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From Point of Sale to Point of Need: How Digital Technology Is Transforming Retailing

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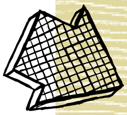
21st-century shopping /// Once upon a time – actually no more than ten years ago – we used to drive to a nearby store to buy the products we needed. At that time the classic, neatly organized retailing value chain was still in place: Manufacturers developed and produced products and brands. The retailers' role was to distribute those products physically, to build an assortment, to inform and counsel customers, to conduct the legal transaction and payment and, finally, to offer additional services.

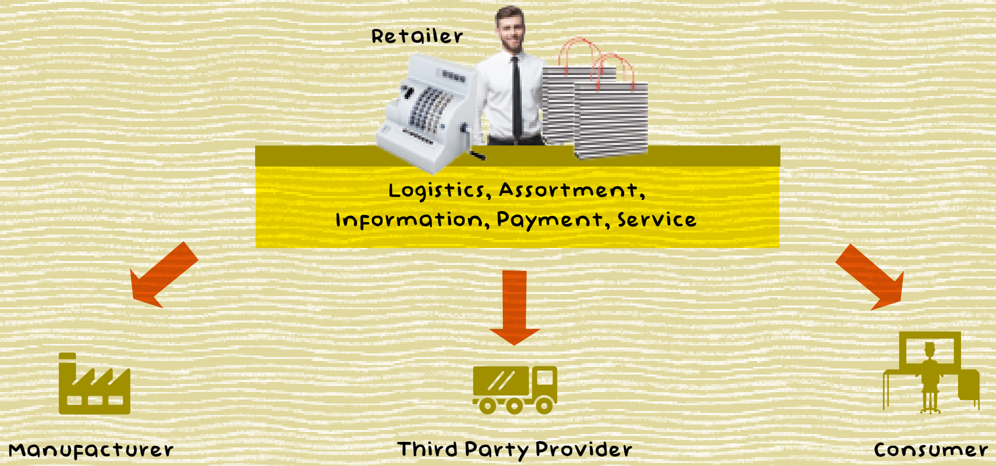
Today, ever more consumers are acting very differently: To purchase certain products they do not even go near a brick-and-mortar store, and if they do enter a store they are often so well informed that a clerk has little service to add. It's normal that consumers extensively browse online before they purchase, looking at product ratings and reviews, like on Idealo or Yelp, or at manufacturers' websites. More and more they buy online immediately – at Amazon, for instance, or a manufacturer's own online store. As a consequence, specialized third parties take over other previously retailer-bound, activities. DHL and other carriers organize physical distribution and payment is done via PayPal or credit cards.

Digitalizing the point of sale won't be enough /// Naturally, store-based retailers are not standing still in light of these developments. Rather, they are reacting by starting to "digitalize" their point of sale. Depending on the product category, this may include measures such as the introduction of shopping apps, RFID-based inventory management, digital loyalty programs, geofencing, smartphone-based in-shop navigation, digital product location maps, intelligent dress-

FIGURE 1:

Classic retail functions are increasingly being taken over by other parties





ing rooms and many other new technologies. While these POS-oriented innovations are a seemingly valid response to the purely online players, they address the consequences of the digitalization only superficially. They still do not address the actual underlying problem – the increasing impact of digitalization on consumption itself and not just on the mere store transaction. Instead of asking how the traditional point of transaction in a physical store can be just digitally augmented, retailers should rather ask how digitalization can be used to bring new value to their consumers along the entire consumption process. This is where the actual competition in the future will take place.

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> Digitalization offers the opportunity to have an impact on consumers' decisions much earlier – right when a need occurs.
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Starting out with the digitalization of consumption ///

In order to understand the true impact of digitalization, one needs to think backwards from the consumer. The classic consumption model encapsulates the three basic stages of need occurrence, of the actual transaction or shopping and of consumption. These steps tend to be seen as discrete and temporally as well as physically separated. For example, a consumer runs out of cereal, writes this on the shopping list, goes to the store sometime later to buy the product and eventually starts consuming cereal again back at home. According to this model, the traditional role of retailers primarily becomes apparent in the transaction stage when consumers visit the store to buy the product.

In our digital age, need occurrence, shopping and consumption are moving much closer in time and space and becoming more and more naturally integrated into daily routines. That is, the three stages are becoming blurred and are blending into the life of consumers in real time: Increasingly, we shop right when the demand occurs and consume when we buy. Thus, shopping becomes an ambient activity that is executed everywhere and anytime – at home, on the go and in the store. It satisfies the need for convenience and is executed both in solitude as well as in social contexts, offline as well as online.

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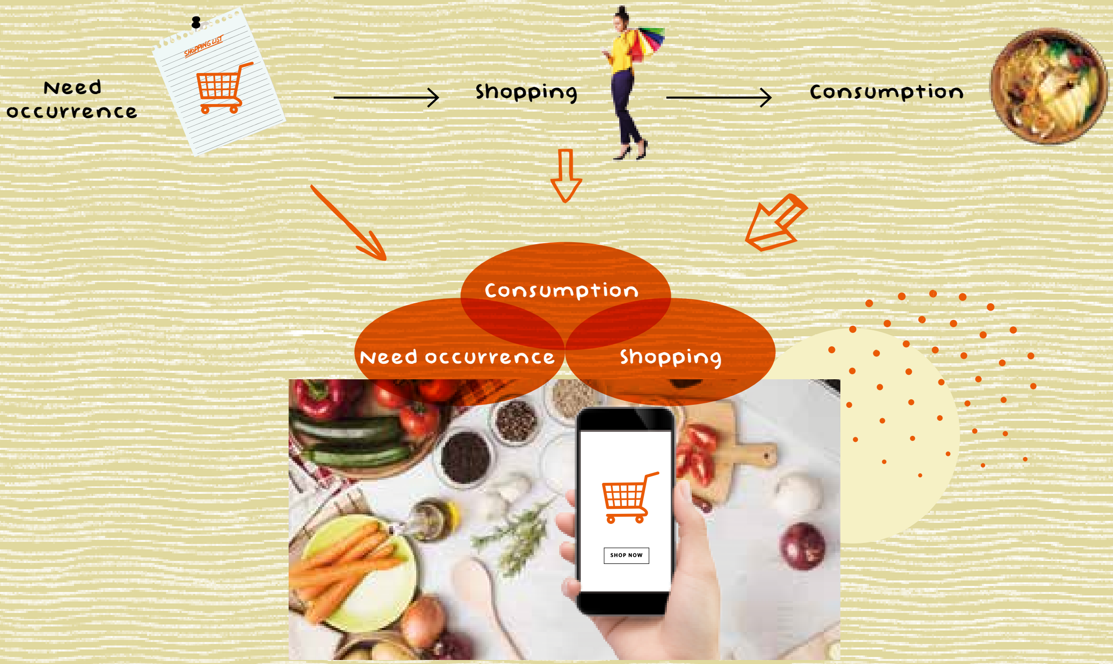
How retailing works in the digital age /// Digitalization offers the opportunity to have an impact on consumers' decisions much earlier – right when a need occurs. Brands have to be there when consumers like to interact. If retailers want their share, they have to build an ecosystem of presence where they organize themselves around consumption and the lived reality of consumers. And they have to be present in the mind of the consumer, too! In fact, being recalled matters more than ever. Thinking of a brand when the need arises is exactly what Google calls the "zero moment of truth."

Some brands have already developed new forms of retailing that use digital technology to account for changing consumer behavior. If retailers do not want to be bypassed, they need to leverage digital technology at the need-occurrence stage themselves. It is not enough to merely digitalize the point of sale, they need to extend their business models further to catch up with recent trends like the following ones and to develop their own solutions:

> ***Instant purchasing.*** Consumers increasingly transact right when the demand or need occurs. Today, when we realize that we have run out of hair conditioner while showering, we can directly order a new bottle through Dash technology then and there. And tomorrow, perhaps, when consumers are watching a streamed movie or browsing Pinterest, they will be able to point and click on a character's suit or tie and buy it right away – without ever going to a retailer's site. On Stylebook, a German fashion blog site, this is already possible.

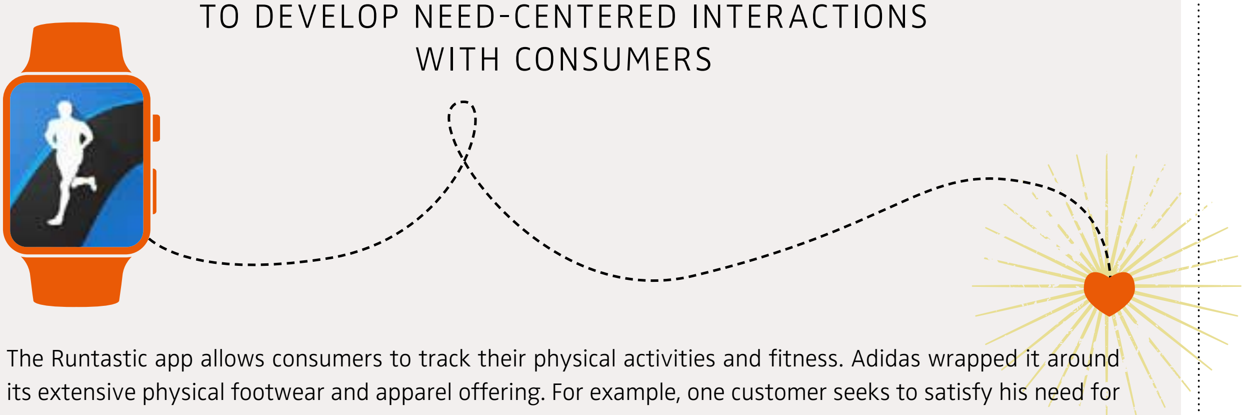
FIGURE 2:

Digitalization blends individual consumption phases and integrates them into consumers' lives



{ Box 1 }

HOW ADIDAS USES DIGITAL OPPORTUNITIES TO DEVELOP NEED-CENTERED INTERACTIONS WITH CONSUMERS



The Runtastic app allows consumers to track their physical activities and fitness. Adidas wrapped it around its extensive physical footwear and apparel offering. For example, one customer seeks to satisfy his need for advanced personal fitness by using this digital interface, gauging his performance over time and purchasing smartphone-based coaching lessons from world-class athletes. Another customer is able to address her need for a social fitness experience by finding running mates with the app, exploring new courses and terrains that others have recommended and sharing ratings or evaluations. While the two customers have entirely different needs, both can satisfy them utilizing the digital layer that is spun around the brand and the product. The big advantage for Adidas is that it allows the company to keep up with those customers' activities, their success and failures. It provides topics for relevant conversations and occasional customized selling attempts. Plus, these customers self-select themselves into the benefit category they are seeking, freeing up costly and error-prone marketing tactics.

> ***Subscription-based purchasing.*** The growing popularity of subscription-based platforms is also undermining the primacy of the store as the main consumer touchpoint. In various categories – including music (Spotify), video (Netflix), transportation (Zipcar), underwear (MeUndies), groceries (Blue Apron), news (Blendle) and men's wear (Lewk) – a subscriber can either conveniently choose immediately from a broad selection at the moment of need or simply sign up and receive a regular delivery — without having to engage directly with any other intermediary.

> ***Automated purchasing.*** We're increasingly seeing many types of products being purchased automatically – on the basis of "intelligent" products. The latest generation of Whirlpool washing machines, for example, can autonomously order a pre-specified amount of washing detergent after a predefined number of cycles. Samsung's new range of refrigerators allows for "food management" by automatically re-ordering when the stock of, say, yogurt drops below a certain amount. Especially for fast-moving consumer goods, this development will also significantly push non-store-based sales.

Once customers decide to "lock themselves in" with a brand via subscription, dash technology or automated buying, it is much harder to dislodge this brand from the consumer. When consumers don't face the choice at the shelf, a preferred brand's position gets further entrenched. At the same time, competing brands have a much harder time replacing the incumbent. And once locked in, traditional advertising will be even less efficient for competitors.

From influencing transactions to influencing decisions

/// The key consequence of new consumption habits is that buying has become an ambient activity – blending naturally into consumer's lived reality. In contrast, current marketing practice is for the most part still perfecting the strategy of shopper marketing – which rests on the conventional assumption that most decisions are made on impulse in the store. Many retailers still enter into an arms race of persuasion and hard selling at the point of sale. In order to sway the customer when the time comes to transact they try to "hit hard enough" with prices, promos and presence. Such tactics ignore that the decision about the purchase of a particular product is in more and more cases moving away from the POS altogether. As those purchase decisions happen during consumers' ordinary daily life and consumption routine, brands as well as retailers have to learn to engage in a much more natural way with their consumers during the entire consumption cycle. These considerations might have been the reason why Adidas decided to purchase the fitness app Runtastic in 2015 for US$240 million (see Box 1).

New technological and digital opportunities facilitate consumers behaving or consuming in such a way that better meets their true needs. Understanding consumers' needs and how they relate to the changes in consumption habits is key to adapt retailing and selling practices altogether. Beyond offering value with a solid product, the new digital layer will unlock hitherto unknown levels of consumer engagement and experience. Those brands and retailers that will eventually harvest the returns are those that can master the challenge of engaging with consumers at the point of need occurrence.

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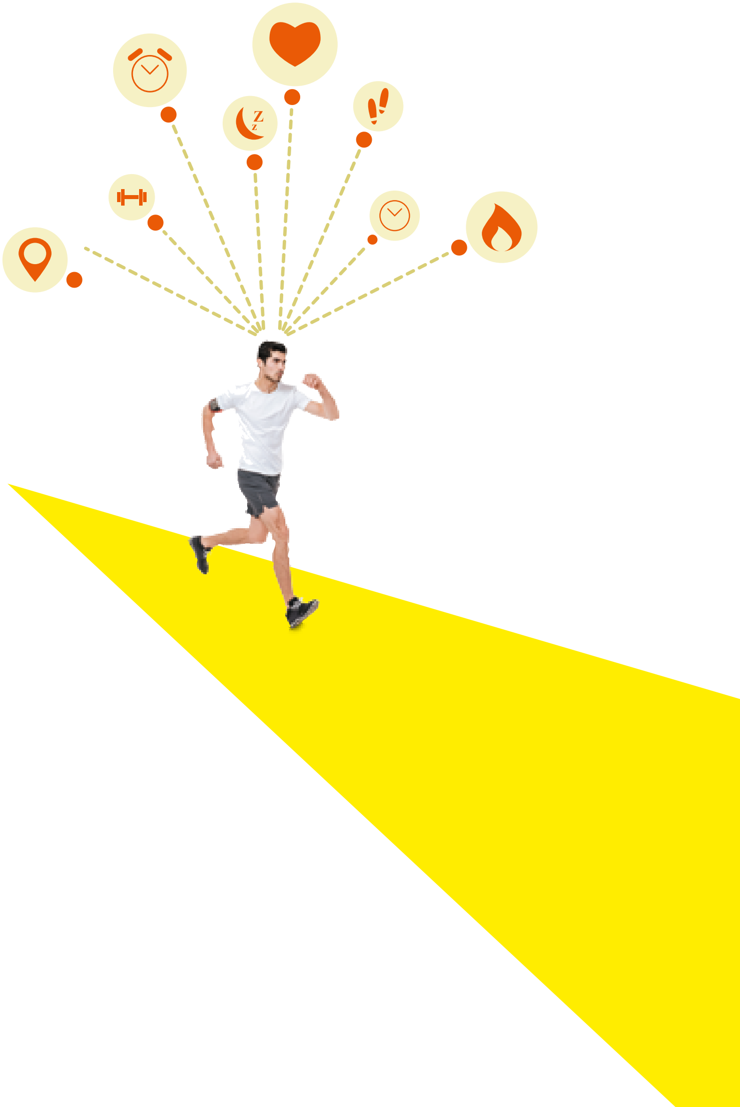

FURTHER READING

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