season, announced on March 20, 2018 at the ShopTalk conference, FedEx said it will bring 500 additional stores into Walmart Supercenters. The FedEx shops will be used for printing, packaging and shipping (Thomas, 2018). A permanent solution to solving last-mile delivery difficulties, shoppers can manage returns and pick up packages at the same time in which they are doing their shopping for everything else. In turn, this solution will reach more people who order more packages in faster time and cheaper methods, without having to build up more infrastructure for the carrier. For both FedEx and Walmart alike, driving foot traffic, reducing last mile delivery cost and competing with a growing dominance of Amazon is critical to stay in business. Especially with Shipping With Amazon and the potential of Amazon building out their own delivery operations, FedEx needs to do something to differentiate; meet the consumer where they are and provide convenience and accessibility. FedEx understands that and in turn is pioneering something new.

To Sum:

Retail's reinvention story is just getting started, and all retailers need to understand their specific value propositions and capitalize on those in order to succeed in their specific sector.

Maintaining a strong online presence is crucial for retailers of all formats and sizes – including outlet stores and department stores.

Strengthening cross-functional supply chain models to meet both online and in-store orders is one of the greatest challenges for many retailers but innovating in this space is what will set them apart from the competition.

To minimize last-mile delivery costs and supply chain implications, alternative options for delivery may be the answer to struggling retailers.

Chapter 4 - Amazon

It is impossible to talk about the retail disruption without exploring the ultimate catalyst, Amazon. With every step, announcement, acquisition, and movement into the future, Amazon continuously sends shockwaves through every industry they touch. As they make business and shopping better for all – leading the way in price, convenience, speed, reliability, and variety – Amazon is disrupting traditional retail and accelerating the demise of struggling players.

Amazon is the proxy for a vast range of emerging industries; including e-commerce, e-readers and e-books, cloud computing, video streaming, and digital technology, known as Alexa. Amazon is the indisputable leader in online – through volume (6.1 billion items shipped globally), assortment (350 million items and counting), and market cap (692.45B USD) (PwC, 2017). With the greatest emphasis on innovation and customer service, no company has done what Amazon has been able to in the past two decades. Founder and CEO Jeff Bezos has credited the company's success on the three big ideas: “Put the customer first. Invent. And be patient” (Bowman, 2017).

4.1 Amazon Effect

The ongoing consumer shift to shopping online has allowed for the manifestation of the term, the “Amazon Effect.” The Amazon effect is defined as the “ongoing evolution and disruption of the retail market, both online and in physical outlets, resulting from increased e-commerce... an acknowledgement of Amazon's early and continuing domination in online sales, which has driven much of the disruption” (WhatIs, 2018).

The aforementioned “Walmart Effect”, coined in the 1990s, has been used again in conjunction with Amazon. The “Amazon Effect” is being used to describe a different kind of effect that the business has compared to Walmart; remember, Walmart is a hippo, and Amazon the octopus. The “Amazon Effect” references their ability to extend their tentacles into nearly every sector and area of consumer lives. Their effect reverberates and disrupts industries, and in particular, they have been able to alter the retail landscape far more than any company before, Walmart included.

Amazon has been able to force changes and create a wide state of panic in every sector they have entered, whether they have entered, are close to entering, or simply even discuss looking at it as a potential target. Amazon is one firm that will control a network of far-flung businesses, that can ravage entire sectors of the economy simply by announcing its interest in them (Galloway, 2017). Jeff Bezos is investing and revolutionizing the most enduring customer wants – price, convenience and selection. In

turn, other firms are punished for straying from their familiar areas of strength as Amazon continues to take value from sectors it has no previous involvement in just by glancing at them.

As other retailers are adapting to keep up with Amazon, many companies have to change their business models in order to simply compete. In a quote on Amazon's vast influence on retail, supermarket analyst David Livingston said, "...half of Amazon's strategy is to cause a disruption, make other retailers go out and make a mistake because they're trying to impress shareholders and get into the paper..." (CNN Money, 2017). Proving time and time again that Amazon's actions cause disruptions to many different industries.

During the fall of 2017, Amazon's CFO, Brian Oslavsky, visited Penn State's Smeal College of Business to speak about Amazon's mentality and successes. One of the mainstays in their culture and thought process includes, *"errors happen when you move fast...keep moving as you fix it"*, proving that one of their main goals is to move as fast as possible into different industries, understanding that they will not be perfect, but by moving so quickly and adjusting their problems as they keep moving, they are able to outpace all competitors; by the time other companies catch up, Amazon has reached perfection. Their *"learn as we grow"* mentality allows them to take unparalleled risks that transcend traditional thinking.

4.1.1 Amazon's Influence

4.1.1.A Customers

As Amazon has grown their influence, they have also greatly grown and began to control their customer traffic. E-commerce has become twice as popular as it was a decade ago, and as holiday shoppers are looking to purchase their items, forty-five percent say that online is the top place they have shopped or plan to shop during the 2017 holiday season, five percentage points up from 2016. For those who planned to shop online during the 2017 holiday season, seventy-six percent of Americans said they expect to do most of their holiday shopping on Amazon, with Walmart second at eight percent of shoppers. Department stores are the third-place shoppers said they planned on completing their holiday purchases, and the number of shoppers planning to shop in big-boxed stores was down five percentage points, equivalent to the amount online shopping has gained as a shopping preference (Reagan and Gralnick, 2017).

Amazon has been able to disrupt the retail environment so extensively because of their success in transforming the customer experience and mindset, especially when thinking of the company. Victor Rosenman, jokingly said, "[he] grew up in Russia...[and] when the summer is warm, they'd say it was because of the Communist Party", and continued onto a more serious note about Amazon, saying that,

“they’re wanting to build awareness that thanks to Amazon, things are getting better – and cheaper...”, which explains the mindset Amazon sets out to engrain into their consumer’s minds (Mims, 2018). The Amazon Effect is illusory: technology improves customer experiences, use technology to leverage existing successful platforms and expand further, thus increasing simplicity and making convenience at the forefront for shoppers, and employ the smartest and most clever business minds to change the way customers think, adopting this new behavior (Roberts, 2018).

In terms of customer satisfaction, Amazon is constantly at the forefront. Undoubtedly, customers know if they are not happy with a product, returns are simple through Amazon. Many times, Amazon will tell customers to keep the product as it ends up being cheaper than sending it back. If products purchased are under \$10, Amazon tells customers to keep the product as reverse logistics costs are around that price point. This comparison is closest to Costco, as mentioned previously in **section 3.1.3.A**. These customer experiences are noteworthy because not only do they build loyalty amongst its customers, but also generates great trust as well.

4.1.1.B Suppliers & Retailers

Amazon has changed the game for many companies in a wide range of industries. With its growing market power, Amazon has immense leverage over suppliers. Amazon is the “toughest negotiator” in online and retail combined because of variability it provides and ability to drive more sales for any supplier instantly and its combination of collapse of traditional brick and mortar, forcing suppliers to play by their rules. Joe Hansen, co-founder of BuyBox Experts said: “it’s definitely a transitional era for brands because Amazon is sort of peeking over them. Brands really have strong incentive to sell on Amazon...” (Kim, 2017).

Many of Amazon’s suppliers are shifting their resources in their warehouses to be competent for Amazon’s high demand. As more companies generate high revenues from utilizing Amazon’s platform, supply chains need to be adjusted to meet the increase in demand that comes from being a seller via Amazon. They also need to make sure the logistics capabilities are in place to guarantee the standard that Amazon requires. For many aging US Warehouses, with the average age of a warehouse in the US being 34 years, characteristics such as: low ceilings, uneven flooring, and tight spacing is proving a great challenge for these businesses to handle Amazon and the e-commerce boom. As a result, more than 1 billion square feet of modern warehouse space has been constructed within the past decade (Thomas, 2018).

Not only has Amazon disrupted the supply chain for many of their own supplies, but also ripples disruption as they expand. Upon acquiring Whole Foods, the grocer had to alter their inventory model and

their main supplier, United Natural Foods (UNF), had to revamp their schedules as well. Following the acquisition, UNF experienced record sales and an unexpected surge in demand, leading to inventory shortages. Whole Foods also has seen a fast increase in sales, jumping four percent year over year, their largest increase since the third quarter of 2015 (Kim, 2017). Proving that both suppliers and other retailers benefit from a relationship with Amazon, it has become even more imperative for competitors to more accurately and swiftly prepare for Amazon's forecasts, creating a new critical challenge.

4.2 Amazon as a Trailblazer

4.2.1 Cosmetics

Cosmetics is an industry that largely remains unchanged in the digital revolution. As a sector that is so reliant on customer interaction, education and experience, it is hard to mimic the same experience via the internet. Amazon has quietly become the largest online beauty retailer in the U.S., controlling thirty-six percent of the market. From the beauty industry, there are mixed feelings on Amazon's involvement, yet ultimately – “the drumbeat becomes louder, louder, and louder until the point that is inevitable – because business is there... the consumer traffic is there” – Bloomberg Businessweek (Wong, 2018).

History is replete with stories of once-dominant companies being displaced by smaller, faster, and more digitally savvy start-ups or collaborations. Competition in the beauty space has accelerated in the past few years, specifically with Ulta Beauty opening more stores and Sephora expanding further inside J.C. Penney (Dallas News, 2017). It is no surprise that with the increasing competition, a complex web of established partners and structure of the marketplace, Amazon is leading a change.

Within their own platform, Amazon has created specialized sections of luxury beauty products and a separate section to host spa, salon and dermatology products. Via the “store front” on the website, this section helps customers discover new products that they may not have found in a traditional cosmetics store that carries over 250 brands. This has led to many brands selling through Amazon because, compared to the department stores, Amazon takes a smaller portion of sales, ultimately, creates higher profits and greater margins for all parties. Once again, Amazon shows how they not only innovate but also totally force everyone into their sphere of influence.

Amazon is also winning some premier luxury brands, such as a deal they signed with online retailer Violet Grey. VioletGrey.com is a mix of a luxury editorial and e-commerce destination wrapped in the allure of Hollywood culture; in essence, imagine being able to buy products via Vogue (Wu, 2014). Through this collaboration, it means bringing high-end brands like the Tom Fords, Chanel's, and Hourglass's of the industry onto Amazon for the first time. Leveraging Violet Grey's editorial feature, the

collaboration involves a content component, tracing back to the key behind the beauty industry: education (Krause, 2017).

In addition to this prestigious content and beauty-based partnership, Amazon began experimenting with monthly luxury beauty sample box offerings, similar to that of BirchBox. Furthermore, Amazon has begun testing a two-hour delivery program in Dallas, TX, with Sally Beauty Holdings for hair/beauty care products and small appliances. Throughout the program in the Dallas-Fort Worth area, Amazon drivers can pick up top brands from Sally Beauty Holdings' - OPI, Clairol, L'Oreal, SheaMoisture, Wella, Conair and Essie - and deliver them straight to consumers' homes, completely bypassing Amazon's sourcing locations (Dallas News, 2017).

Select beauty companies are utilizing Amazon to propel their brands into the new era. Revlon's Elizabeth Arden and Anastasia Beverly Hills, for example, began to sell on Amazon for a multitude of reasons. First, it improves their profit margins. Furthermore, one of the most important factors for maintaining success is brand loyalty. Now that customers want to shop online, these brands need to be able to offer that to them or otherwise risk putting themselves to lose loyal consumers to those who are willing to make the change (Krause, 2017).

Juxtaposing the benefits of working with Amazon, some beauty brands see Amazon's utilitarian business as an affront to glamour itself. Many premium brands do not believe Amazon carries the prestige that comes with their brands. To an extreme extent, Sephora has dropped some prestigious cosmetic lines that started selling through Amazon as they felt it diluted their store's perception and brand value. While understanding that Amazon is an important partner representing a massive opportunity, select brands want their luxury lines to be bound solely by selective distribution agreements.

While interviewed, **Executive E** had the same concerns with regard to Amazon commoditizing their brands. *"...[with] upper level branding, value, etc. none of our products are on Amazon... Nothing on Amazon is our business - we don't want [our] brand[s] to be treated as a commodity... Some ways Amazon's products become commoditized – [through the] convenience, ease, speed in which you get product. That gets significant value attachment relative to the product itself. Relationally, value perception changes [inversely]. What we want to avoid is having the brand in any way de-valued by it being commoditized in a digital market... But when we introduced one brand in China, we did team up with AliBaba because that's how they shop.... They don't go to the brand's website, they go to the digital marketplace first. We want them to come to our site, but that's how the vast majority of those shoppers' shop [American's do not] ..."*

In beauty especially, customers pay premiums for the quality perception and brand name they believe they are receiving. By placing a \$150 Lancer Lash Serum Eyelash Intensifier on the same platform

as \$4.49 Maybelline Makeup Great Lash BIG Washable Mascara, it dilutes the brand of the premier product (Sephora Beauty, Amazon.com). Selling only through selective channels, beauty brands of all levels can control every part of the consumer experience – pre, during and post purchase – as well as any value-added service their customers may receive, and thus, maintain their leverage to price at such a value.

Department stores and pharmacies like CVS are seeing lower foot traffic for beauty, thus proving that beauty brands are not immune to the impact that the retail revolution has brought upon. Although originally hesitant, many companies are beginning to sell their products on Amazon's platform. Specialty retailers (Sephora, Ulta, etc.) was once seen as detrimental to premium brands because different company's products would be intermixed with one another, and thus remove the exclusive nature of their brand. Now, specialty retailers are some of the fastest growing distribution channels in beauty. For Estee Lauder, one of the most prominent brands in the world, sales through specialty retailers comprise of about eleven percent of total sales. Many other cosmetic brands are shifting their focus to their own websites and partnerships with retailers in an effort to control their presentation, pricing, and therefore, customer perception (Leininger and Kimbell, 2017).

Beauty empire, L'Oreal, has been at the forefront of the beauty industry for over 100 years because of their willingness to adapt, experiment, and innovate. They have been able to, "...maintain [their] leadership in the beauty industry, and that means testing, co-creating and innovating with [their] media partners", and even said, "it's on [them] to maintain relationships with customers as their appetites change...meaning using new tools and technology – rethinking how [they] tell [their] story", which acknowledges that their ability to maintain their prowess in the industry has come from their constant adaptation to consumers (Bertoncello, 2017).

While Amazon is increasing its market share in the beauty industry, the successes of L'Oreal and Ulta are essential to understanding how to continue to win in the brick and mortar space. Online beauty helps consumers in that it plays a critical role for education, introduces new products on a mass scale and creates new trends. Going online and seeing beauty tutorials, celebrity endorsements or learning about the latest releases allows the consumer to remain intelligent and up to date on products. Moreover, the educated and engaged consumer acts as an extremely powerful marketing tool for the companies, helping create trends. For each beauty company alike, they need to be positioned to be online where customers are so they feel the need to have their products to achieve the same looks.

4.2.2 Grocery

Grocery is one pillar of commerce in the U.S. economy that largely will remain a substantial subsidiary as it is a routine shopping destination as well as a necessity. Over a trillion-dollar industry in the U.S., digital grocery comprises approximately three percent of sales, but is expected to grow ten-fold in years to come (Nielsen, 2018). The grocery sector is one industry that is challenging to revolutionize because of the commodity aspect as well as the sensitivity of foods. Grocery retailers must think in terms of creating an ecosystem for their customers. Their supply chains need to be constructed so that they can meet needs of consumers, while still handling delicate and perishable goods that are subjected to strict FDA regulations, such as the recent Food Safety Modernization Act.

Amazon completely disrupted the grocery industry through the acquisition of Whole Foods Market, with the \$13.7B deal referred to as the “Pearl Harbor Moment” of modern retail (Grant, 2018). When the eCommerce Zeus announced its deal to acquire the upscale grocer in June 2017 the entire industry stopped and took notice. If Amazon can do physical retail all on its own, what can't it do? At what point is “too big?”

Most importantly, the deal highlighted the importance of integrating traditional and digital retail across grocery. According to Dan Schulman, CEO of Paypal, “the Amazon/Whole Foods deal ushered in a new era of purely omnichannel retail, one marked by the distinct goal of blending the old and the new ways of grabbing consumer dollars” (Grant, 2018).

When Amazon acquired Whole Foods, they immediately became a feared competitor in the grocery sector. With the dominance and prowess in last mile delivery, they have been able to add same day food delivery to their repertoire, and this is just the beginning. The Amazon-Whole Foods acquisition sent shockwaves to grocers across the category that they need to greater focus on e-commerce.

Similarly to how every retailer and brand has continuously adapted to Amazon's new capabilities, the major grocers are scrambling to find a way to offer same day food delivery in order to compete with Amazon's newest offering. For example, Albertsons, America's second largest grocery chain, along with many other grocers, did not have time to build their own last mile, same day delivery service. As a result, they are being forced to partner with Instacart and similar companies to fulfill the demand, falling into the wake of last resistance. In the aftermath of the acquisition, Target has since acquired same-day grocery delivery service, Shipt, for \$550million in 2017, Instacart signed five of the top U.S. grocers (Kroger, Albertsons, Ahold, Publix and HEB as well as Costco) to their portfolio, and meal-kit companies, most notably Blue-Apron as well as Plated (recently acquired by Albertsons), have had to

drastically change their marketing position and strategies in order to move forward (Target Corporate, 2017; Bosa 2017; Buhr, 2017).

The first, and only, company to build their own same day, last mile grocery delivery service to date is Walmart. *“Once Walmart rolls out grocery delivery from all of their stores what then? What's next? Walmart would be wise to expand the relationship with their delivery customers so that once a delivery is made, Walmart can generate revenue by performing a service for the customer such as taking packages that need to be mailed or taking dry cleaning. By increasing value to the customer, Walmart's home delivery service can become a competitive advantage. Adding general merchandise to home delivery is key,”* said grocery analyst and Penn State alumni, Brittain Ladd in an interview conducted with him.

Similarly answering the question, why didn't Blockbuster come up with Netflix? We can ask why didn't Kroger come up with the idea for Amazon Go or for acquiring Whole Foods? Why is it that Amazon is coming up with all of these ideas while everyone else waits around? Amazon once again out-innovated their competitors.

Instead of operating with complacency and waiting for the results of Amazon making another entry, grocery retailers need to reinvent their positioning in their specific sectors and learn from their pasts. It is projected that within the next year, one in three consumers will order their groceries online; for a \$1Trillion industry in the U.S., that market cannot be left untouched. Online Grocery spend is forecasted to reach \$100 billion or twenty percent of total spend by 2025 (Food Marketing Institute, 2018). Be it enhancing in-store capabilities to meet mobile payments and engaging customers in a seamless shopping experience, offering curbside pickup for buy-online pickup in store orders, providing home delivery options or pre-made/meal kit services for busy shoppers, grocery's reinvention story is just getting started. Understanding common consumer risk in grocery is that some consumers enjoy picking their own products and choosing which perishables they buy, existing grocers need to learn from these challenges and base their platforms in an effort to combat these hesitations. Grocery is one of the most challenging industries to tap and transform consumer behavior, but it possesses the greatest opportunities for retailers to be a leader.

4.3 Amazon's All-Encompassing Retail Disruption

Amazon's all-encompassing impact on the retail world can be summarized by the curated assortment of both product and expectations that customers have grown to adapt and expect from all retailers. So far, Amazon has trail-blazed the industry through the introduction of two-day shipping,

inventory efficiencies, killer product search, data and personalization, and customer experience (CMO.com, 2017).

4.3.1 Supply Chain Disruption

By acting quickly and decisively, you force the enemy – and in this case, other retailers – to respond to your last maneuver as you’re entering the next one...

In Amazon’s case, this was done with a ruthless focus on the consumer. This kind of experimentation and aggression is what the military calls the OODA loop: “observe, orient, decide and act.”

Too many stores, flat wages, changing tastes, and Amazon have created the perfect storm for retail.

(The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google)

From a supply chain management and distribution standpoint, Amazon is paving the way. Thanks to Amazon’s great efficiencies in their supply chain, coupled with their ownership of on-road vehicles and now even airplanes, people are able to get their goods quicker than ever imagined. With Amazon’s game changing delivery strategy, futuristic supply chain practices, and growing manufacturing sector, their supply chain disruption gives both brick and mortar as well as pure play e-tailers a need to revolutionize.

Amazon has one of the most loyal customer bases, far enough to call it “a cult following.” Their service is favored amongst customers for one major reason: quick and efficient supply chain management and convenience. Combining sophisticated information technology, a wide and extensive network of warehouses, perfected inventory management and revolutionary transportation makes Amazon’s supply chain the most efficient and enduring among all major companies across the globe – both online and brick and mortar operations (LeBlanc, 2017).

4.3.1.A Delivery Strategy

Amazon’s online retail dominance was established with the launch of Amazon Prime in 2005. Free two-day shipping on hundreds of thousands of items with a simple annual membership revolutionized how customers expect products to be delivered forever. Today, 40 million of the 400 million items sold on the Amazon online platform qualify for Prime shipping (Laseter, 2017). Amazon Prime (2018) gives members free two-day shipping on 20 million items for \$99 a year and includes other services such as free streaming of movies, television, music and e-books (Zabron, 2017).

Estimations say there is about eight million plus prime members, or sixty-four percent of U.S. households (CMO.Com, 2017). This researcher conducted a survey of one hundred millennials to test these hypotheses. A majority of respondents said they use Amazon Prime on a shared family or friends account, with a quarter owning their own account, and few said they do not have an Amazon Prime account. The responses are shown in Figure 11 below. Interestingly, students responded that they mostly use Amazon Prime on a shared family account, with owning their own account coming in second. Amazon Prime offers Amazon Prime student packages and that could be the reason for those results.

Percent of Millennial Respondents to "I Have an Amazon Prime Account..."

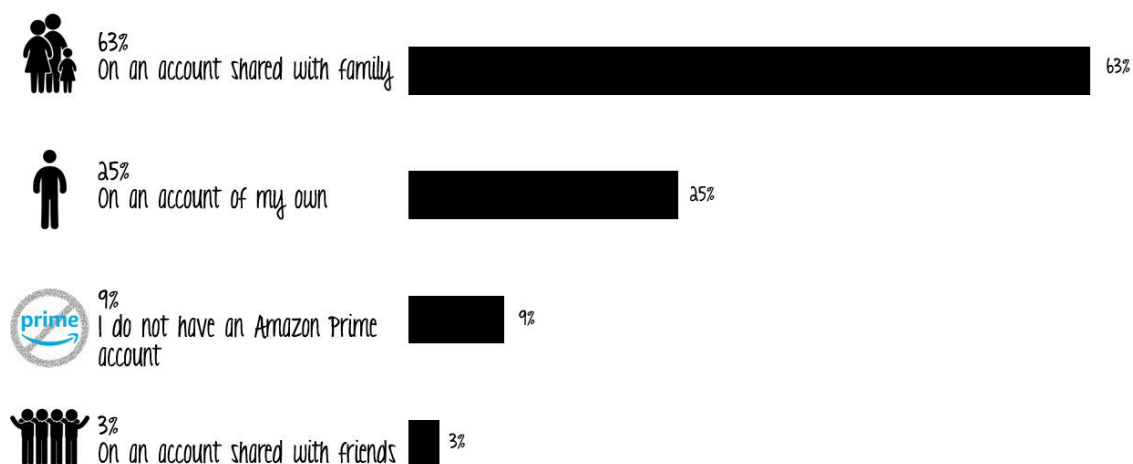


Figure 11: Millennial Amazon Prime Responses

In terms of magnitude, over five billion prime products were shipped in 2017 alone, or 9,513 products per minute (Balakrishnan, 2018). To show the magnitude of this, the infographic below represents every product shipped per minute in 2017, with each box equating to 10 products.

🕒 9,513 products were shipped per minute in 2017 via Amazon Prime

📦 = 10 products

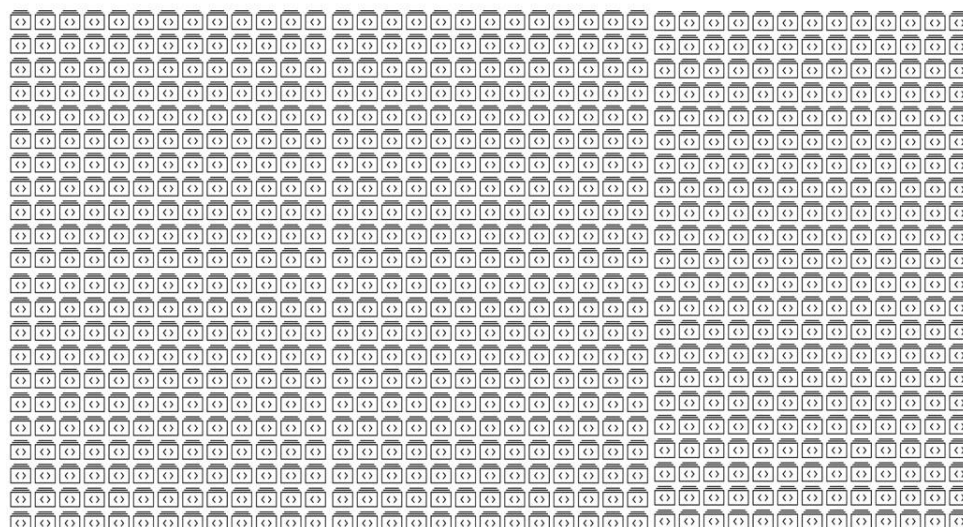
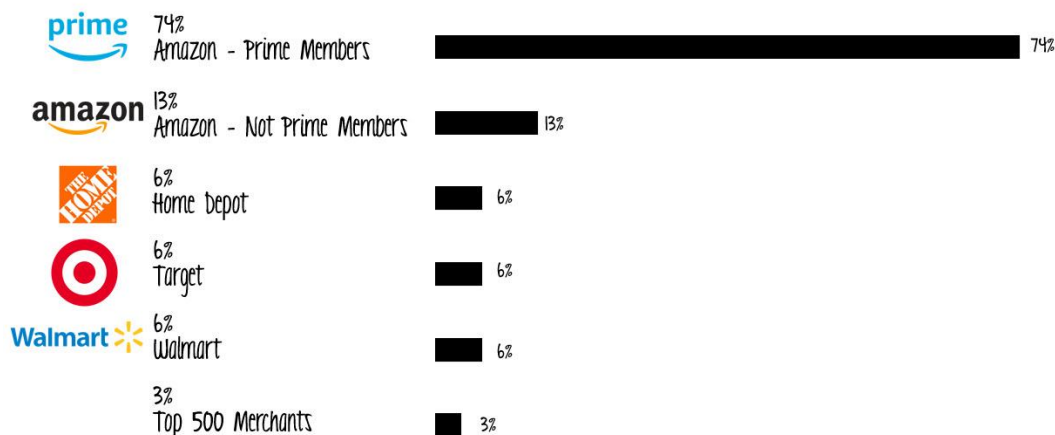


Figure 12: Amazon Products Shipped per Minute 2017

Jeff Bezos takes pride that loyalty and repeat purchases are a key part of Amazon's business. Amazon has one of the highest purchase conversion rates and repeat purchases amongst all retailers – brick and click. A study conducted in 2015 by website traffic measurement firm, Millward Brown Digital, states that Amazon's conversion rate among Prime tops the average 500 merchants by over 200-fold (Zarbon, 2017). The comparison of the conversion rates is shown in Figure 13 below.

Amazon Transforms More Viewers into Shoppers than Competing Retailers



Source: <https://www.digitalcommerce360.com/2015/06/25/amazon-prime-members-convert-74-time/>

Figure 13: Conversion Rates to Purchases

Amazon Prime's two-day guaranteed shipping has set the precedent for other companies to follow. As a reaction, other companies have needed to implement their own means to get products to

customers within two days, while maintaining a highly diversified inventory. Some of the companies analyzed previously are shown below.

Company Name	Timing	Minimum
Walmart	2 Day	\$35
Jet.com	2-5 Days	\$35
Costco Grocery	2 Day	\$75

Source: www.walmart.com/cp/free-shipping/1088989,
www.jet.com/help-center/shipping-and-delivery,
www.usatoday.com/story/money/2017/10/05/costco-earnings/731851001/

Figure 14: Shipping Comparisons

Department store retailers also now have a have a standard to deliver products within a span of five business days as anything longer goes beyond modern customers' expectations for service. A study from L2 (a subscription research and business intelligence firm that benchmarks the digital competence of consumer brands) found that a quarter of shoppers would abandon a cart online if same-day shipping was not available, indicating that customers increasingly expect short delivery times (Business Insider, 2017). Customers are expecting "free" delivery done quickly, but of course, no true shipping is ever really free. Today, only one out of five sellers offer same-day delivery and those who do charge extraordinarily high rates for that service. For most retailers, this is an increasing problem as shipping windows are continuing to narrow. In typical Amazon fashion, as many retailers are catching up with a strategy to have own their own "free" two-day shipping, Amazon changes the landscape once again by offering deliveries like one hour or one-day via their Amazon Prime Now Service (LeBlanc, 2017).

In an effort to address the key challenges for online retailers, such as consumers who want their goods delivered in shorter periods of time than they can physically do on their own, DHL has rolled out Parcel Metro, a flexible and affordable Same Day and Next Day delivery experience. Enabled using technology similar to that of Uber, consumers have full visibility from their applications to track their delivery every step of the way and can provide delivery instructions in real-time to their driver. "...The DHL Parcel Metro solution provides a technology solution to the last mile opportunity. Our digitalization journey is all about how we can add value to our customers, to our employees and to our shareholders..." said Charles Brewer, CEO, DHL eCommerce (DHL Corporate, 2018). The service relies on third-party contract couriers and app-based driver pools to pick up products ranging from: clothing, toiletries, entertainment, etc. from both retailers and their warehouses and be able to deliver them in same day, next day or even Saturday as an option. "... [Parcel Metro] is testing the peaks and troughs of elastic delivery... it allows us to scale, easily, any and all variable costs that may be associated with last mile delivery and figure out what works..." **Executive H** said in an interview.

Already Beta testing in some U.S. Metro markets, this service is likely to expand in the next few years as it is a pioneer of its kind for the U.S. market.

4.3.1.B Supply Chain Practices

Amazon has also disrupted retail through inventory efficiencies and finding the ideal balance for the efficiency – service tradeoff. Offering a larger selection with more price points, Amazon pushes both conventional and unconventional customers online. Amazon does not struggle with excess inventory holding costs, due to their high turnovers and inventory management systems. Amazon is also not faced with the challenges of variability for service such as: arrival variability, request, capability, effort and subjective preference variability (Frei, 2006). Seen over and over again throughout business history, inefficient inventory allocation is the largest challenge for retailers of all types.

The classic business case of the National Bicycle (NB) showcases inefficient inventory allocation as one of the largest detriments to their business (Kotha, 1996). The case showcases the struggle with the idea of buying into a mass customization model will be beneficial to their overall business or not due to excessive inventory holding costs and salvage values. In turn, National Bicycle was able to convince their retailers to sign on board with their mass-customization model, albeit more expensive for the end consumer initially. The model worked because NB told retailers that they would hold less inventory risk and costs with the custom-made products. Time and time again, e-commerce proves to provide less inventory risk alike as it balances the push-pull boundary of inventory management.

Acting as a pure e-tailer, Amazon does not need to worry about shelf space inefficiencies that are costly and waste space like brick and mortar stores do. While traditional retailers need to build their stores to offer the right assortment of products – product offering, size variety, bundle package, etc. – online e-tailers can offer more products as they do not need to focus on shelf spacing. E-tailers biggest balance is a focus based on choice overload (Goodman, 2017). With the most efficient inventory management system, Amazon's systems help expedite shipping, align stronger distribution centers and thus it drastically reduces the amount of time it takes products to reach the end customer.

Amazon's revolutionary, one-hour or same day, shipping is possible due to the dependence on their own logistics operations. Understanding that reliance on third-party logistics providers would lengthen product delivery time, Amazon mostly uses its own delivery vehicles for same day / one-hour delivery options (LeBlanc, 20217). Amazon's supply chain is operated off a "pull model" that responds directly to customer demand by shipping individual packages rather than pallets of goods, also known as Made to Order (Laseter, 2017). Having developed their pull-based supply chain through the successes of the lean management techniques from the Toyota Production System (TPS), Amazon has become a

digital pull pioneer – combining their skill at user experience and operational excellence. Within the pull model, customers identify what they want and the system is able to deliver it on demand. In order to make small orders profitable, the supply chain system must be highly efficient.

Seeking to increase speed and precision, Amazon has invested heavily in its distribution network and facilities. Boasting over seventy fulfillment centers in the U.S. and over half a million full-time employees, these facilities are placed strategically close to major metropolitan cities in order to allow for the success of Prime and Prime Now shipments. Today, after an order is placed, a countdown clock is displayed to indicate how many minutes until the product is shipped.

The importance of the perfection of Amazon's supply chain and distribution channels is uncanny. If there were even a small crack in their network, Amazon would lose a tremendous amount of sales in the span of a few minutes. In 2012, Amazon's website went down for forty-nine minutes, and lost sales amounted to nearly \$5.7 million (Smith, 2013). Six years later, as Amazon's net sales have increased approximately three times, if the same were to happen in 2017, it would be reasonable to say losses be at least \$18 million over the same forty-nine minutes. This is illustrated in the infographic, Figure 15.

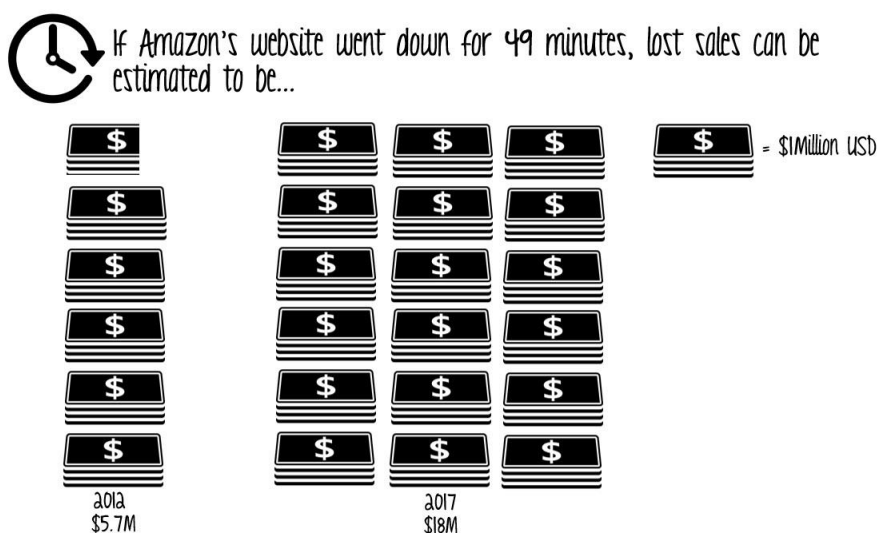


Figure 15: Amazon's Website Selling Power

4.3.1.C Manufacturing sector – Private Label

Amazon is no longer purely a retail outlet as it also produces a wide variety of their own products: everything from backpacks, batteries, baby supplies, bedding, bath and more (LeBlanc, 2017). Private label is becoming a vital and highly beneficial way e-commerce platforms and consumer packaged goods (CPG) alike can differentiate their brands and draw customers to their specific offerings. Through exclusivity, shoppers keep coming back for more of something they cannot find elsewhere.

Constructing private label offerings is a way for Amazon and other retailers to scale operating margins and to learn more about its shopper base — tracking exactly what they want and when. For both brick and click retail formats, boosting a strong private label offering has been a way to gain customer loyalty to specific brands, and lead customers to their store or website more frequently, thus increasing overall sales.

The retail marketplace has become a "sea of sameness," with companies flooding shelves across various nodes with much of the same brands. Through recognizable private-label offerings, companies are able to capitalize on margins that typically would be lost to the middleman, and customers are not faced with ubiquitous national brands. "Private label is a big deal for any retailer, [and] if you can execute that's where you can have more control of your margins," Moody's analyst Charlie O'Shea said. "If you can get a dedicated private-label customer they will keep coming back because that's the only place they can get that brand" (Thomas, 2017). Strong private label brands can spell better profit margins for a company, and when executed well amass a loyal following for the line.

According to Nielsen⁶, private-label products have increased sales by over the past four years, while branded products' sales have fallen during the same period (Thomas, 2017). Major branded products such as Costco's Kirkland, Whole Food's 365, Walmart's Great Value, Jet.com's Simply J, Target's Cat & Jack, and Boxed brand, Box, rose by approximately one percent as a group last year. Notably, Jet.com is expanding their line, Uniquely J, to hold items including everything from grocery to household, Walmart is adding over 100 new items to their baby essentials private-label, Parent's Choice, Target is amidst of launching ten-plus new private label brands, and Amazon is projected to reach private label sales as high as \$4.3billion (Taylor, 2017).

In roughly its first year on store shelves, Target's private label kid's clothing brand, Cat & Jack has surpassed \$2 billion in sales and is one of the fastest growing brands within their mix. For context, that means Cat & Jack's annual sales are already about as large as those of Lululemon Athletica Inc (Halzack, 2017).

In March 2018, Macy's too said they have plans to expand their private label offerings to represent forty percent of their overall merchandising mix (up from twenty-nine percent in 2017). The goal is to have inventory that is exclusive to the chain and different from what's already out there (Thomas, 2018). While Macy's is struggling to hold their position in the department store segment, rapidly closing stores and losing market share, expanding private label offerings gives consumers a reason to visit their stores/website.

⁶ Nielsen is a global measurement and data analytics company that provides information and analysis on consumers and markets worldwide.

Jet.com and Boxed Wholesale are two pure-play e-commerce players whose manufacturing / private label business is booming, and consequently, Amazon is taking note. Boxed is one example of a company whose private brand has driven their growth from the start. While unusual for a young company to have such a well-developed private brand, Boxed planned organic private label growth from their inception. Launched in 2015, Boxed private label brand today carries close to fifty high quality products across a vast variety of categories and introduces about a dozen more yearly. Proving success, private brand sales grew upwards of 1065% for Boxed from 2015-2016 and forecasted triple-digit growth into 2017 (My Private Brand, 2017). Jeff Gamsey, VP of Private Label at Boxed, says that private label and brand is a strong positioning for Boxed and other companies alike because, "... they can create leverage ... spark innovation that challenges existing industry standards deliver higher quality products ... expand company margins ... create additional value ... and [private label] becomes a reason why [customers] shop at your stores instead of somewhere else... It turns out that the strongest retailers in the industry have the strongest private labels. That's not a coincidence. Costco has a great private brand in Kirkland; Kirkland penetrates Costco sales at 25 percent..." (Taylor, 2017).

While visiting Jet HQ, this researcher noticed the same trend in regards to private-label organically being spread throughout the company. In the Jet lobby, this researcher was greeted by signs that said Uniquely U for example, a play on the Uniquely J brand. During the interview, the respondent also honed in on the importance Jet is taking to differentiate themselves in the industry through their private label offerings.

Needless to say, Amazon is not sitting back with regards to building out a private label offering. Amazon currently has over forty private label brands, with twenty-nine of them being in the apparel space according to L2⁷ (Thomas, 2017). Some of Amazon's most notable private label brands and their sales can be seen in Figure 16 below.



Figure 16: Amazon Private Label Sales per Brand

⁷ L2 is a research firm that studies brands' digital performance.

According to OneClickRetail, Amazon's private-label brands had almost \$450 million in sales in 2016 and is expected to showcase more growth into the future as well. A majority of Amazon's private label sales (eighty-five percent) came from AmazonBasics. This brand sells items such as batteries and computer cables. The biggest growth in private label came from Amazon Elements, which primarily sells Amazon-branded baby wipes. Amazon Elements has seen sales double over the last year, reaching almost \$15 million. Since the Amazon-WFM acquisition, Whole foods "365 brand" products have grown nine percent weekly in the grocery private label sector as well (Kim, 2017).

Amazon's already dominating the e-commerce space, being responsible for forty-three percent of online sales last year, and competitors are becoming growingly concerned about the emergence of Amazon's private label. On Amazon's Alexa, one is able to order products off of Amazon's website, be it any good ranging from traditional dry goods or grocery via WFM or Amazon Fresh. CPG companies are raising concerns because what is to stop Amazon next from promoting their own growing private label offerings when a consumer asks Alexa, "Alexa, put toothpaste in my basket." With the incredible integration amongst their products and other businesses, Amazon is making it increasingly more simplistic for people to live their lives. If consumers are entrapped by Amazon and all it has to offer via their product offering as well, it grows Amazon's power and creates a dangerous effect for companies.

Despite the historical associated negative stigma between branded and private-label items that once existed, that quality gap is shrinking. According to Nielsen, "nearly three-fourths of Americans are now saying a store brand can be a good alternative to a well-known (typically more expensive) brand" (Nielsen, 2017). A separate report from Cadent Consulting Group is predicting private-label brands could "steal" as much as \$64 billion from national names over the next decade, as millennials are becoming more receptive to shopping brandless than baby boomers (Thomas, 2017).

4.3.2 Product search, data & personalization

Amazon's technological infrastructure stores every data point from customers and uses the information to offer predictive, personalized offerings and recommendations based on customer purchases, reviews and personal preferences. "Amazon has become the Google of product search ... it's the first-place people go to. And when you think about it, why go anywhere else if Amazon is going to have the best price, get it to me fastest, and if something's wrong they'll refund the money?" Jeff Barrett, CEO of Barrett Digital (CMO.com, 2017). Fifty-five percent of shoppers say they start their product searches on Amazon as a way to look for comparison shopping, suggestions, ratings, and sales data.

Amazon's personalization and product matching services have shown customers products they are looking for and ones they didn't know they've wanted. Largely, Amazon is able to increase their sales

because customers are buying more than they intended, even items they did not know they needed. Linking search, data and personalization, Amazon is paving the way retailers need to understand their consumers; retailers need to learn ways in which they can leverage these insights to better their businesses. And now with the growing popularity of Amazon enabled devices, search and product recommendations are becoming the offerings decided by Alexa. To be the best retailer, being good at managing and transforming big data is key to understanding the consumer and transforming the customer experience via audience behavior.

Data is the best ally to improving the customer experience. Through better understanding demographics, analyzing the customer purchase journey, understanding sales and overall browsing experience, leveraging data is key to gathering customer insights. Via the insights gathered by data analytics, companies can learn how to offer a personalized experience that works. Strong customer experience that generate the right messages to the right person increases the chances of a purchase and becoming a repeat customer. For example, I don't want to receive my brother's recommended product offerings just because we share a Netflix account. Retailers can increase their customer experience for all users by understanding individualized customer needs as they maintain authenticity and a personal approach, all while being outside the box and engaging; easier said than done.

4.4 Amazon: What's Next

Jeff Bezos said in 2012, "we want to do something uniquely with amazon. If we can find that idea, and we haven't found it yet, but if we can find that idea, we would love to open physical stores..." (Danzinger, 2017). Back in 2012, Bezos was not entirely sure where the future of Amazon's unique proposition would lie. In 2018, following the acquisition of Whole Foods Market, becoming the largest e-commerce giant in the U.S., changing retail entirely, expanding private label and manufacturing, and now with opening physical stores, dubbed "Amazon Go", the future is endless. Amazon sees the future of retail as a combination of both online and offline, as evidenced by their recent advancements. Three of the biggest areas for the what is next for Amazon include: potential acquisitions for the future, Amazon's movement into brick and mortar, and logistics service expansion for businesses.

4.4.1 Amazon potential to acquire Kohl's or Target

Amazon wants to grow their physical footprint. Through an acquisition of a store like Kohl's or Target, Amazon would be able to leverage these existing brick and mortar locations, present customer base as well as boost Amazon's own facilities to handle sales and returns. If not for Amazon making an

acquisition, it may be time for Walmart or Kroger to acquire either of these two, or for them to merge amongst themselves, before it is too late.

4.4.1.A Kohl's

Kohl's is an American department store retailing chain and has over 1,100 one level department stores across the U.S. The brick-and-mortar chain currently accepts and processes returns for Amazon in ten of its stores in the Los Angeles and Chicago area (Kline, 2018). Early in 2017, Amazon kicked off a partnership with Kohl's and began selling gadgets as well as accepting Amazon returns throughout a handful of the stores

For Kohl's, the Amazon partnership is a huge benefit in that it increases foot traffic by enticing Amazon customers looking to make a convenient return and those who want to buy an Amazon device. According to Kohl's CEO, Kevin Mansell, "we've got a really simple objective ... to improve traffic in our stores ... the objective right now is to improve traffic, which would lead to an expansion of the program," which would put this partnership in direct alignment with these overall objectives (Thomas, 2017).

For the future of their stores, Kohl's is looking to save themselves amidst a rapid sales decline of three percent annually since 2012 (Derousseau, 2017). Robin Lewis, chief executive officer of the Robin Report said: "The synergy will also add a revenue boost for both. It is a brilliant marketing move that differentiates Kohl's from its competitors in a big way" (Turner, 2018). Increasing their current business position as well as adapting to the retail revolution, the partnership and potential acquisition could be the change Kohl's needs to stay alive in the new retail era. Additionally, Kohl's is open in that it wants to free up space for digital fulfillment and harness opportunities to rent out extra square footage to a partner, ideally in food or convenience, to help drive traffic.

It is reasonable that the future of a Kohl's-Amazon will be merged with Whole Foods 365 stores, which are built in lower income areas that sell solely private label 365 branded items. However, while the acquisition of Kohl's in theory seems like a way to achieve growth for Amazon, it would put Amazon in a position to acquire a tremendous amount of debt, declining foot traffic, and a weakened brand. With regard to Kohl's, Mark A. Cohen, director of retail studies at Columbia Business School said, "Kohl's is a No. 5 horse in a three-horse race. Yes, they have over 1,000 stores, but the company is too small in volume. It is not global and has no likelihood of going global." Which would not help Amazon achieve its global plan. "National brands who supply Kohl's may not go along for the ride with Amazon, just as Walmart is discovering that there are national brands that might be willing to sell through Jet.com but not Walmart.com," creating many areas of uncertainty (Turner, 2018). Considering

all of the uncertainty, a stumbling Kohl's brand, and current weak financial position, it does not seem probable that Amazon would acquire the retailer, but there is an opportunity so it would be reasonable to believe they will enhance the partnership.

4.4.1.B Target

Another company that appears to be a potential subject of Amazon acquisition is Target Corp. Target locations are appealing for Amazon - they have a strong fashion affiliation, and the stores could provide great opportunities to showcase Amazon hardware. Gene Munster, technology analyst at Loup Ventures, wrote that for both Amazon and Target, "Amazon believes the future of retail is a mix of mostly online and some offline. Target is the ideal offline partner for Amazon for two reasons, shared demographic and manageable but comprehensive store count..." (Kim, 2018). Making Target an ideal candidate.

Target is a highly skilled retailer with a large network of almost 2,000 stores plus a well-established private label offering. An acquisition of this size would position Amazon to compete with Walmart on a comprehensive base of stores to enhance click and collect operations as well as last mile deliveries. One of Target's greatest weaknesses has constantly been their small operation in food and grocery. Combining operations with Whole Foods markets would help Target with their major weakness and Amazon would benefit from Target's in-store capabilities (Turner, 2018).

Neil Stern, senior partner at McMillanDoolittle LLP said, "Like Whole Foods, there is strong overlap between the Target and Amazon customer base. In my opinion, no other acquisition makes as much sense. Sure, Amazon could acquire a department store retail to polish their fashion efforts, and just about any chain ... could be had at an attractive evaluation..." maintaining the position that Target is the strongest candidate for Amazon (Turner, 2018).

While agreeing there is a strong potential for Amazon to disrupt retail once again – developing a strong brick and mortar presence, it is unclear if Target is Amazon's next purchase or partner. Target is continually trying to improve their own operations through increased buy online pick up in store options, omni-channel integration, improving their supply chain, and hiring new executive talent. Most notably, Target recently named Arthur Valdez, a sixteen-year Amazon veteran, executive vice president, chief supply chain and logistics officer. In his new position, which reports to COO John Mulligan, Valdez "will lead Target's supply chain transformation including planning, distribution and transportation" (Kline, 2016). Showing Target's determination to not give into Amazon with a scale or partnership, but rather competing with them head on. Target has a long way to go and is aggressively trying to foster their own digital transformation sparked by free shipping as well as recently seen holiday traction.

4.4.2 Amazon opening physical stores

E-commerce is growing, but ninety percent of worldwide retail spending is still done in brick-and-mortar stores. Recognizing this, Amazon has the opportunity to transform brick and mortar retail with their automation and data-mining technologies they can bring from e-commerce success. In response to breaking from the traditional e-commerce platform, Amazon CFO Brian Olsavsky said: “[stores represent] another way to reach the customer and test what resonates with them,” maintaining the overall business model, just on a different platform.

It is no secret that Amazon is looking to expand their brick and mortar store footprint. From their acquisition of Whole Foods Market coupled with the emergence of Amazon Book Stores as well as Amazon Go, it is likely to believe that over the next decade Amazon will have thousands of stores in varying formats – from selling grocery, displaying items ranging from: furniture, electronics, apparel, beauty, and even private label, to a technology incubator for Amazon-enabled devices or even a pharmacy as Amazon is looking to move into the pharma sector as well.

In an era where malls and physical retail stores are struggling, Amazon seems to be immune to this epidemic as well. The owner of Bellevue Square, Kemper Freeman, a multilevel mall east of downtown Seattle, says that Amazon retailers in his malls are flourishing. The stores have been successful because they provide an emotional fulfillment to their customers - the joy customers take in seeing, touching, sniffing and testing the product before they pull out the credit card. In Mr. Friedman’s Malls, Amazon, unsurprisingly, is succeeding despite all the hardships in today’s mall environments because of their successful deployment of emotional fulfillment. Freeman, while discussing Amazon and his mall said, “...guess what’s one of our most successful stores we just opened up three months ago? Amazon. They already mastered online book sales. Why are they creating a physical presence? Because they know they need to connect and fuse with you as a consumer” (Moore, 2017). Showing that although e-commerce is dominating retail, the in-person, tangible connection with customers is still incredibly important for loyalty and long-term success.

As consumers are greeted with more touch-point locations, integrating online and offline platforms helps boost sales and overall traction. Amazon stores draw more consumers to subscription offerings, gather customer data in a real-world setting, as well as provide customers with better delivery options and deals made possible utilizing a physical store-front. It is possible that Amazon will expand their retail footprint by acquiring stores available as a result of retailers going out of business or vacant locations, saving them the time and effort to build locations from the ground up. For Amazon, brick-and-

mortar stores put inventory closer to where shoppers live, allows for the integration of practices like buy online pick up in store as well as faster delivery to existing Prime members and e-commerce consumers.

4.4.2.A Book stores

As of August 2017, Amazon has ironically opened eleven physical book stores – spanning their entire country as mapped out in Figure 17. A complete list of Amazon's Book Stores is located in **Appendix A**. The very first sector Amazon captured and destroyed, physical book stores, are now reopening under their own umbrella. Now, Amazon can appeal to all who still enjoys going to bookstores, those who want to buy hard copies online, and individuals who want to read on a kindle table can all have their reading needs satisfied by Amazon.



Figure 17: Amazon Bookstore Locations 2017

Using bookstores as an extension of the Amazon brand, Amazon is relying on the bookstores to showcase the popular gadgets such as: Kindle eReaders, Fire TV devices, Fire tablets and the Echo and the smart assistant, Alexa. Within the stores, gadgets are shown as a digital alternative to traditional books - Kindles are placed alongside paperbacks and hardcovers. Purchases are made via credit cards or on the Amazon app linking to customers' Amazon accounts. Amazon Prime members receive the same discounted Prime pricing they would see if viewing the items through Prime Library (Blumenthal, 2017). All of the aforementioned features allow Amazon to appeal to wide range of customers, while developing and maintaining their brand loyalty.

Data about customer preference has played an integral role in driving Amazon's success thus far, and the physicality of the book stores plays a key role to gathering greater insights. Allowing Amazon to continue to improve their offerings, Jennifer Cast, VP of Amazon Books said, "with every store we're learning more about how to make a better discovery experience for customers" (Blumenthal, 2017).

4.4.2.B Amazon Go

In January 2018, Amazon launched their first brick-and-mortar convenience store, Amazon Go. The first automated grocery store promises "no lines, no checkouts, no registers" and is another disruptor to the grocery and retail industry (Bosa, 2018).

Outfitted with a cocktail of modern technology, Amazon Go is going to test many existing hypotheses the e-commerce giant is still trying to figure out. Adding more convenience to the traditional convenience store model enabled by technology, Amazon may be able to transform their loyal digital customers into physical store shoppers as well. Shoppers simply grab items off of shelves and their Amazon Prime accounts automatically get charged. This is basis for how Amazon Go works. With their "Just Walk Out Technology," thousands of cameras along the stores' ceiling use facial recognition, weight monitoring, GPS tracking and AI to identify when a shopper picks up an item and puts it in their bag or puts it back on the shelf. No lines, no waiting, just walk out. According to Amazon's website as to why build the Amazon Go store, it says, "We asked ourselves: what if we could create a shopping experience with no lines and no checkout? Could we push the boundaries of computer vision and machine learning to create a store where customers could simply take what they want and go? Our answer to those questions: Amazon Go and Just Walk Out Shopping" (Amazon Go, 2018).

This store concept removes cashiers from the picture, yet employees are still in place. Throughout the store, a greeter welcomes shoppers by the entrance, an ID checker is monitoring alcohol sales and cooks are hard at work in the pre-made food section (Rey, 2018). What was once in pilot solely for Amazon employees in Seattle, it has now become a public anomaly that shoppers in the Seattle location can experiment and try for themselves. This concept has become transformative in store fronts, posing the potential to be duplicated across different formats and transform shoppers everywhere.

Amazon's success has been due to their encouragement of innovation, risk-taking and failure and openness to any and every idea; Amazon Go is a perfect example of this ideology. After taking four years to build this technology, coupled with the willingness to take a big risk and fail, Amazon took a gamble with their primary store. Within the first week of its opening, the Amazon Go location faced several challenges as consumer interactions faced some challenges. Yet as Amazon is growing and figuring out how to manage and work this concept, there is no doubt they will master this shortly. The emphasis on

making everything easier for the customer and using technology to aid in everyday life, is what has made Amazon a constant disruptor across every area their tentacles reach. Amazon is hoping that by making convenience store trips even faster, the concept will raise the bar for brick-and-mortar shopping, much in the same way that Amazon Prime did for online shopping and delivery.

Plans for Amazon Go do not just stop in their Seattle location. Six more Amazon Go stores are in the pipeline to open throughout 2018 and will span across Los Angeles, as well as other major metropolitan cities. This automation and convenience is setting off much concerns amongst other traditional grocers, who once again, will need to do something to keep up with Amazon's standard.

In response to his recent visit to the Amazon Go location, I was able to interview my brother as he commented on the experience and his vision for how this may expand into the future. *"... [Amazon Go] is a very cool experience, where everything is at a consumer's fingertips. ... The vibe is very much like a Whole Foods/7-11 Collab. When you get what you want, you walk out the front door and within minutes your receipt is emailed to you...I think it inevitably will [expand into other retail formats], albeit not in the manner that you might expect. I don't think clothing stores or department stores will be moving in this direction since they don't have the physical infrastructure. However, I think the biggest potential market for this is on college campuses. The process of buying books in person has a serious bottleneck, sine everybody buys their books at the same time and the checkout process is very tedious. If they were able to leverage the facial recognition software used here, people could walk in and walk out with the books they wanted... [I would change] perhaps a hot food / prepared area. For example, in 7-11, you can get hot dogs, taquitos, the works. I think that this is another untapped area especially if this becomes a spot where people grab and go lunch for work..."*

4.4.2.C Along the Lines of Amazon Go...

Transforming the modern-day store concept and leading the way for the future of brick and mortar stores, Walmart, Kroger, and other start-up technologies are trying to implement similar advancements like seen in the debut of Amazon Go to their own stores. Dubbed Project Kepler, Walmart is building a startup incubator called Store No. 8, where they plan to reimagine the in-store shopping experience with the help of technology. Being led by Mike Hanrahan, co-founder and former CTO for Jet.com, Store No. 8 is located in Hoboken, NJ in close proximity to Jet.com's HQ. The goal for this new store is to provide "best-in-class consumer experience in the physical retail space" (Rey, 2017) To date, no plans have been released about this new store format, but it can be assumed that the technology being designed will be put into new types of store formats, potentially if Jet.com were to ever open stores or in Walmart's Code Eight store as mentioned earlier, rather than refitting existing Walmart supercenters.

Walmart is taking several steps to focus on what the future of the retail store will look like and maintain their lead as a top brick and mortar location.

In line with the Amazon Go Just Walk Out Technology, Kroger is planning to roll out their “Scan, Bag and Go,” program to about fifteen percent of their stores in the next year. Similar to the technology being used in Amazon Go, shoppers will be able to scan and pay for their items without checkout lanes, registers or cashiers. Customers will walk through the store with a handheld scanner or use Kroger’s “Scan, Bag and Go” app in order to add items to their cart. The technology is unique in that it keeps a running tab of the total order, applies applicable coupons to the items and has the potential to alert customers when they pass an item on their shopping list (imported on their app). Once in place, Kroger is going to be the first grocer to offer this technology to a mass market (Peterson, 2017). Kroger is the top grocer in the U.S., and by investing in technology and advancement like this program, they will be able to reposition themselves in a competitive environment.

One startup, SuperSmart, has created a similar technology that works via a mobile app and is fully scalable and adaptable to be used across many different store formats. The Israeli-based startup uses the mobile app to enable shoppers to check out items in seconds without the need for a cashier. Shoppers simply need to download the app, scan the items, place them in their cart, and through checkout sensors, it is verified that the content in the cart and on the phone are matched. In under three seconds, the entire transaction is completed. Already in use in Tel Aviv grocer Osher Ad, the system is expected to be deployed in the chain’s Shamgar location in Jerusalem later this year, as well as in Europe.

Just as Instacart has caught on and signed up many grocers in the wake of the Amazon-WFM acquisition, it will not be surprising if companies begin adapting SuperSmart to revolutionize their own stores with cashier-less technology without having to build out the technologies themselves. In a recent study conducted by Juniper research, cashier-less checkout systems for retail and grocery are expected to process over \$78billion transactions by 2022, up from \$9.8billion in 2017, and over the next five years, more than 5,000 retail outlets will deploy cashier-less systems (Verma, 2018). For all brick and mortar stores alike, understanding and finding ways to leverage these changes and technologies will be key to their future success.

4.4.3 Amazon’s B2B Logistics Services

FedEx and UPS have so far been immune to Amazon’s emergence and dominance in delivery. In February 2018, “Shipping with Amazon” (SWA) was released. The online retail giant will pick up packages from businesses and ship them to consumers, completing the last mile delivery challenge. Amazon is planning to undercut pricing of UPS and FedEx, while meeting one of the greatest challenges

sellers face in current online delivery operations. In turn, this puts the two couriers in an ominous situation.

Although Amazon may have found the next era to dominate, they will never say it. And if history has taught us anything, Amazon will dominate this area too.

“Amazon was careful never to portray bookstores as competition, even asserting that they wanted them to survive – the same way a retail python feels bad for the cute little mammal it suffocates and swallows whole. Similarly, as Amazon invests billions in last-mile delivery, Bezos claims that Amazon has no intention of replacing UPS, DHL or FedEx, but to “supplement them”. Yes, that is, Jeff and Amazon are here to help”

(The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google)

While Amazon will need to enhance their infrastructure and personnel for a reliable delivery network, Amazon already has been delivering a portion of their own orders in as many as thirty-seven states across the U.S. The “Shipping with Amazon” plans are to have drivers pick up shipments from warehouses and businesses and deliver the packages when they are available (Stevens, 2018).

Realizing that missed deliveries and operations can impact their business drastically, Amazon began building out their own logistics network after the holiday season in 2013 showed some challenges. More shoppers are buying products online, and existing parcel volume and capacity grow too rapidly for existing carriers to handle. Additionally, Amazon’s standards for two-day deliveries that operate seven days a week are impossible for many historic parcels. To combat their own standards, Amazon has decided to build their own logistics network (Stevens, 2018).

However, as challenges will come with SWA, the establishment of UPS and FedEx may be able to meet the disruption ahead of time. Even if Amazon does begin to increase self-fulfilled shipping volumes, “the last-mile business at risk for UPS and FDX [FedEx] is very low-yielding and we believe very low margin... So losing some last-mile business may not be a bad thing” (Stevens, 2018). Amazon’s threat is one to businesses who utilize the services offered by UPS and FedEx as well as these two major logistics providers. Amazon accounts for five to ten percent of UPS revenue, according to estimates, while FedEx has said the e-commerce giant accounts for less than three percent (Soper, 2017). Even though the two companies may not lose a material amount due to SWA, they are at risk to lose a substantial amount from Amazon’s newest capability.

Companies like UPS and FedEx needed an essential component of business online delivery needs.

Executive D, said: *“...it’s also changing the behind the scenes business of retailing... the business of 3PL used to be about loading up a truck and sending it to retail locations, but now it’s about picking an individual item and packaging that up and sending it via FedEx, UPS, UPSP, etc. directly to that customer’s door... that’s a completely different business model than putting a pallet on a truck or putting a case on a truck... [this new business model] is more labor intensive, it can be more automated and there’s more room to experiment...”* but overall is for more complex with many moving parts.

To Sum:

Amazon has undoubtedly been the catalyst behind the retail revolution, and many companies failed to innovate and are now faced with dealing with the Amazon Effect, playing catch-up.

Amazon is influencing not only customers, but also suppliers and retailers alike. It is no longer about trying to beat Amazon or be Amazon, but rather is about understanding how to work with Amazon to prosper.

Amazon is trailblazing many industries and all sectors of the market alike should be ready for a disruption. Investing in unique offerings, like a strong private-label, product search and personalization as well as an incredible customer experience is critical for all retailers alike.

Free-delivery and two-day delivery have become the norm in almost all consumers’ mindsets. The retailers who will survive for the next decade will be those who build out their own platforms, take matters in their own hands, and are pro-active instead of re-active.

It is unclear where Amazon will move next, but doubt all assumptions because anything is possible.

Chapter 5 - The Future

Racing to make over every part of the industry, retailers are in an arms race to meet quickly changing American shopping habits. Largely centered around online shopping, many retailers are also seeking to simplify the way in which customers find and buy products in brick and mortar as well. Those who continue to thrive in the next decade will be those who reimagine and redefine their stores for the digital age. The winners of tomorrow will be those who are able to transport the digital world into the stores that engages customers, build strong loyalty and generate brand value.

“The idea that everybody needs to be terrified of Amazon is completely wrong,” says Brian Spaly, who cofounded two e-commerce-centric startups, Bonobos (menswear) and Trunk Club (a wardrobe-in-a-box service). He believes that, “everybody needs to figure out what makes them special and use those weapons to compete;” they need to determine their most unique value proposition in it and make it the most lethal they can (Carr, 2017). Not everyone can do everything like Amazon seemingly can.

While it may seem that the value explosion brought by the technology revolution comes from the addition of new features and capabilities, its greater contribution comes from removing obstacles. The key to establishing advantage is simple: find points of differentiation where there is large, real or perceived, value.

(The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google)

5.1 The Future Is Already Here

The future of retail is becoming increasingly clearer very rapidly. From self-checkout devices that help circumvent long check-out lines to touchscreen fitting room mirrors that offer immediate help from sales associates, retailers are experimenting with a raft of options to make the shopping experience simple, convenient, and engaging. Focusing both online and simplifying in store experiences is critical for the future of the retail stores.

Digital price displays are becoming increasingly popular in grocery stores specifically where the new technology makes it possible for stores to change quickly thousands of prices based on forecasts, or adjustments to supply and demand. Digital mirrors are being used to aid in purchases across retailers such as Sephora and Neiman Marcus as well. These tools provide feedback from a digital stylist to customers based on what they are wearing or potentially could wear. These technologies go beyond traditional value-added services. Robotic shopping carts may seem like something out of a sci-fi movie, but many grocers are experimenting with them to lead shoppers around the store, and in the process, collecting consumer data.

As Walmart and Amazon continue to position themselves in more aspects of our lives, companies need to learn to reposition themselves so customers still have a desire to visit their stores.

Growth via mergers and acquisitions will become much more important throughout the retail industry because size does matter in retail. Amazon is global, Walmart is multi-national, and if you're operating a domestic or local company, your capabilities and reach become weaker as you compete against global powerhouses and ultimately, brand value will deteriorate as offerings become comparatively weaker. Amazon plans everything in terms of decades while many companies plan in terms of quarters or year ends. In order to not be left behind, companies need to plan for and pursue what they want in ten years; maintaining what is working now can guarantee one's demise.

5.2 Insights from Shoppers

Shoppers want a seamless shopping experience, both online and in-store, being able to use several different channels as part of the broader shopping experience. In-store, shoppers are looking for value and knowledgeable sales staff they cannot match online. Online, convenience is key. Positive omni-channel experiences lead to larger overall purchases and long-term customer loyalty, a seamless integration.

In today's environment, only the nimble will survive. New entrants into the industry are greeted with a blank slate to do as they please. While traditional retailers do not have that luxury, they need to leverage their strengths to complement their online offerings - a loyal customer base, the proximity of store locations, and long-term vendor relationships. They need to improve, change, and develop the components of their brand and offerings, even if it is working well now. The new era of retail is one of constant innovation.

5.2.1 Executive Perspective

The executives interviewed for this research each said that we are all in for a shock to the retail environment over the next decade. Be it supply chain implications, de-bunking traditional delivery, increased consumer convenience, stronger multi-channel platforms, and even the unimaginable, everyone alike is focusing on what is next.

There is an overwhelming agreement amongst executives that there will be a continued shock to the retail environment over the next decade. **Executive D**, believes that, *"in five to ten years we will see a lot more blurring of the lines between e-commerce and brick and mortar retail"*, with an integrated approach offering the most value to consumers. With so many brands now available online, **Executive F** says that, *"brand loyalty is becoming harder to get"*, and that one common goal for all companies will be to find

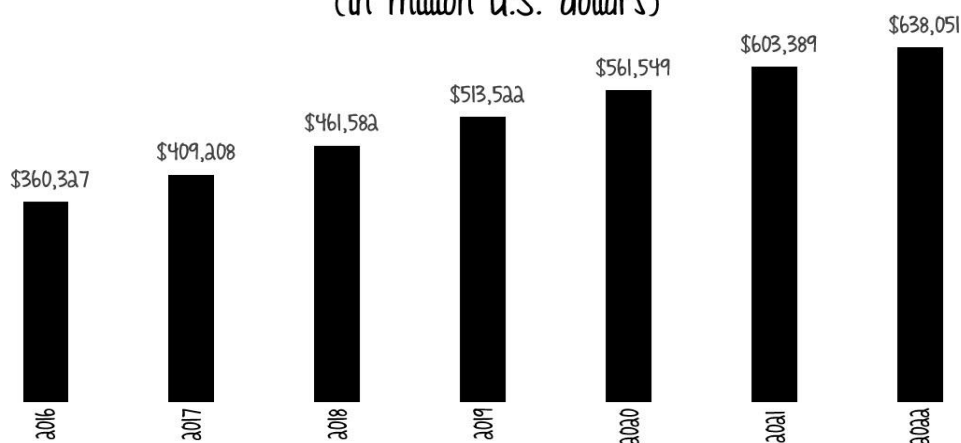
unique ways to, “*build a deeper connection [with their consumers]*”. One strategy **Executive G**, believes will enable brands to build that deeper connection is with, “*more social and mobile based transactions*”; for example, different brands can have groups on Facebook where members can discuss the newest product offerings and even buy them directly through the page. Ultimately, “*as a whole, [the retail industry] will [require] a very soft touch and there will be little human interaction*”, according to **Executive C**, meaning that the industry will increasingly rely on technology and automation to make shopping experiences as convenient and fast as possible.

5.3 Projections

5.3.1 Valuation

The NRF expects that online retail will grow eight to twelve percent, suggesting that e-commerce sales are poised to be between \$427 billion and \$443 billion for 2018, according to Census Bureau data. United States retail ecommerce sales is demonstrated in Figure 18 below.

Retail E-Commerce Sales in the United States from 2016 to 2022
(in million U.S. dollars)



Source: <https://www.statista.com/statistics/272391/us-retail-e-commerce-sales-forecast/>

Figure 18: Retail E-Commerce Sales Projections

Although comprising the vast majority of retail sales, brick-and-mortar retail is expected to grow at a slower rate than that of the overall industry. This point further illustrates the importance of both digital and omni-channel offerings – online retail is going to be the major driver for growth in retail moving forward.

Retail is evolving at an incredibly fast pace, and that is creating problems for some retailers but opportunities for others. “What we’re seeing is continued change and evolution to meet the needs of consumers,” NRF president and CEO Matthew Shay said, “the business model has to evolve quickly to meet the needs of consumers. It’s clear that many companies are working as quickly as possible to

transform themselves, but not all of them are going to make that jump as accurately as they may want to. It's a highly competitive environment. When there's that level of volatility, you're going to see businesses that aren't going to remain competitive and new businesses emerge" (Linder, 2017). Some will stay a lot will go, but many will join, but it is growing with or without.

5.3.2 Partnerships

Partnerships, mergers, acquisitions, and other strategic growth methods will become more prevalent as both brick and mortar and click and mortar companies are striving to survive in the new retail landscape. Numerous companies are looking to enhance partnerships, sell themselves to larger companies or merge with others in a similar situation in order to exploit their strengths and create synergies that would not be possible on their own.

Some potential partnerships envisioned are: Boxed Wholesale and a large grocery chain, a Blue Apron acquisition, Target – Kroger merger, and so forth. It is an exciting time to look at the retail industry for the changes that will happen to come.

5.4 Personal Predictions

5.4.1 My Vision for The Industry

I envision the retail industry of the future to include wide scale consolidation and cross-functional work streams, allowing companies to create newfound synergies. The consumer expectation is going to become so incredibly advanced, that no one company will possibly be able to meet their desires. After years of increased consolidation, the remaining companies will work together in order to create the best possible offerings for their consumers.

5.4.2 A Couple Cool Ideas...

If I ran the industry I would pursue unique partnerships to compensate for weak areas, as opposed to strengthening them internally. I would promote this idea of working as an entire industry in order to meet consumer demands, with the overall theme being constant investment in technology advancements.

For instance, an acquisition or substantial partnership with a ride hailing service such as Uber or Lyft would lead to numerous capability enhancements. Consumers would be able to order via the service and have their packages delivered to them from a retailer's warehouse by an Uber or Lyft driver. The problems with last mile delivery could be solved by leveraging the gig economy.

Furthermore, investing in technology along with the ride hailing service company or self-driving cars, for example, is a way the industry can continue to increase efficiencies. If there were a large, reliable self-driving car network, the simplicity behind last mile delivery would be staggering. Additionally, focusing on new ways to gather data regarding consumer information would allow for companies to continuously define and redefine the customer experience faster with more precision. By focusing and increasing investments on the technology around the physical delivery process and better collection processes of information about consumers would allow for companies to become the ultimate provider; they would constantly be giving their customers what they want quickly, with minimal disruption and human interaction, and be able to create new offerings before consumers decided they wanted or needed a better one.

What if Target and Kroger merged or Target acquired Kroger? Kroger cannot remain a stand-alone grocery retailer; I see Target and Kroger as an ideal match. As discussed in **Section 4.4.1** earlier, both of these companies are in a position where a partnership would take them to the next level. Target is developing out their last mile delivery capabilities with the purchase of Shipt and increasing their R&D in buy online pick up in store. Kroger desperately needs to differentiate themselves to maintain their position as the leading grocer in the U.S. Albertsons is partnering with Instacart, and Kroger is sitting back. If Target and Kroger were to merge, they would increase their combined store count to 4,606 stores and could challenge Walmart (4,672 stores as of 2017) in their physical footprint. A comparison is shown in Figure 19 below.

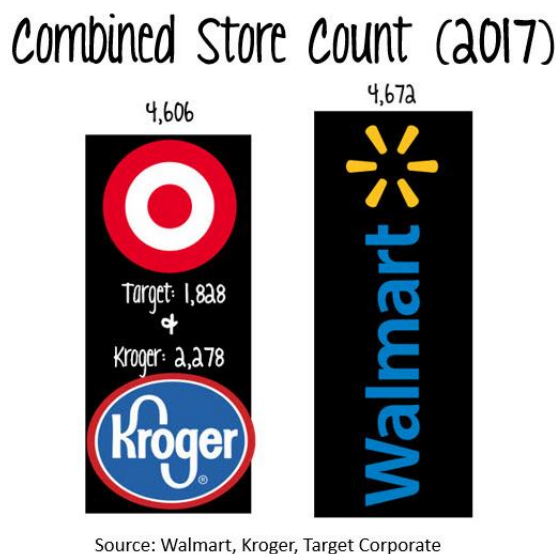


Figure 19: Target & Kroger v. Walmart Store Count

Kroger would be able to leverage Target's growing investments in last mile delivery services to deliver their food products to many more people across the U.S. While Kroger is large in some states,

Target's national footprint spans where Kroger stores are not located. Instead of waiting to see which company Amazon will buy next, if they were to merge themselves they would be pulled out of that pool and be able to compete on their own.

When Toys "R" Us stores announced they would be closing their 735 stores in the U.S. after filing for bankruptcy on March 15, 2018, one of my immediate thoughts was: what if Amazon bought some of the existing Toys "R" Us brick-and-mortar locations? In purchasing the locations, it would allow Amazon to quickly gain a portfolio of 735 stores (anywhere from 20,00-50,000 square feet in size) that once held thousands of SKU products, both in small and large formats. If Amazon were to buy the, now vacant, Toys "R" Us locations, it would bring their existing store count upwards of 1,100 when combined with the stores purchased during the Whole Foods acquisition. In comparison, the combination of stores would bring Amazon's holding of physical locations to approximately one-fourth of Walmart's store size (approximately 4,000+ stores across the U.S.), and very close to that of Target (approximately 1,800 stores across the U.S.). For retail, size matters, and as Amazon is looking to spread their tentacles across various retail and other sectors, having a wider physical presence will be crucial to their success as they expand further.

I believe this should be done with Amazon as opposed to other existing pure-play e-commerce platforms because of the success that has been proven with WFM as well as Amazon's vision to become the "everything store." In 2012, Jeff Bezos said, "we want to do something uniquely with Amazon. If we can find that idea, and we haven't found it yet, but if we can find that idea, we would love to open physical stores..." Maybe expansion further into brick and mortar would be the next step to do something "uniquely with Amazon." Other existing pure-play e-commerce stores and brands need to find ways to merge their operations with other stores/brands that have a strong customer following and are looking to move reversely. For "normal" click and mortar stores, they need to find the ideal brick and mortar partner to propel their visions forward. In this case, Amazon is, and always has been, an anomaly to the industry and could be the only partner to make a purchase like this successful.

Thus far, grocery has proven to be a successful platform for Amazon to sell their branded hardware and test customer insights. In buying Toys "R" Us stores, Amazon would then have another space to showcase its artificial intelligence (AI)-enabled Echo devices, which run on the Alexa voice-activated platform, for example. As mentioned previously, the growing popularity of AI-enabled devices and Amazon's increasing breadth of private label is going to be the next big disruptor to the CPG industry, as coupled together these can put existing brands in trouble. Additionally, a deal like this one would greatly benefit Amazon's delivery business. Alternatively, Amazon can transform the Toys "R" Us stores into distribution centers for grocery that are capable to handle a cold-chain. Currently, grocery warehouses for

Amazon function as a “box within a box” in that a refrigerated section is coupled inside an existing Amazon distribution center. In doing so, space is often lost as there are gaps between the refrigerated section and the dry storage. Transforming and dedicating vacant Toys “R” Us stores can give Amazon a position to have a wider array of grocery delivery options to more people across the country.

A larger network of physical locations for holding inventory, decreasing delivery times to customers who live in close proximity to Toys R Us locations, as well as serving as a staging ground for existing Whole Foods stores that are rolling out two-hour or same day fresh delivery, are just a few of the initial benefits I see that could happen from a deal like this.

It is critical that all companies alike no longer sit back and wait for something to happen or keep trying to play catch-up to the e-commerce giant, but rather they reinvent themselves to hold their own value proposition. All the “what if” discussions are critical to work through the existing problems and identify any potentials for the future.

5.5 The Future

The stores of the future will be nothing like they are today. Combining digital technologies and enhanced customer experiences, expect nothing short of the impossible to be done across stores in the up and coming years. From cashier-less stores, like those being rolled out through Amazon Go, Walmart Store No. 8, showrooming store concepts, experience stores, stores going beyond value-added services and so forth, the traditional retail experience and future store will hone in to the hearts of every customer.

A range of new business models have already blurred the boundaries between online and offline retail. Over the next decade, as new models proliferate in the online space, physical stores will continue to exist but will require an evolved value proposition for consumers. For large multi-channel retailers, the brick-and-mortar store will continue to make the largest revenue contribution. However, they will need to be able to transition from distribution channels from which they merchandise products, convey information and process purchases, to places that tell stories and are platforms for discovery, engagement, experience and interaction.

Expect the future to have retailers placing a premium on personalized services and experiences that require high levels of interactions with products and staff. Carrying streamlined inventories that mix in-stock products and the ability to manufacture customized products on site, future stores will be a blend of mass customization and mass production. Offering rich, dynamic interactions and virtual experiences, tomorrow’s physical stores will become more like media platforms or flagship showrooms for hyper personalized services.

On a deeper level, expect physical retail spaces to become centers for community building and communal experiences. Stores will be filled with strong local flavors, complementing their core business proposition with ideas, themes and events designed for the local consumer base. Serving previously unimagined dual business and social needs, stores will go beyond a traditional shopping experience.

Nonetheless, none of the future store models will be possible without a seamless omni-channel integration and the use of new technologies. Amazon has already disrupted retail in ways unimaginable, but it is possible for traditional retailers to set off another disruption through revolutionizing the industry in their own ways. Instead of waiting for the Amazon moment to happen, retailers need to become the Amazon moment in their own category, doing something completely different, and continuing to transfigure the retail industry.

5.6 Conclusion

By the time this thesis is completed, the retail industry can, and most likely will be, very different than it was when the research commenced - a testament to the extreme speed at which the marketplace is changing. Amazon has been the principal trailblazer in the profound transformations, creating a new convention in retail, generating a multitude of effects, and prompting companies to react in different ways. At the forefront of the changes is, and will continue to be, technology and growing consumer expectations. Since the beginning of this evolution, companies have either reacted too slowly and thus were absorbed, were forced to end operations entirely, had scrambled to match the competition, or found a way to use creative solutions to become exceptionally unique.

After years of substantial disruption by modern day retail titans such as Amazon and Walmart, many companies are now taking the initiative in their adaptation. As opposed to failing to change entirely or being forced to make drastic changes in order to stay in existence, many companies are focusing on their creativity to become a unique competitor. The new retail model which focuses on the consumer experience in order to develop hard earned brand loyalty is one of the newest phenomena being implemented by different companies to make themselves unique.

This transformation of the retail industry has happened incredibly fast, making it reasonable to pose the question, when will a traditional retail reemerge and stay stagnant for an extended period of time? Fortunately for the consumer, and unfortunately for the companies, it is sensible to say we have officially arrived at a point of constant growth. The capabilities of technology offer companies unparalleled access to consumer data, allowing them to know what consumers want and need in real time. The retail industry has officially reached the point of never turning back, a time where perpetual

innovation is not just desired or recommended, but unequivocally the most important part of any companies strategy for the future, that is, if they do not want to be pulled in by Amazon the Octopus' tentacles or feel the wrath of Walmart's almighty jaw; the behemoths are coming for companies large and small, industries new and old, so, if companies want to live to fight another day, they need to find a way to be different and give the people something they never knew they needed...constantly.

Appendix A Amazon Bookstore Locations

Location	Mall	Opened
Seattle, Washington	University Village	11/2/2015
San Diego, California	Westfield UTC	9/7/2016
Tigard, Oregon	Washington Square	10/25/2016
Dedham, Massachusetts	Legacy Place	2/28/2017
Chicago, Illinois	Southport Corridor	3/23/2017
Lynnfield, Massachusetts	MarketStreet Lynnfield	4/14/2017
New York City	The Shops at Columbus Circle	5/25/2017
Paramus, New Jersey	Garden State Plaza	6/14/2017
Bellevue, Washington	Bellevue Square	8/24/2017
San Jose, California	Santana Row	8/24/2017
New York City	34th Street	8/29/2017
Los Angeles, California	Westfield Century City	10/3/2017
Walnut Creek, California	Broadway Plaza	11/2/2017

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ACADEMIC VITA

Academic Vita of Rachel Gimuriman

Rfg5056@gmail.com

EDUCATION:

Pennsylvania State University, Smeal College of Business

Bachelor of Science in Supply Chain Management, Honors

Sapphire Leadership Academic Program

IES Barcelona: Liberal Arts and Business

University Park, PA

May 2018

Spring 2017

RELEVANT WORK EXPERIENCE:

Pricewaterhouse Coopers LLC (PwC)

Technology Advisory Financial Crimes Unit, Intern

New York, NY

June 2017-August 2017

- Supported FCU team in AML solution implementation project for a Casino and Gambling Space client with \$1.1 million in revenue
- Created process flows to document solutions software and formulated demonstrations and presentations for client and senior managers
- Wrote white paper for the FinTech space for online ID verification along payment space companies

Reckitt Benckiser Group PLC

Trade Marketing, Intern

Parsippany, NJ

June 2016-August 2016

- Analyzed relevant demographic and geographic data to assess growth opportunities for Personal Care/Multi-Surface/Pest portfolio
- Forecasted growth plans for new opportunities and presented financial models to senior management
- Improved marketing reach and analytics through close interaction with tech partners, including Facebook and Google
- Developed Excel Tool to analyze sale data and market gaps
- Conducted in-depth analysis to assess strengths/weaknesses of current strategies through 4P analysis to aid trade marketing decisions

Penn State Center for Supply Chain Research

Research Assistant

University Park, PA

June 2015-June 2016

- Oversaw all social media platforms and website for the Center for Supply Chain Research (CSCR)
- Wrote Smeal branded articles related to sponsors, distinguished alumni, and supply chain events
- Led SCM faculty research initiatives (E-commerce and Omni-channel) for corporate programming
- Organized corporate outreach communication to partner with companies for university events and career fairs

LEADERSHIP EXPERIENCE AND ACTIVITIES:

Alpha Omicron Pi, Epsilon Alpha Chapter

Vice President of Communications

Pennsylvania State University

December 2015-December 2016

- Managed all social media platforms to increase organization awareness, communicate with campus and Greek life community, partner with university initiatives and engage 200+ active members

Standards Committee Board Member

September 2014-Present

- Analyze risk management issues within the sorority and serve on committee to decide on ethical and fair actions

Active Member

November 2014-Present

- Contributing member of organization that collectively raised \$50,000+ for philanthropic initiatives and volunteered 1,000+ hours in 2016-2017 academic year

Smeal Student Mentors

General Member, Mentor

Pennsylvania State University

March 2015-Present

- Mentor 14 new students per academic year on transitioning to college, navigating the Smeal College of Business and making the most of their time as a Penn State student