GLOBAL RETAIL TRENDS:
RETHINKING THE STRATEGY OF DOING BUSINESS

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ABSTRACT

Clearly, this year’s pandemic has created massive challenges for all retailers around the world. For some, it may have presented opportunities. The past few months have brought unprecedented uncertainty, complexity and change to the industry. In its wake, some of the retailers will thrive while others struggle to survive. Interestingly, COVID-19 has accelerated key fundamental trends that were already influencing the sector: business model evolution, the value of purpose, the ruthless focus on reducing cost and the increased power of the consumer. Rather than stopping these trends in their tracks, the recent shifts in retail fundamentals has made these trends even more acute and urgent.

Keywords: Innovation, Competition, Opportunity, Business Model, Consumer Environment

JEL Classification: L81, M31
The pandemic, for the most part, has put physical retailing on pause. Indeed, with a significant proportion of the world's consumers currently under some form of lockdown and all but essential services (generally food and pharmacy) permitted to operate, physical retailing is in a precarious state. Given that physical stores have been the foundation of the retail experience, the implications for today's retail business model are massive. Even before the upheaval, it was becoming increasingly clear that store-based retailing had passed its zenith. And while many physical stores will certainly return to growth, it is clear that the days of being able to drive growth through physical stores alone are over.

Those with no existing online or delivery channel will struggle to survive this challenging time. At the same time, the challenges related to COVID-19 are also forcing retailers to rethink the complexity of their value chain. Companies now need to be good at not just buying and selling products, but also at things like online fulfillment, home delivery, data analytics, AI, machine learning and process automation. The capabilities required to succeed in retail continue to expand.

Given the current capability shortages and cash flow challenges, retailers should now be looking to refocus on the core retail fundamentals of buying and selling whilst partnering to deliver the other required skills. Many are looking to platform companies to help deliver some of those important capabilities. Retailers (particularly small and medium sized ones) are also looking to them to drive footfall. Indeed, what this difficult time has clearly demonstrated is that online platforms are quickly becoming the shopping malls of tomorrow. Retailers need to be in the right malls — and, just as importantly, in the right location — to see footfall today and (very likely) in the new consumer environment.

**Generally speaking, most retailers now have three main options:**

1. **Creating their own platform.** Only a handful of market leaders currently have the strength (in capabilities, balance sheet or brand) to develop a platform ecosystem compelling enough to truly compete against the existing heavyweights. However, for those that can, the added value of controlling the data, route to market and capabilities that come with a platform will be extraordinarily valuable.

2. **Leverage platforms.** Those without the scale to become a platform themselves will likely need to partner with one. As part of their business model planning, retail execs are starting to think carefully about what part of the value chain they should own and what parts could be better delivered through partnerships (where all parties put some skin in the game).

3. **Business as usual.** Being able to partner while expanding and maturing your omnichannel capabilities will be pivotal. Prior to COVID-19, consumers were increasingly jumping channels as they moved through the sales journey and retailers will need increasing sophistication in their omnichannel approach in order to ensure customer experiences are seamless going forward. In this environment, business as usual would be challenging at best.
Over the coming year — ongoing challenges with supply, demand and business continuity will force many retail groups to rethink their future business models and make the respective choice. And that, in turn, should spark a new wave of innovation and competition across the industry.

As it became clear many countries were going into lockdowns, many traditional food retailers moved quickly to enhance and expand their delivery services. Marks & Spencer, a leading UK retailer of food and non-food items, for example, partnered with food delivery service Deliveroo to expand delivery services from their M&S stores located at some service stations. Before the COVID-19 pandemic M&S agreed a joint venture agreement with Ocado (a home delivery service) to increase their delivery reach for their food business which could prove to be a decisive step for the future. While most food retailers have been building their delivery channels for some time, the closure of physical stores coupled with heightened demand for same-day/online food delivery required organizations to make radical shifts in their business models. Partnering with Deliveroo allowed M&S to scale up their services which not only drives cash flow but also reinforces the brand with customers. Therefore, a number of food retailers have been able to rapidly shift their business model assumptions and seek out partnerships with non-traditional players in order to keep parts of their business in operation. These services, while created out of necessity, will likely mature into a strong go-to market channel for the brand in the future.

From the outset of COVID-19, the vast majority of governments and businesses have been clear that they plan to put people ahead of profits. And, as companies around the world moved to retool their business models to support government response requirements, it quickly became clear that brands were already being judged by their actions and their purpose. The upheaval only accelerated a trend that was already well underway. What COVID-19 has demonstrated is that customers want businesses to stand for something bigger than just the products they sell or the dividends they return to their shareholders. They expect the retailers they purchase from to reflect their values and to care about the same societal issues they do. And COVID-19 has given retailers ample opportunity to demonstrate their purpose. This year is expected to see retailers start to focus on improving transparency across the entirety of their business. Particular focus, not surprisingly, will be on those that help society respond and recover to the current health troubles. Those going the extra mile to support their customers and their employees through this challenge will undoubtedly come out the other side with greater brand loyalty. That being said, customers expect their brands to do more than just talk a good talk. Recent backlashes against perceived instances of corporate ‘greenwashing’ suggest that consumers are setting a rather high bar for retailers to pass. In 2020 there can be already seen that the leading retailers move from having a purposeful brand promise to using their purpose as a guiding growth principle and decision-making lens. Simply put, smart retailers use this critical period as a way to demonstrate that they live their purpose rather than just talking about it.

Now every cost is coming under the microscope and every drop of cash is being aggressively preserved. The memory of this event will remain in the collective consciousness of retailers for some time; the desire to eliminate costs will likely be insatiable. Most retailers recognize that conventional forms of cost cutting are no longer enough to shore up margins and rebuild the business. Even after the aggressive cost-containment strategies rolled out in the immediate aftermath of the response to COVID-19, most retailers
recognize they will need to go further if they hope to return their business to profitable growth in the years ahead. It is therefore expected to see a flurry of investments focused on improving the value of existing assets over the coming year. Some of the more obvious places for investment include new technologies to improve the efficiency of supply chain management, inventory management and shipping and receiving. These are areas that could yield significant value if the right technologies and operating models are brought to bear. There are certainly a multitude of tools and technologies on the market that offer as much. But this year, retailers started to take a closer look at the value of their other assets — namely their stores, their employees and their customer loyalty. Due to COVID, all three are now in flux and their value propositions and expectations are rapidly shifting.

Ensuring the right costs are being incurred to achieve the right objectives will be key. Retailers need to increasingly leverage data and analytics to identify their most profitable stores, configurations and products and, based on this, make some important decisions. Given the massive recent changes in customer expectations and demand, all previous analytics will need to be reviewed. Stores that were profitable before may no longer be so in the future. They will likely also view their employees in an entirely new light. Rather than simply stocking shelves and overseeing cash registers, employees will be engaged as valuable customer experience agents and ambassadors for the brand's purpose. Head office jobs may also start to shift as companies look to take advantage of new remote-working models and virtualized ways of working. The most advanced will likely start to manage their customer experience and loyalty as if it were as asset, carefully nurturing and measuring their stock of loyalty in order to enhance its value and improve its resilience. There is no doubt that margins will continue to come under pressure as markets start to rebuild from COVID-19. Yet rather than simply slashing costs and hiking prices, expect to see retailers start to look for new ways to secure value from their existing assets.

In today’s environment, customers care less about breadth of assortment and more about availability. And that could change the way many retailers operate. Indeed, as countries moved into lockdown status and grocery store shelves emptied, many grocery retailers started exploring ways of narrowing their focus down to a decreased range of high-demand items — creating ‘minimum viable ranges’. In doing so, supply chain efficiency and working capital measures are increasing significantly; few customers have so far complained. Once again, COVID-19 has accelerated a shift that had already been underway across the retail sector. For some time now, customers have had an almost unlimited selection of items online. Before the upheaval, consumers could find those, and hundreds of other different ketchup brands, flavors, sizes and packages with just a few taps on a smartphone. In the near future, customer expectations will once again shift. Our view suggests that only two types of retailers will likely survive: those offering a limited yet curated selection and those offering unlimited selection. Those in the middle may be the ones that struggle most. We also expect to see retail leaders think more clearly about their investments into three key areas: customer loyalty programs, customer data, and technologies aimed at making the shopping experience easier, safer and more efficient.

**Conclusion**
Retailers need to improve the sophistication of their loyalty programs, moving away from traditional points-based systems to instead create integrated and unified rewards programs that allow multiple product and service offerings to be bundled together in a way that encourages consumers to dwell in their ecosystem. Secondly, retailers need to explore a wider range of models and approaches for gathering and analyzing customer data. Integrated reward programs may be part of that solution. So, too, will participation in various platform plays. But expect retailers to start thinking more about how they can partner with others in their customer’s ecosystem to not only deliver value and improve relevance, but also to capture greater and richer sources of customer data. There can be also expected to see retailers increase their investments into new and emerging technologies. Voice ordering via smart speakers, for example, is allowing innovative retailers the opportunity to deliver a more convenient on-demand ordering experience (particularly relevant in a shopping environment dictated by isolation measures). Others are exploring how blockchain might help improve the value of their loyalty programs. Ultimately, the shift towards reduced choice will likely lead to more efficient supply chains, lower costs and better customer satisfaction.

References