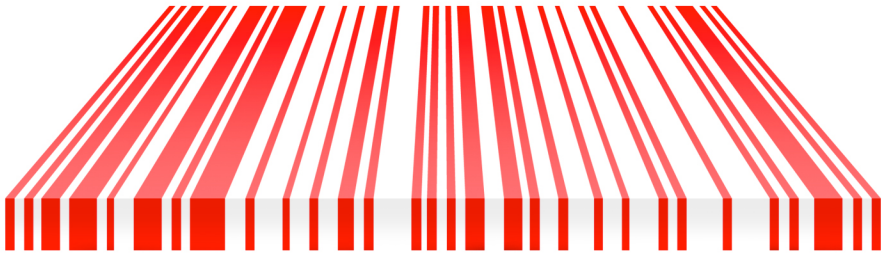


BARBARA E. KAHN

# THE SHOPPING REVOLUTION



*How Successful Retailers  
Win Customers in an Era  
of Endless Disruption*



## Praise for *The Shopping Revolution*

“Barbara Kahn has captured what is at stake for those of us who serve customers: As retailers compete for their attention, their expectations will continue to increase, and meeting—not to mention exceeding—their expectations will become an ever-higher bar that many will fail to reach. Fortunately, in *The Shopping Revolution*, Kahn reveals what has enabled today’s most successful retailers to thrive in the face of these challenges. An essential read for anyone who wants to keep pace with their customers and anyone who wants to understand the massive changes underway in retail.”

—Neil Blumenthal, co-CEO and co-founder, Warby Parker

“In *The Shopping Revolution*, Barbara Kahn zeroes in on how a few formidable retailers have gained ascendance and offers advice to retailers on how to develop their own winning strategies. This is relevant for anyone who wants to compete with the retail superpowers of today and earn loyal customers. How retailers and brands engage with customers is undergoing a profound transformation and *The Shopping Revolution* provides a thoughtful framework on how to innovate in the new world of retail.”

—Oliver Chen, Managing Director, Cowen and Company

“As Barbara Kahn powerfully argues, it is possible to compete in the era of rapidly changing shopping behavior. In *The Shopping Revolution*, Kahn dissects the strategies of leading retailers and offers powerful examples of how success can be achieved. A must-read for anyone who aspires to reach customers today—and tomorrow.”

—Marc Lore, CEO, Walmart eCommerce US

“A masterful storyteller, Barbara Kahn expertly unpacks the strategies of today’s seemingly unbeatable retailers. In the process, she shares their successes and failures and offers easy-to-implement takeaways. *The Shopping Revolution* is an indispensable guide for anyone who has a product to sell in the retail world.”

—Stuart Weitzman, Founder, Stuart Weitzman LLC

“*The Shopping Revolution* is a comprehensive and fascinating read on the challenges facing retailers in these disruptive times. Sharing the stories of successful companies, Barbara Kahn offers a framework to structure strategic thinking and set the path for success. Highly recommended for anyone who wants to understand how to compete in retail—now and in the future.”

—**Pierre-Yves Roussel, Member of the Executive Committee,  
LVMH (Louis Vuitton - Moët Hennessy)**

“*The Shopping Revolution* is ideal for those who want to gain insight into the dynamically changing retail industry. This great read covers the mechanics at play in a straightforward manner and will help readers understand the direction retailers must take to succeed.”

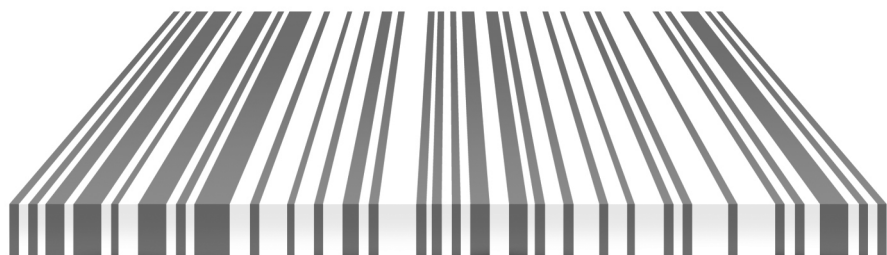
—**Al Sambar, Managing Director, Kurt Salmon, part of  
Accenture Strategy**

“The disruptive forces bearing down on retailers leave little room for error. Yet those very forces have created a vibrant marketplace filled with opportunities. In her new book, *The Shopping Revolution*, Barbara E. Kahn reveals how leading retailers are generating strong growth and offers strategies for competing in an ever-shifting marketplace. I highly recommend *The Shopping Revolution* to anyone who wants to understand the changes in retail and learn how to outperform the competition.”

—**Thomas Kingsbury, CEO, Burlington Stores**

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# Introduction: Disruption in the Retailing World

Call it an “apocalypse.” Call it “disruption.” Call it a “revolution.” Whatever you call it, it is sweeping through retail, destroying old established brands and changing the very experience of shopping. In 2016 Sports Authority shut down 460 stores, Walmart closed 269, Aeropostale closed 154, Kmart/Sears closed 78, Ralph Lauren closed at least 50, and Macy’s closed 100. The wave of destruction accelerated in 2017 with more than 8,000 store closings announced.

And it’s not just chains reducing the number of outlets: Major retailers are disappearing from the landscape. Bankruptcy filings by US retailers nearly doubled in 2016, and in 2017, 20 more major retailers filed for bankruptcy protection, including such prominent players as Toys “R” Us, hhgregg, Gymboree, and RadioShack. Predictions for the near future suggest more retailers will follow suit.

It is clear that retail as we know it is changing, and with it, the very experience of shopping. Retailers face a radically transformed marketplace that poses some very significant challenges if they are going to be able to continue to compete—and if they are to avoid the vicious cycle of store closings and bankruptcy.

What is causing all of this disruption? What forces are responsible for the revolution in retail? I see seven major disruptive trends, beginning with the gorilla in the room, the game-changing dominance of Amazon.

## **7 Forces That Are Transforming Retail**

There is no singular dynamic at play here. Rather, there are many different factors converging to change the face of global retail.

### ***1. The Game-Changing Dominance of Amazon***

The advent of Amazon has completely changed consumers' expectations about shopping. Beginning in 1997, Amazon introduced "1-Click" shopping, which eliminated the need for shoppers to reenter payment information every time they purchased. This started a long history of innovation where Amazon systematically removed the pain points in the shopping process. It introduced free shipping, unconventional return policies, dynamic pricing, and personalized recommendations and reviews.

Amazon also offered the "endless aisle," a very broad assortment with more than 1 million SKUs available online. It accomplished this by making it easier for small third-party sellers to sell online through Amazon Marketplace. In 2005 Amazon introduced Amazon Prime, the ultimate loyalty program, which now has tens of millions of members around the world. In 2006 the company launched Amazon Web Services (AWS) to allow small retailers to compete with bigger competitors by providing server capacity. Today the profitability that comes from AWS and fees from Amazon Marketplace allow Amazon to tighten margins even further in its retail business. Finally, Amazon continually innovates, from investments in robotics and drones to devices such as Amazon Echo.

### ***2. Omnichannel Shopping***

There are also significant changes happening to the actual shopping process. People are buying more online; current estimates are that online shopping is about 30% of total retail. Mobile commerce has also grown, with some estimates suggesting an increase from 2% in 2012 to about 31% in 2016 in the United States.



With the ubiquity of mobile phones and their central role in the shopping experience, people expect to be connected to information continuously. They want instant gratification and on-demand fulfillment, and they expect high-quality shopping experiences.

Everything is easier on the mobile. It is easier to get information, to click on a purchase, and to post a review. Mobile payments are also making it easier to shop in physical stores. From the retailer point of view, if consumers can be trained to use their mobile apps, the retailer can target consumers with promotions or information as they walk around the store.

But shopping is not really one channel or another; it is an omnichannel experience, which means that consumers expect seamless integration across all of these channels.

### ***3. Massive Data Collection***

With this seamless integration across all channels, it is now possible to record scads of customer data. Mining these data through artificial intelligence techniques allows retailers to personalize and customize shopping experiences.

Personalized offerings include deals that are offered individually at the right time, in the right place. Marketing in general is more tailored, and websites morph as a function of past behavior. Even in-store behavior can be individualized as consumers learn to use in-store apps to get price and product information.

Better use of data can help retailers to adapt to trends more quickly and provide better point-of-sale information. Better data also leads to more accurate forecasting, which can help retailers become leaner and more efficient and make logistics more effective.

To monetize the data in these ways requires both sophisticated data scientists and enough interaction with the customers to be able to collect enough data to draw conclusions. Some retailers like Amazon and grocers probably interact with consumers once or twice a week, while others, like department stores, may only be able to

capture data from customer interactions two or three times a year. This suggests that the retailers who do not have high frequency of interaction may have to partner with other entities like Google or Facebook, or even other retailers or brands, in order to collect information.

#### ***4. New Technologies***

In addition to the algorithms that are being developed from artificial intelligence and machine learning as a result of the collection of big data, there are important new advances in technology, both in the store and at home, which will change shopping experiences.

Retailers have high hopes for the advantages that will come through virtual reality and augmented reality. Already it is possible for customers to explore a complete virtual reality environment in order to determine whether they want to buy a particular product. For example, if one is considering buying a tent, that tent can be observed on the mountaintop in 3D; one can walk around it and get inside it.

Augmented reality is also being used by some progressive retailers. In the beauty category, customers can put virtual makeup on their real faces. In home design, customers can put a virtual couch in their real living rooms. Warby Parker uses a combination of facial recognition and augmented reality to allow consumers to try on their glasses; soon this will extend to eye exams.

Some stores in Beijing and Shanghai are also experimenting with contactless shopping, or high-tech fully automated stores that are unmanned and allow people to buy products without checkout lines. Amazon has stores that allow this type of shopping but it has not eliminated the sales associates. Walmart is experimenting with a contactless shopping store that will open in Long Island at the end of 2018.

#### ***5. Vertical Integration***

Vertical integration is about integrating the retail value chain so the brand does the manufacturing, branding, and distribution. Products can go directly from the factory to the consumer or through the

brand's own retail store or showroom, eliminating the need for the multibrand retailing channel and those corresponding margins. This typically allows for higher-quality products to be sold at lower prices.

Luxury brands are also going direct—not necessarily to lower prices, but to increase service, customization, and preservation of the brand narrative.

Many of the new “digitally native vertical brands” competing on high quality at lower cost feature price transparency as part of their customer value. Vertical integration has allowed for shorter delivery times, better return policies, and full access to information and inventory.

Vertical integration can also protect some retailers and brands from having to deal with Amazon's ruthless pricing strategies. The advantages of vertical integration are the potential for lower costs and higher control of quality and customer experience. There can also be better control of the supply chain, thus providing inventory management benefits. On the other hand, direct distribution can involve a great deal of startup capital and infrastructure, and it is often easier for small startups to scale by jumping aboard a well-established retailer like Amazon or the department stores.

## ***6. Over-Storing of America***

Even without all of these changes in technology and data collection, there was bound to be a shakeout in physical retailing because America is “over-stored.” There is just too much supply.

Between 1970 and 2013 the number of malls in the United States grew more than twice as fast as the population. The United States has five times more shopping spaces per capita than the United Kingdom and 10 times more than Germany.

The industry has been building new stores faster than consumers can spend in them. There are several reasons for the missed forecasts. In some cases, developers were building more stores in areas where the population was decreasing, like in Cleveland. In other

areas, like Phoenix and Atlanta, stores were built in anticipation of population increases that didn't occur because of the housing bubble. The Great Recession didn't help, as people started spending less. Stores are also in the wrong places: Demographics trends showed people moving back to the cities, but a lot of the stores were in suburban malls. Mall visits declined 50% between 2010 and 2013. And when anchor stores like Macy's fail, they take down the whole mall.

In response, smaller footprint stores are being built now, particularly in urban areas. Retailers are changing their format from selling to showroom to support online shopping. They are also developing distribution centers where customers can pick up online orders or make returns or exchanges. We are also seeing more pop-up stores, which can offer better economics because they do not need to be open 365 days a year, nor do they need to be permanently outfitted. Instead, they can be used strategically for short-term advantage for building brand awareness, promoting innovation, and supplementing high-demand seasonality.

Meanwhile, some of the stronger retailers and brands are opening big, beautiful flagship stores in global centers of commerce. These flagship stores are not necessarily designed to sell product but rather to build brand and provide loyalty-enhancing interactive experiences.

## ***7. A New Generation of Customers: Generation Z***

The media has been replete with discussion of the power of millennials. Accenture estimates their spending power will be somewhere around \$1.4 trillion by 2020, representing 30% of all sales. But there is a new generation in town. Generation Z, or "Gen Z"—those born starting in the mid-1990s and just entering college now—will make up 40% of the consumer base by 2020; they currently influence family spending as well. One estimate puts their buying power at \$44 billion.

One big difference between millennials and Gen Z'ers is that millennials experienced the Great Recession, while Gen Z grew up in flusher times. This makes them somewhat less price conscious. They are also more attuned to sustainability issues.

Gen Z'ers are not as brand loyal as past generations because they are used to seeing new digital brands spring up virtually overnight, and they are comfortable giving up their personal data—but they are sophisticated enough to demand that their data be protected.

Like millennials, Gen Z consumers are digitally native and comfortable with online shopping. But these new shoppers are not shunning physical stores. What they do have, however, is different expectations for their store experiences. They expect and embrace technology in stores; they are comfortable with interactive shopping screens, self-checkout, virtual try-on, and other experiences. While they expect stores to offer fun experiential interactive shopping experiences, they also expect ultimate convenience as well. And those stores that don't deliver fall out of their favor.

Gen Z'ers do not want "things." They want experiences. Partly this is because they get currency from sharing photos on social media. They are more likely to rent or share products; they don't need to own things. As they embrace these trends, older Americans follow.

Gen Z'ers are also comfortable omnichannel shoppers and are quite used to using their phone in tandem with their in-store shopping. They value consumer reviews. They are sophisticated with price comparisons; they have more access to price data and use price calculators. But that doesn't mean they don't appreciate luxury. Like other generations there is great heterogeneity in price sensitivity.

They are also comfortable searching for information for themselves before they make purchases, so they are more demanding, and they expect more from in-store sales associates. Social media is just part of their everyday life. They share photographs of experiences and products with their networks.

## **How Can Retailers Compete in This Marketplace?**

One of the keys to both Amazon's success now and Walmart's success in disrupting retail in the mid-nineties is a fierce understanding of what customers want. Winning retailers have to be completely customer-centric. This means they need to be mindful not only of what

products customers want, but also of the importance of convenience—of removing the pain of shopping.

In addition, given how competitive the marketplace is today, it is not only important to fill customers' needs, but to do so in a way that is even better than the competition. This requires not only massive amounts of customer data, but also keeping track of competitive actions and anticipating future innovation and response. Finally, it is essential to keep pace with ever-changing technologies.

As scary as the Amazon threat appears to many, there are still a number of retailers who are doing quite well in this new world. That is the ultimate purpose of *The Shopping Revolution*—to explain how they are doing it. Not only do I identify and break down Amazon's remarkable strategy, I explain how other retailers' strategies are still generating strong profits and growth.

## Why I Wrote This Book

As professor of marketing at The Wharton School of the University of Pennsylvania, I have had the unique opportunity to study the changing retail landscape for many years. Most recently, I directed the Jay H. Baker Retailing Center at The Wharton School, from January 2011 through July 2017.

Throughout those years I had extensive conversations with CEOs and C-suite executives of the largest retailers in the country, including Macy's, Saks, Lord & Taylor, Nordstrom, Ralph Lauren, Tory Burch, Costco, Walmart/Jet.com, Victoria's Secret, Barneys, LVMH, Estée Lauder, Stuart Weitzman, Sephora, Michael Kors, Coach, PVH, Alice and Olivia, Burlington, Perry Ellis, Vince, Ascena, Spirit, Walgreens/Duane Reade, Haddad Brands, Modell's, and Williams-Sonoma, among many others. I have also had the opportunity to work with some of the newer startups like Warby Parker, Bonobos, Birchbox, Harry's, Allbirds, Glossier, Story, Tommy John, Eataly, Rebecca Minkoff, and many others.

In addition to these conversations, I religiously read the retailing trade journals and newsletters, and, of course, conducted my

own basic primary research in which I was trying to understand and predict consumer decision-making in retailing and health services contexts.

My deep immersion in retail research led me to understand what it takes for companies to compete now. I have distilled those insights into a strategic framework that explains both how successful companies are surviving and thriving in today's retail environment and where opportunities exist for retailers that need a more competitive strategy, as well as startups looking for a way in.

In chapter 1, I introduce the Kahn Retailing Success Matrix, which is built on two simple marketing principles:

1. Customers want to buy something they want (product benefits) from someone they trust (customer experience).
2. In order to win customers, retailers must offer products and experiences that are better than the competition's.

In the chapters that follow, I break down the strategies of dozens of winning companies using this matrix. In chapter 2, you'll read about how Amazon's laser focus on customer convenience has been a winning strategy. In chapter 3, I explore how Walmart and other retailers leverage low prices to be leaders. In chapter 4, the focus is on how vertically integrated brands are winning, from Warby Parker, Bonobos, and Casper to Trader Joe's and Zara. In chapter 5, you'll learn about the retail strategies for luxury, where low prices and accessibility are undesirable. Finally, in chapter 6, we'll look at how to compete on customer experience. Eataly, Story, the treasure hunt experiences offered by Costco or T.J.Maxx, or the exciting ever-changing beauty landscape in Sephora all demonstrate the lure of emotional and sensory engagement.

As Al Sambar, a retail expert at Kurt Salmon, says, "If you understand your customer enough to be the exclusive provider they trust to bring them a product or service they desire, then you have nothing to worry about from Amazon. But most brands should assume their consumers interact with Amazon 10 to 50 times more frequently than

they do in their current distribution channels. Trust follows frequency. Amazon is winning frequency in a landslide. So even the best brands must be wary.”

Competing in this ever-changing marketplace isn’t easy, but it can be done if you’re committed to starting the journey now.



## About the Author

**Barbara E. Kahn** is Patty and Jay H. Baker Professor of Marketing at The Wharton School at the University of Pennsylvania. She served two terms as the director of the Jay H. Baker Retailing Center. Prior to rejoining Wharton in 2011, Barbara served as the dean and Schein Professor of Marketing at the School of Business Administration, University of Miami (from 2007 to 2011). Before becoming dean at UM, she spent 17 years at Wharton as Silberberg Professor of Marketing. She was also vice dean of the Wharton undergraduate program.

Barbara is an internationally recognized scholar on retailing, variety seeking, brand loyalty, product assortment and design, and consumer and patient decision-making. She has published more than 75 articles in leading academic journals. In addition to *The Shopping Revolution*, she is the author of *Global Brand Power: Leveraging Branding for Long-Term Growth* and coauthor of *Grocery Revolution: The New Focus on the Consumer*.

Barbara has been elected president of the Association for Consumer Research, elected president of the Journal of Consumer Research (JCR) Policy Board, and selected as a Marketing Science Institute trustee. She was also an associate editor at *JCR*, *Journal of Marketing*, and *Marketing Science*. She has recently been elected as a fellow for both the Association of Consumer Research and the Society of Consumer Psychology.

Barbara received her PhD, MBA, and MPhil from Columbia University, and her BA from the University of Rochester.



## About Wharton Digital Press

Wharton Digital Press was established to inspire bold, insightful thinking within the global business community. In the tradition of The Wharton School of the University of Pennsylvania and its online business journal, Knowledge@Wharton, Wharton Digital Press uses innovative digital technologies to help managers meet the challenges of today and tomorrow.

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Founded in 1881 as the first collegiate business school, The Wharton School of the University of Pennsylvania is recognized globally for intellectual leadership and ongoing innovation across every major discipline of business education. With a broad global community and one of the most published business school faculties, Wharton creates economic and social value around the world. The School has 5,000 undergraduate, MBA, executive MBA, and doctoral students; more than 9,000 participants in executive education programs annually; and a powerful alumni network of 96,000 graduates.

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