Retailers: Facing the disruption of the traditional ways of doing business

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Abstract
As the way consumers shop continues to change, success is dependent on constant innovation in ensuring a convergent holistic experience, retailers being forced to consider e-commerce and mobile shopping, to align the right customer with the right product or service, while considering technology trends that would change how the businesses operate. As customers’ data sources are disparate, marketers need to use predictive models supported by the proper sources of information, using data integration and building the right analytical solutions, while facing inaccuracies due to time-consuming validation systems within the context of moving customer information collection to digital channels. Retailers can disrupt the traditional ways of doing business, better understanding that there is a possibility to look for new forms and mechanisms to create value by following the necessary steps of the reframing process, and adequately supporting their transformational aspirations by a skilled workforce sharing the learning environment.

Keywords: Agile supply chain strategy; Technology trends; Reframing beliefs; Experiential learning

JEL Classification: L81; L86; M31; O14; Q55

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success is dependent on constant innovation in ensuring a convergent holistic experience

There is no wonder that within the context of the proliferation of digital, social, and mobile technologies coupled with increasing consumer adoption of these technologies retailers are challenged to embrace disruption and evolve. (Deloitte LLP, 2015) According to Alison
Kenney Paul, Vice Chairman and US Retail and Distribution leader, Deloitte LLP, retailers need to put an increased emphasis on convergence and diversification, and to provide a blended online and in-store experience, in other words to ensure a convergent holistic experience (product assortment, pricing, shipping, return options, and promotional offerings, all this combined with a consistent aesthetic look and emotional feel, while minimizing cyber risk), thanks to an agile supply chain strategy which includes also services outside of their core competencies and diversifying talent portfolio and employee skill sets. US retail industry, for example, will be forced to evolve by the growing strength of internet and mobile retailing confirming the increasingly important role in the retailing landscape played by the e-commerce and mobile shopping. (Euromonitor, 2015)

This fierce competition in the US retail industry (one of the largest industries in the world; estimated retail sales 2014 - $5.321 trillion, up about 5% for the year - consumer confidence being improved by the high stock market values and recovering house prices which have created a “wealth effect”; nearly 15.4 million employees in America alone - Plunkett Research, 2015) is confirmed by the evolution of the marketing strategies used by retailers to communicate with and attract consumers. Let us take a look, as another example, at the “2015 Top 50 Mailers and Emailers” (Target Marketing in collaboration with Who’s Mailing What!):

<table>
<thead>
<tr>
<th>Retail Mailers</th>
<th>Retail Emailers</th>
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<tbody>
<tr>
<td>3. JCPenney</td>
<td>3. Rue La La</td>
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<tr>
<td>5. Office Depot</td>
<td>5. Victoria’s secret stores</td>
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<td>6. CVS Caremark Corp.</td>
<td>6. Men’s Wearhouse</td>
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<tr>
<td>8. Bed Bath &amp; Beyond Inc.</td>
<td>8. Carter’s</td>
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Aligning the right customer with the right product or service. Big data analytics and automation, technology trends that would change how the businesses operate

In July this year eMarketer stated that Wal-Mart, (eMarketer, 2015) the world’s largest retailer, reported that roughly 70% of traffic to Walmart.com over the 2014 holidays (between Thanksgiving and Cyber Monday) was on a mobile device, while smartphone usage reaching 59.3% of the US population in 2015. According to a PricewaterhouseCoopers (PwC) survey - “Total Retail V Survey: United States”, Feb 9, 2015 (n=1,011 ages 18+; respondents chose their top 3) - the favorite retailers among US internet users were as follows: Amazon ( ), Wal-Mart (41%), Target (29%), Kohl’s (14%), eBay (13%), Best Buy (12%), Macy’s (11%), Costco (9%),
JCPenney (8%), The Home Depot (8%). The criteria considered by the respondents were those used in a September 2014 PricewaterhouseCoopers (PwC) survey, when they were asked why they shopped at their favorite retailer: “good prices” (71%); “having items in stock” (50%).

But customers’ data sources are disparate. In order to target the right consumers with the right products and offers marketers are using predictive models which are supported by new and rich sources of information, (Gupta, 2015) the investigation starting from company’s customer data and interaction history (historical purchases, individual market baskets, common market baskets, ratings/reviews etc.), leveraging, in addition to these internal customer data: outside data sources to better associate customers to buying opportunities; search data, which can inform relationships between products and brands; third-party data, which are becoming a critical bridge in omnichannel marketing.

So, in this new age of data-driven targeting, the challenge is to use data integration and to build the right analytical solutions allowing leveraging the above mentioned disparate data sources. It is worth mentioning that a report from May 2014 of the US Federal Trade Commission (FTC) revealed the taxonomy of sources and activities currently available for sales by data vendors:

![Figure no 1: Online and offline data points available for sale at the consumer level and collaboration between data providers to create even more powerful consumer-level data sets](Image)  


According to a January 2015 study by EMC, (eMarketer, 2015) big data analytics (43%) and automation (37%) represent technology trends that would change how the businesses operate
in the next five to 10 years in the opinion of business leaders worldwide. Fourth month later, in May 2015, a polling by Acuant revealed that the majority of US companies have taken customer data input off consumers’ hands, the primary method used to capture customer information being card scanning technology (customer scanning an ID that then populating all key personal info). The companies’ problem, within the context of moving customer information collection to digital channels, is that they are facing inaccuracies due to time-consuming validation systems: fewer respondents than three in 10 were very confident that they rarely made a mistake; nearly six in 10 were just somewhat confident; 10% were only fairly confident.

Can retailers disrupt the traditional ways of doing business?

Four places to innovate

Allow us to remember that two years ago, in October 2013, McKinsey & Company (MacKenzie, Meyer and Noble, 2013) underlined that as a number of industry observers predicted the end of retail as we know it, big changes are inevitable (each of the well-known shifts unfolding faster than the one that preceded it, and each elevating new companies over incumbents), and retailers must act now to win in the long term. McKinsey’s representatives insisted on the major trends reshaping the retail landscape: demographic changes, multichannel and mobile commerce, personalized marketing, the distribution revolution, and emerging retail business models.

This summer, at the end of July, Marc de Jong (a principal in McKinsey’s Amsterdam office) and Menno van Dijk (cofounder and managing director of the THNK School of Creative Leadership and a former director in the McKinsey’s Amsterdam office) highlighted that now it’s time of reframing long-standing beliefs in every industry about how to make money, such as that the bottom line in retail is determined by purchasing power and format. (de Jong and van Dijk, 2015) In the opinion of these two specialists, this kind of beliefs considered inviolable reflect widely shared notions about customer preferences, the role of technology, regulation, cost drivers, and the basis of competition and differentiation. And turning one of the notions that support these identified beliefs about value creation (reframing it) there is a possibility to look for new forms and mechanisms to create value, by following four steps of the reframing process: outlining the dominant business model in the industry; dissecting the most important long-held belief into its supporting notions; turning an underlying belief on its head; sanity-testing the reframe; translating the reframed belief into the industry’s new business model.

But as customer relationships, key activities, strategic resources, and the economic model’s cost structures and revenue streams represent core elements of the business model, the above mentioned specialists argue that a reframe seems to emerge for each one, the digitization of business (which upends customer interactions, business activities, the deployment of resources, and economic models) being the common denominator of these themes, that is why they are indicating four places to innovate (reframe): in customer relationships (from loyalty to empowerment); in activities (from efficient to intelligent); in resources (from ownership to access); in costs (from low cost to no cost).
Instead of conclusions

According to McKinsey research, (Benkert and van Dam) transformational aspirations must be adequately supported by a skilled workforce (ready to achieve the change mission), that is why companies have a real need of experiential learning leveraging the intimate link between knowledge and experience thanks to an active and shared learning environment. We are convinced of the utility of applying this approach also in the retail industry following the typical staged process in experiential learning (experiencing and exploring: doing; sharing and reflecting: what happened? processing and analyzing: what’s important? generalizing: so what? applying: what works for me?), respecting, of course, all other McKinsey’s recommendations: resources sufficient to gain momentum and achieve rapid progress; clearly defined pivotal roles and responsibilities; fully engaged employees and leaders.

References


