



Reinventing the Retailer: Retaining Relevance and Customer Access

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*Retailing, E-commerce,
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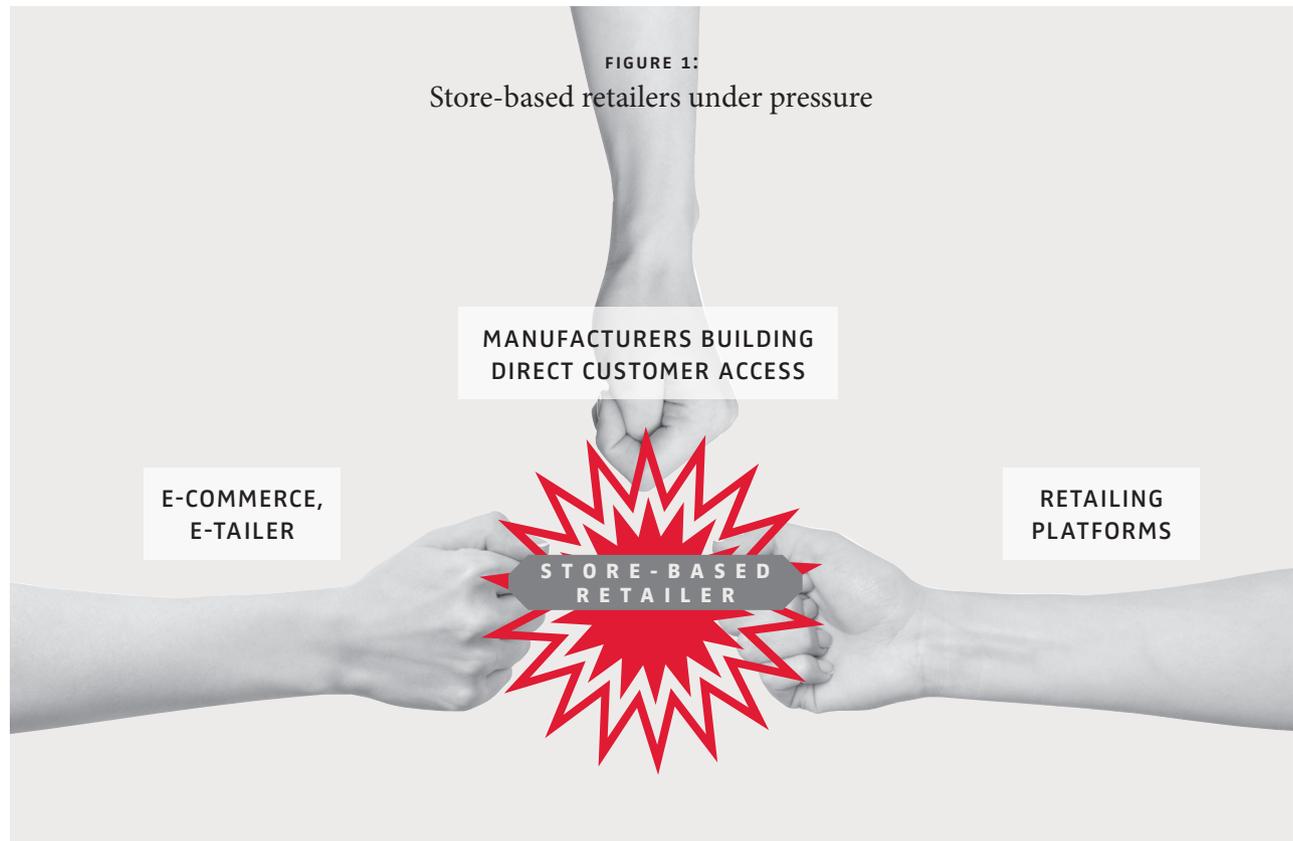
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Turmoil in the retail-scape /// “Stores only existed because the internet hadn’t been invented.” This provocative statement by Oliver Samwer, CEO of Rocket Internet, boils down the dilemma many traditional retailers are facing today. The sector is evolving from a structurally rather rigid and somewhat unemotional mainstay in the economy to a most dynamic field where old business models cease to exist, and new business models and players are bustling.

Take the venerable department store concept which has been thriving for decades and decades. It has lost a lot of its traditional appeal and it is coming heavily under pressure these days. Its role in the lives of many US shoppers declines along with the closures that sweep through the shopping mall landscape. Sometimes it seems hard to separate the difficulties of the anchor store from the struggles of the mall itself. In Germany, the two surviving (what a telling description!) stores, Karstadt and Kaufhof, eventually merged in order to rationalize cost even further. With respect to the value created for consumers, the outcome is still wide open.

Contrast these struggles with the triumphal march that Amazon has displayed. From its early beginnings in books and music it has become a technology powerhouse, active in virtually all Western mature markets across all consumer goods categories. In 2018, the share of Amazon alone of the entire E-commerce sales in the US and in Germany approaches nearly 50 %. What a feat! This company seems to be offering something that consumers certainly appreciate. But it’s not only Amazon.



Retailers have only begun to run the marathon of change /// Existing retailers have certainly started to digitalize their entire offering and provide a multi- or omni-channel approach. Beyond that, however, manufacturers are increasingly reaching out to the end consumer, wanting to build a direct interface. Likewise, the platform concept with the likes of Alibaba, Wish, Etsy, or Zalando is finding extraordinary appeal from a consumer perspective. These are a few but still massive changes that the retailing industry encounters. As more and more customers prefer the convenience of internet-based shopping and direct-to-home delivery, many traditional retailers are forced to adapt under the pressure (see Figure 1).

But what is the backdrop against which we observe these changes? In fact, three mega-forces are driving these transformations (Box 1). In combination, these three mega-forces will considerably drive and alter existing consumption patterns. It is at the confluence of these three forces where new business models in retailing will be born and will flourish. And

it is here where old retailing models that are simply no longer able to address the associated changing consumer needs will vanish – some quickly, some slowly.

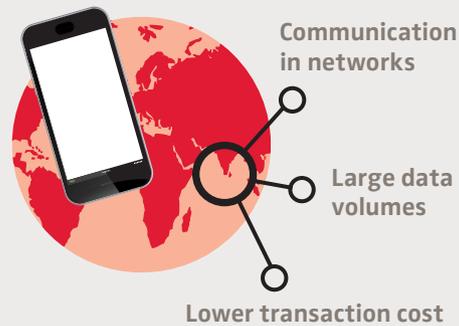
How is the digital transformation affecting value creation in retailing /// The traditional value-creation processes of retailers revolved a lot around consumer interaction at a physical point-of-sale and the fact that the merchandise and the assortment had to be furnished and assembled efficiently. The classical retail functions encompassed the building of assortments, physical logistics of merchandise, legal transaction with the consumer, information provision and communication in general, and the rendering of ancillary services. Retailing channels remained viable by performing functions that reduce the end user's search efforts, waiting time, storage requirements and other costs. Retailer's operations revolved large around making supply and supply-chain processes efficient while creating a positive POS experience in widely varying retailing formats.

{Box 1}

MEGA-FORCES DRIVING TRANSFORMATION IN RETAILING

Digitalization →→→ →→→ →→→

At heart, the digital transformation is characterized by the advent of very large data volumes that need to be properly stored and processed. Companies are required to interact with all stakeholders in the form of networks and less bilaterally. Further, the entire value systems become massively more efficient as the costs of all transactions drop. This shift will enable entirely new business models and value creation opportunities – as we can observe them readily.



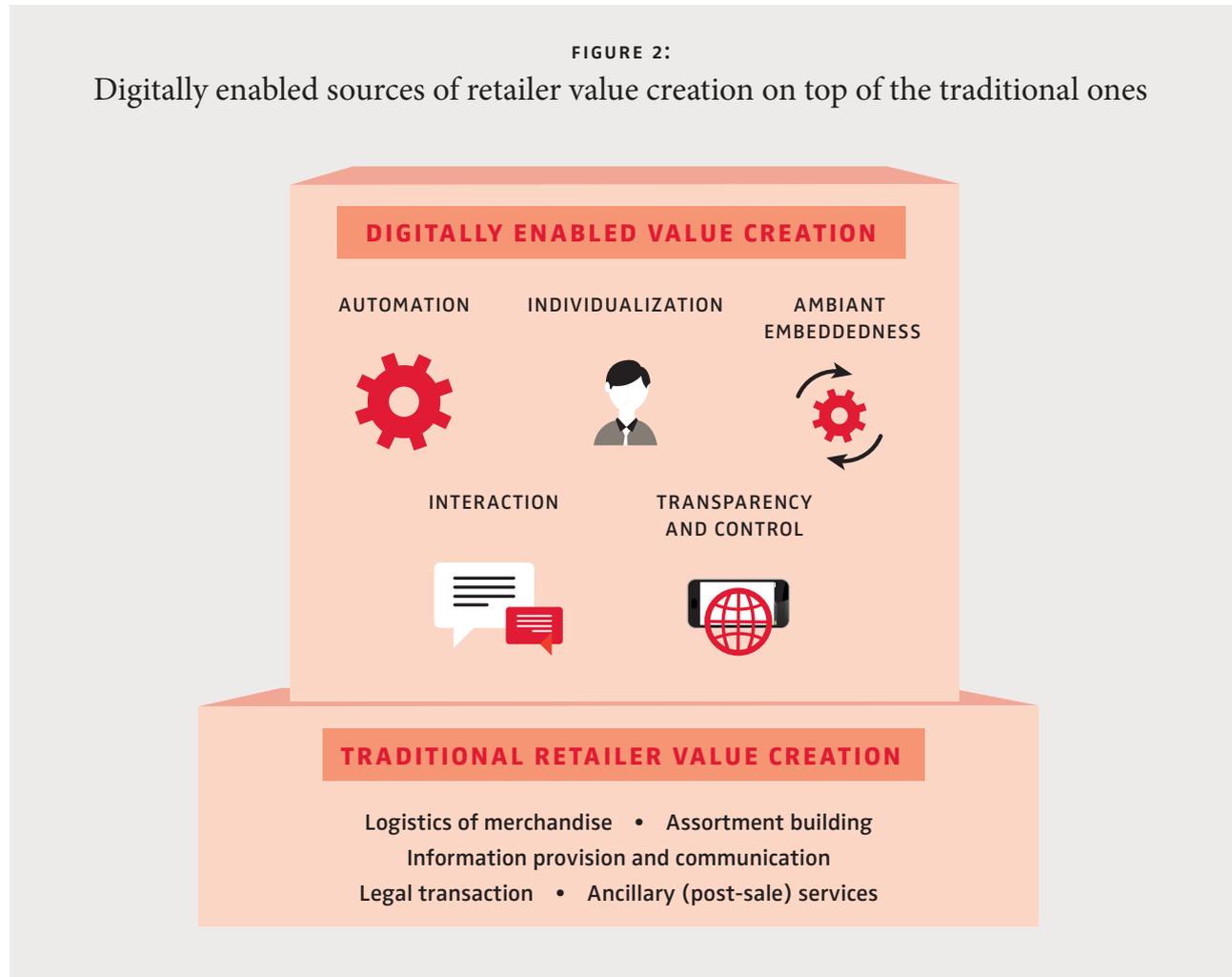
Demographic changes ←←←

The demographic development encompasses not only the general aging of the population in all mature western societies but also the transformation of the consumer base in other respects. For one, there is a strong trend towards an urbanized society. According to the 2018 United Nations Urbanization prospects, 55 % of the world's population lives in urban areas today and that proportion is expected to increase up to 68 % by 2050. Along with the continuing trend towards smaller (single) households and the ever-increasing ethnic diversity, we are going to see a significant impact on which kinds of products and services are being demanded. Likewise, supply chains, warehousing and physical delivery will be impacted multifold.

Change in values and norms →→→ →→→

Third, consumers themselves change their underlying need structure. Lead of course by the infamous Generations Y and Z, the trend gravitates towards an ever-more individualized demand. Consumers express a strong and explicit desire for positive experiences which they expect "here and now". Also, at least a significant segment increasingly cares for offerings characterized by health and sustainability attributes. Finally, as consumers are increasingly "always-on" and digitally socially connected, this aspect has to be built in.





However, this has become table stakes today and the requirements from consumers have far exceeded those traditional must haves. Accordingly, many stationary retailers have improved the POS experience and they have digitalized a number of store and shopping-related aspects. Store shopping apps, RFID-based inventory management, digital loyalty programs, geo-fencing, in-shop navigation, intelligent dressing rooms and the like are on the rise. This is important and valid to do. Yet, the requirements go beyond that.

The new sources for value creation /// Today, the retailer “as a brand” has to achieve relevance and meaning in the life of consumers. It must develop significance beyond the interaction in the store. The focus thereby lies increasingly

on the very mundane life, including work, leisure time, travel, vacations, activities etc. – and not just the act of shopping. On top, the retailer has to be accessible both physically and digitally and consumers must be able to easily obtain information and get in touch with the vendor. Thus, in order to create systematically new value for consumers, retailers have to think along the following new lines value creation sources.

> **Automation** /// Automation refers to all activities and processes that operate automatically, without active human input or control. Take for example the Amazon Dash technology to automate reordering of replenishment items such as a toner for a printer. Powered by the advent of the Internet of Things (IoT), smart household appliances such as

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washing machines or refrigerators can automatically order refills when the supply is running low. The automation of marketing and communication processes such as reminders, in-stock alerts, chatbots, etc. will offer customers valuable real-time information and responses. Moreover, automation of consumer processes such as (re)purchasing simplifies or eliminates routine processes for consumers. Automation enables thus value creation through greater convenience and more efficiency through an optimized product use.

- > **Individualization** /// Individualization refers to the customization and personalization of the offering and of marketing efforts that are tailored to an individual's current needs and preferences. The advances in individualization possibilities address one of the great needs of today's consumer expectations. Readily available digital data from sources like online reviews, social-media activities or smart products can be combined with customer behavioral data. Insights from these data will permit truly individualized marketing efforts and companies can engage in meaningful, real-time, one-to-one communication with the customer. Individualization will thus enable value creation through greater relevance of the offering and greater efficiency with respect to information search and decision making. This efficiency also increases perceptions of convenience. It should not go unmentioned that the desire for individualized products on the basis of specific databased user profiles comes at the cost of lesser privacy. Increasingly consumers understand that they "pay with data" about their own behavior and preferences for the advantage of having a more customized offering. Hence, consumer will have to make their personal trade-offs in that respect. Also, retailers should be aware that the need for privacy could also be a powerful dimension on which to generate benefits for consumers.

- > **Ambient embeddedness** /// Ambient embeddedness refers to the integration of processes, products, and communications into customers' routines, making them present in the immediate environment and an integral part of everyday life. In other words, it is the meshing of digital tools into the very mundane and natural physical life of consumers. For instance, voice-based digital assistants such as Amazon's Alexa are becoming extremely prevalent. BMW cars, Marriott hotels, household appliances and increasingly more services use such technologies and enable very natural voice-based interactions. Of course, these interactions also include shopping activities. Another example is geo-targeting, which facilitates the delivery of location-based push messages when a customer enters a specific geographic area. Above all, digital technologies foster ambient embeddedness by connecting customer data across multiple platforms, channels, or devices and by integrating interactions seamlessly into consumers' lives. Depending on the context, ambient embeddedness will enable value creation through greater convenience, better experiences, and higher relevance of the offering.

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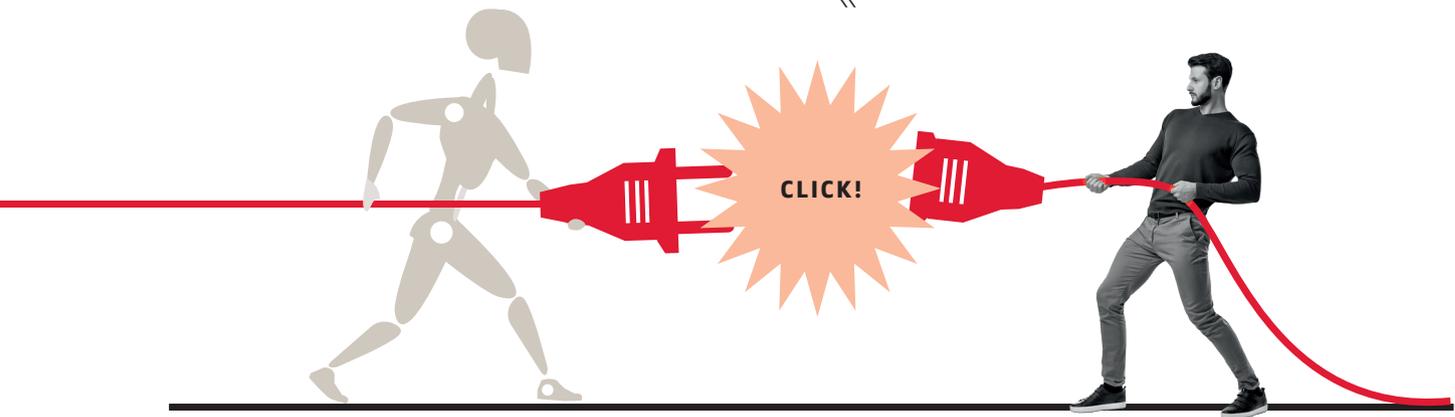
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> **Interaction** /// Interaction encompasses all virtual and physical relations and refers to all aspects of how customers and/or companies communicate and interact. Importantly, it refers to the nature of the interaction and not to the channel where it takes place. Interaction is one of the basic and very powerful human needs that increasingly happens in an online context. Digital technologies are being used to enrich traditional interactions or to enable new ones along the entire consumer decision and use process. Depending on the context, interaction primarily enables value creation through experiences, relevance and convenience. Contacts range from technology-enriched pre-purchase interactions over digitalized product-user interactions to customer-to-customer post-purchase interactions on social media. For example, IKEA has released the augmented reality app "Place." This app allows customers to see how specific furniture would look in their homes, thus improving the buying experience. At the same token, brands have to learn to interact with customers along the entire purchase and consumption phase. They need to contribute to a positive experience even while consumers are actually using the product. While human-to-human interaction is the very traditional playing level for stationary retailers, intelligible human-to-machine interaction will be the very next frontier to master.

> **Transparency and control** /// Transparency and control refer to processes and activities that provide customers with superior information, education and product use. Of all possible benefits digital technology can offer to consumers this is probably the most obvious one. Digital technology simplifies customers' access to comprehensive product information from various sources like online product descriptions, reviews or prices. Further, digital technologies can facilitate the analysis of relevant data and the transformation of these data into insightful information through machine learning algorithms. Take the product rating system based on "stars" that has become most prevalent: What it does in principal is to lower the information asymmetries between vendors and buyers – something that is as old as commerce itself. The mechanism of trust as a tool to enable commercial relationships is now being extended by information that comes from other users. Likewise, digitally and IoT-enabled products allow for far greater transparency and control around most classical activities. For example, Colgate's smart electric toothbrush enables users to monitor their brushing habits and to optimize their brushing techniques through coaching. Transparency and control primarily enable value creation through empowerment. Customers get greater command over their behaviors or choices and get enabled to make

more effective or better decisions. Empowerment pertains to both product purchase and product use. Control over product use often implies potential savings, as optimization of product use leads to efficiency gains.

How retailers will succeed in future /// We composed this issue of the MIR along these lines. We invited several world-class experts explore how retailers – or whoever is performing this function today – can use the new sources of retailer value creation in specific retailing contexts.

Venkat Ramaswamy and Kerimcan Ozcan (pp. 18) explain how digitally enabled interaction allows retailers to co-create the shopping experiences with their customers. This interactive process helps to individualize and embed these experiences seamlessly into consumer’s lives – a crucial strategic capability in the new environment of rising digitalized interactive platforms. Matilda Dorotic (pp. 24) evaluates how loyalty programs – one of the mainstays in traditional retailing – need to adapt to thrive in the technology age. Werner Reinartz and Nico Wiegand (pp. 30) then zoom in on a classical and paramount of the 4 P’s – pricing. They provide insights on how the very trendy though controversial topic of dynamic and differentiated pricing can be maneuvered smartly. Big data analytics is the focus of Venky Shankar (pp. 36), who explains how retailers can use all their data to create value for themselves and consumers alike and how privacy concerns can be handled successfully.

Peter Linzbach and colleagues (pp. 42) analyze the value-add of shopper-facing retailing technologies in traditional stores. They develop crucial success factors for implementing the most promising ones and suggest a framework to classify the myriad of technologies. Similarly, Fabian Buder and colleagues (pp. 48) venture the idea that point-of-sale environments can and should be turned into data-rich environments. They outline how various data-capturing technologies can help reduce the information disadvantage of brick-and-mortar operations vis-a-vis e-tailers and how they can help optimize classical store operation dimensions such as shelf placement, ad targeting or store design. Finally, in our interview, Eben Sermon, Vice President eBay Germany, illustrates that even companies that were born digital constantly need to redefine themselves. To remain relevant in a technologically evolving world where new players keep entering the scene and consumer expectations keep rising, innovation and permanent business model reconfiguration are still key (pp. 54).

The future of retailing is born today /// It is important to note that the traditional sources of value creation depicted in Figure 2 will not vanish. To a large degree they still need to be performed. Yet the advent of the new technologies along with the unwaveringly changing consumer needs – which by all means are not easy to satisfy – will establish entirely new requirements. The new, digitally-enabled value creation sources as presented in this issue need to be developed on top of the traditional ones. And it is really the performance in automation, individualization, life-embeddedness, interaction, transparency and control that determines who will be persisting in this new retailing environment. Only those retailers – or manufacturers, platforms or other new players in that space – who are able to translate those new value adds most effectively into meaningful and positive shopping experiences will survive. This is where the future of retailing in fact is born – as it is happening here and now.

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FURTHER READING

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