

RETAILING AND MARKETING IN THE DIGITAL ECONOMY: MEETING THE NEW BUSINESS CHALLENGES

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1. Introduction

Good morning Mr. President, Dean, all of our guests, ladies and gentlemen. Let me thank the University, in particular Dean Chemsripong, for her generous invitation to come to Thailand this week to share my views with you at this conference. It's a particular pleasure to be here to discuss a topic that is so high on business agendas worldwide at the moment as we have just heard now from Amanda.

I want to share with you this morning my own perspective on the digital economy using the retail sector worldwide as the lens for this. I think it is generating a wholly new business landscape and one which I think along the way creates enormous opportunities for entrepreneurship, enormous opportunities for the creation of new businesses, and new business models. But it is equally important for traditional organizations to adopt and evolve to cope with the new business reality.

My remarks today are drawn from the research that we have undertaken in Oxford over the last 30 years into the future of retailing. I want to use retailing as the lens through which to look at some of the transformational forces of the digital economy. And here is just a reminder of the scale of this transformation. Just last week, we saw Jack Ma, from Alibaba, celebrating the transformational effect of Alibaba's Singles' Day in China. It has grown from nothing to a new record of 18 billion USD of turnover in its 8th annual shopping festival. During the very first 5 minutes of that festival, sales exceeded a billion dollars, and David Zhang from Alibaba commented, "Chinese consumers purchased more in the first hour of 11/11 this year than the entire 24 hours just 3 years ago." So, the speed and the scale that this change represents, particularly as it affects conventional businesses, is what I want to talk about this morning.



Figure 1: Singles Day update 2016

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Navigating the New Retail Landscape




- Drawing on thirty years of retail management research at Oxford
- **Three** defining features of the new retail landscape
- Retail innovation and **three** emerging market case studies
- **Five** sources of future opportunity
- The new needs of retail enterprise leaders

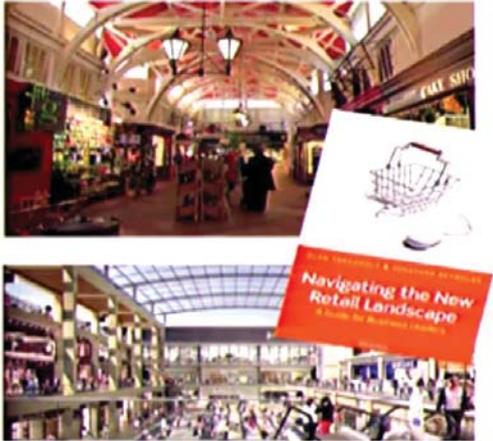


Figure 2: Navigating the new retail landscape

As I say, I want to draw on 30 years of retail management research in Oxford where I head up a retail research centre and am deputy dean of the School of Business of the University, but I also want to focus on some very practical challenges both in terms of consumer change and in terms of the business response. I want to paint a picture of three defining features of the new retail landscape. I will look also at the potential of retail innovation and tell you about 3 emerging market case studies that I think have great relevance for businesses here in Thailand. I want to look at 5 sources of future opportunity, for those operating traditional businesses because we have heard so much about new start-ups of new organizations. What do traditional businesses do in the face of these challenges? And in particular, I want to finish with comments on the new needs of retail enterprise leaders in this new landscape.

2. Contents

Of course, retailing has always been about “change” over the past 200 years or more. The retail industry globally has experienced serious modernizations which have transformed the sector. Examples range from movement from market-based

to store-based activities and of course the rise of integrated shopping malls. When I came through the airport in Bangkok on the way here on Wednesday, you could see at first hand new kinds of commercial services, new kinds of food services, and retail services. These are big changes, but none of them have altered the fundamental character of the retailing sector or challenged the essential nature of what it means to be a retail enterprise. At the end of these changes retailing was still a store-based activity, retail was still conducted by retail businesses and shoppers still needed to visit stores. But today we are standing on the age of an entirely new landscape. And Thailand and Asia are not alone in this experience. What is so different and so disruptive is that the very fundamentals of what we mean to be a retailer and the act of retailing are actually being challenged and changed totally.

Through global consumption data over the last 10 years and in the next 10, we can see some particularly impressive numbers, at least here in Thailand. The numbers are of course big: global retail sales look to double in the 10 years after 2010 to 2020 according to one source and will be in the order of 20 trillion USD by 2020. China will certainly command

something like 15% of this, but the UK and Thailand also play their part in contributing to the overall growth in retail sales. What is interesting, though, is the growth within that of global internet retail sales, which will actually grow from something in the order of 380 billion USD to over 2 trillion USD by 2020 - and you will notice the Thai

share of this is higher than the Thai share of global conventional retail sales growth, which suggests, as it does in the UK and in China, that online sales are going to be significantly more important over the next 10 years, even more than they have been over the last 10.



Figure 3: Global consumption data

We need to get beyond these numbers, as impressive as they are, to explore the behaviors that lie behind them. And so I want to talk about 3 defining features of this new retail landscape. These are features which in isolation are well recognized but which in combination create potential for established businesses what we can call a “perfect storm of disruption.”

The first of these is what I call “the era of the actively engaged shopper.” We have heard about this a bit from Angela already but let me try and develop a few more of those themes. What do we mean by this? Well, the best retailers worldwide have always prided themselves on their circle of customer centricity. Yet, for many retail enterprises in the modern era with large networks of permanent physical stores, the reality has often been rather different. For many retail enterprises, the way to build scale quickly and build

profitability quickly has, in fact, been by taking a heavily process-driven “one size fits all” approach to their businesses. So, store sizes, layouts, the merchandise within them, and service experience has always tended to be the same, irrespective of the store location or the subtleties of the shoppers’ different needs and expectations. I think this is changing.

In most markets worldwide now, shoppers are becoming less passive and more participative in the shopping processes they are interested in. The chart here shows the new shopper types that we believe are emerging. Three levels of progressively greater participations by shoppers now— “the informed,” “the involved,” and “the influencers.” All of whom we expect to increase as the proportion of unengaged shoppers goes down over the next few years.



Figure 4: New landscapes: New shopper types

For many retailers, the “informed” and “involved” shoppers will be the ‘new normal’ that defines the expectations of the majority. These two groups expect full access to all of the information that they need to make fully informed choices. This may well be that they were skeptical with information from commercial conventional marketing sources they receive. And for “the involved” group in particular, they have been motivated to actively search for the information they feel they need. “Actively engaged” extends also to some shoppers wanting to be involved in the selection and even the development of products themselves. They will be involved in co-creating some value. For many retailers, the small portion of “influencers” will likely be a disproportionately important group to focus upon in shaping the opinions of the others. In youth fashion in the UK for

example, it’s not conventional marketers but previously unknown opinion shapers who are actively in control of the buying process.

At the heart of this is the evolution of the young millennials, and you will have heard, I am sure, a lot about these kinds of individuals. They view the world differently; they never knew the world without high speed internet. I think about my son who regards the internet now virtually as a human right. If the broadband service at home is cut off, he feels that he can’t breathe; so important is internet access. Social media, mobile devices—for them, this technology is a liberating experience. Globally, young millennials have more in common with their counterparts around the world than with older people in their home countries.



Figure 5: Burberry

Digital engagement does not replace their real world; it is their real world. And how do they think of retailing? Well, the shopping is not synonymous with physical stores, they live in a “digital first stores maybe” world.

The second defining feature of the transformation really has to do with the transformation of shopping behaviors of the market, thanks to the internet. The basic characteristics of this feature are already well known. The growth we have heard about, and that in mobile in particular, is pronounced. But changes in market sizes conceal more subtle behaviors that are less well measured. We know now though that markets across the world are seeing substantial growth in their online activity. I am going to show a short animation here which shows the growth of many markets

worldwide in terms of online consumption (Figure 6).

So, we will see here the growth of online consumption between nearly 2000 and 2020. It shows the increasing proportion of online sales. That blue bubble, overtaking the yellow and green bubble, is China. And the green bubble is Western Europe; the yellow bubble is USA. As you can see, the Chinese marketers well over take both those two markets online sales over that last 5 year period in particular. The other blue bubbles there are other Asian markets, notably Taiwan and South Korea and Japan, and the orange and red bubbles are European markets. You can see that there are a number of very, very fast growing online market places worldwide; and it evolves very quickly. And these are 2 types of shopper behavior in particular.



Figure 6: Growth in online consumption worldwide



Figure 7: The knowledgeable shopper

First, it leads to the growth of what I call “knowledgeable shopper.” Shoppers can search more efficiently for the goods that they require with the scope for choice through price comparison engines, through algorithmic marketing, and electronic word of mouth. Baidu, the Chinese search engine suggested that in 5 years’ time, 60% of searches will be through images or speech rather than just via text. Shoppers are becoming, as a result, much more personally productive. We have to ask whether such knowledgeable shoppers will destroy retailers’ competitive advantage; and in many cases, the answer has to be “yes.” The late fashion designer Alexander McQueen once referred to the digital age producing an “extreme time-space compression,” as he called it, in

which not only did shoppers have access to more goods and choice, but they wanted them now. Ever higher shopper expectations are being seen particularly amongst young millennials for instant gratification. Amazon’s dash button allows shoppers to record products in anticipation of running out. Furthermore, shoppers increasingly want greater personalization, and new businesses have sprung up to raise their expectations in this respect, raising the bar for all players in the market place. Online sites like the Australian Shoes of Prey business, which I am sure Angela will be familiar with, meets these needs through “mass customization” of shoe designs and are being successful worldwide in their business.

Consequences of “space-time compression”

Wanting more, wanting it now

- Ever higher shopper expectations
 - Instant gratification e.g. Amazon Dash
 - Local demand can be met at a global scale
- Wanting greater personalisation
 - e.g. Stitch Fix
 - e.g. Shoes of Prey
- Retail response: 360 degree shopper visibility through big data
- Retail response: Rethinking the role of stores & malls





Figure 8: Consequences of “space-time compression”

Finally, as we have heard everyone today is a potential retailer. We have heard a lot about the increase in level of competition and these days competition comes from everywhere if you are a retailer. It’s no longer automatic that a traditional retail business is the only or even the most effective type of enterprise to fulfill the needs of shoppers as other enterprises, such as consumer goods, logistics, and payment companies have moved to establish direct relationships with shoppers and start overlapping their activities one with another; and we can see that in the case of mobile phone provider Xiaomi in China. What you may not know, however, is that Xiaomi is also the 3rd

largest e-commerce business in China as well as being one of the biggest mobile phone providers. So, new kinds of competitors are making use of the digital economy to meet the needs of more and more demanding consumers.

So, what’s to be done? I want to focus on one aspect of the subject today given the theme of this conference around the digital economy, and I want to talk about retail innovation and draw on 3 emerging market case studies to give you a flavor of the kind of ways in which established businesses are making use of digital economy to improve their offerings to consumers.

The nature of retail innovation

- Governments are often dismissive of innovation in the retail sector
- This is because: innovation in services such as retailing is difficult to measure

But conventional national indicators have failed to reflect:

- innovation as the 'daily business' of a customer-focused firm
- open, collaborative innovation across the value chain
- non-technological innovation (e.g. format, store experience)




Figure 9: The nature of retail innovation

Now, retail innovation is a relatively poorly understood phenomenon. Governments tend to think about high tech, pharmaceuticals, and engineering when they think about innovation—not retailing. Retailing is taken for granted often by governments. They are wrong to be so restrictive in their understanding. Innovation in retailing, in particular given the digital economy, is distinctive and different and transformational. Indeed, it is part of the daily business of the customer-focused firm to be innovative, but often such innovations are incremental. They are collaborative, and with results that government statisticians and academics

find hard to measure. And not all of them have to involve technology. One way organizations seek to embed the culture of innovation around the digital economy is through what we called “innovation labs.” These labs have benefitted from stimulus of external thinking, bringing new kinds of enterprises, new kinds of start-ups to help traditional organizations think more creatively and effectively about prospects of their own organizations. But often, these initiatives are rather superficial, particularly if they are not embedded in the culture and the operation of the organization.

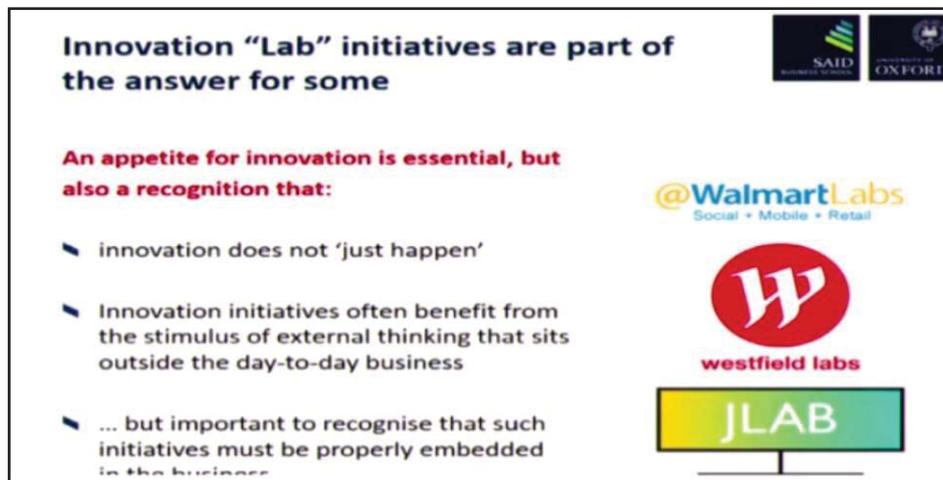


Figure 10: Innovation “Lab” initiatives are part of the answer for some.

Here are a couple of examples. Walmart developed a lab “to act as an accelerator in the effort to meet the needs of our customers whenever they are shopping in a store, browsing our website, or out and about with their mobile devices.” Even the world’s biggest traditional retailer has recognized it has to transform itself, and recently it acquired a new online e-commerce business to try and help it do just that.

Similarly, the Australian shopping center developer “Westfield” has developed its own lab to try and create a physical environment for shopping malls which can be adjusted to respond to the way its consumers use the digital economy, and their chief digital officer says, “Our shopping centres, especially Westfield London and

Westfield Stratford, are more than just shopping. They are a whole experience with entertainment, leisure, food, and shopping, and now we’re at a point when we are beginning to layer on digital and technology to become very complementary with that experience.” But, it’s more than just layering on, it has to be embedded to recognize the real nature of the customer’s involvement with technology and sales.

Now, these are examples for larger firms. What characterises the approach of the smaller firm that dominates Asian markets in particular? Indian academic Arpita Khare sees traditional stores as fundamental to the socio-cultural fabric of community life. In these emerging-market countries, many have pointed to their

existence coming under threat as a result of rapid retail modernization.

The retailers at the centre of this transformation are in fact the traditional corner stores often referred to as “hole in the wall stores” by those unfamiliar with them. This is the individual convenience store

that sells goods for daily consumption—beverages, snacks, soaps, coffee, cigarettes which exists throughout developing markets in Asia, even in the smallest locations. In India, they are called *Kirana*, in Philippine *Sari-Sari*, and in Indonesia *Warungs*.



Figure 11: Indonesia: Kudo

I have couple of examples of how digital technology is being used to assist these businesses as well. If we think about Indonesia, the Warungs in Indonesia dominate still much of local consumption practice. But start-ups, working collaboratively with these firms have been able to help them meet the needs of increasingly demanding digitally-enabled consumers. *Kudo* is one example of these. It’s an Indonesia start-up technology company which has developed a platform aggregation solution providing access to e-commerce products. Warungs provide the ordering point for those particular products and services, also allowing an e-payment service to be developed through the business.

And in the Philippines, *Sari-Sari* outlets are using smart phone technology to try and improve the operational and commercial aspects of their business. Now, I have a short video here: (https://www.youtube.com/watch?v=PH_

VeRB7zi4). So, Sari-Sari is an excellent example, I think, of how collaboration with new technology firms can support a small business not just meeting the needs of its customers but improving its operational and commercial effectiveness.

My third example is from India and this is Amazon India and the *Kirana Now* service. In India, of course, some of the biggest challenges around e-commerce have been around distribution. Modernization of this sector has been held up because of distribution and supply chain obstacles along the way. Amazon has partnered with the mom-and-pop stores within the Kirana sector and is actually allowing daily essential purchases to be collected within 2 hours from customers’ favorite local stores. So, customers can retain their loyalty with the local stores, and the local stores are going to improve their broader services and their functionality within the local community.



Figure 12: Philippines: Sari Scan



Figure 13: India: Amazon Kirana Now

And this suggests that innovation is also now required to re-imagine what we might have regarded as the traditional retail stores in an omnichannel world. We can try to categorise the kinds of opportunities in the store environment that the digital economy will allow. In other words, how can stores complement what is happening within digital economy. I think there are 5 particular opportunities that we can consider in turn.

1. Convenience advantage

First of these is what we may regard as a “convenience advantage.” A well configured store can deliver high levels of convenience to shoppers. They can more carefully edit merchandise assortments that

address shopper’s specific needs, time, and location in relevant ways so that customers can be happy to have fewer things to choose from. Because we know that actually we have the illusion of vast choice on the internet, making that choice effectively can be quite challenging. An outlet from Ahold in the Netherlands is a to-go convenience store in which technology, alongside selection and space is managed intelligently to meet customers’ needs.

2. Immediacy advantage

The second example is what I call “immediacy advantage” which is different from convenience. The obvious immediacy advantage of the physical store is that shoppers can go physically into the store

and leave with what they came in to buy to achieve the instant gratification from consumption and ownership which online ordering does not always quickly permit. The example here is the UK business called *Argos*, a catalogue store which fulfills its products as well as those purchased through eBay from a large range of outlets, including pickup points at metro stations. These are simply catalogue stores. They don't have a complete range of their goods on display; customers just go and use these as collection points for goods that they have ordered online.

3. Experience

The third advantage is, of course, "experience." Retail stores can be re-imagined as an evolving space highly enabled by technology as partly brand experience, partly fashion show, partly live music venue, and still an effective retail selling space. These solutions do not have to be expensive. An example of pop-up shopping center, pop-up shopping mall is the East London Boxpark. Tenants in shipping containers change every few months to provide a fresh and interesting mix of retailing for the customer base.

4. Problem-solving advantage

Fourth is "Problem-solving advantage" where retailers can deliver problem-solving through innovation in the digital economy and play the role of trusted advisors in addressing shoppers' needs. Part of this is through editing choice: navigating shoppers through complex assortments, helping them with stimulation and information about new products that they may not be able to find themselves, perhaps reassuring towards the end of the product process that what they are buying is appropriate, or perhaps the provision of trusted services based on their expertise. And the example here is a food retailer (Waitrose) which is offering a cookery school service for those who want to learn how to use new kinds of ingredients in the home.

5. Value advantage

And finally, "Value advantage," which I think, is interesting in the sense that it's about delivering more attributes to customer values beyond just a low price. Value can be derived from 3 sets of factors that shopping interprets itself: self-stimulation, social interaction of its context, the mall in which it is taking place, the store itself including the atmosphere, the convenience of the service level, and the product itself from which shoppers will derive economic value and product informants: IKEA is our example here.

3. Conclusion

And finally, creating effectiveness and value through the digital economy in the new retail landscape is going to require one other thing. And that's clear and inspired "Retail Leadership." So many of the traditional retail leaders have not grown up in the digital economy. For them, many of these ideas are outside their experience, but they are learning how to implement them. Thinking about where this leadership comes from is particularly important. It also requires a different way of thinking about risks. So, for many traditional retailers, whose margins are very tight, their financial model is very restrictive. Taking more risk in the business is enormously problematic, but some of these traditional firms are going to have to take more risks if they want to achieve success in the future.

Leaders will need to have a more realistic appreciation of the envelope of risks, and they will need to educate others. And this is taking place in a particularly uncertain landscape, uncertain in 3 ways: uncertain in terms of what consumers will actually want, how they will want to engage, and which technology will have the most impact; uncertain in terms of competitor landscapes, new types of firms which will arise to compete with existing players; and uncertain enterprise landscapes—what kinds of business models are going to be successful over the next 10 to 15 years.

Ultimately, we have to change as retail businesses. The chief executive of GAP comments that “We’ve been doing business the same way for 40 years, and there are very few 40-year-old business models that are successful forever. Periods of disruption are periods of disproportionate opportunity. More money is made during disruptive times—but is also lost—than is made during times of stability” (Art Peck, CEO, Gap).

So, risk-taking and innovation are essential, and therefore for leaders championing innovation is absolutely critical. This means perhaps giving up some of the core tenets of the past if leaders are to search for the market in the future using digital economy approaches. It may mean discarding 3 or 5 year plans for more emergent strategies, an approach which evolves as it grows to meet the needs of consumers worldwide.

What is very clear is that it’s not about doing nothing because actually doing

nothing is also a choice, not just about being reckless because taking risks knowingly is not necessarily reckless.

I conclude with a quote from a leader from one of our most successful retail businesses in the UK, from John Lewis Partnership, Sir Charlie Mayfield. He says, “It’s not about running the same business model. [For digital economy to work,] it’s about changing [that model] in flight in order to serve customers in the way that they want to be served in the future. To do that you have to commit to that for the long term and build the capability in the organisation to accomplish that over many years.”

So we will see enormous innovation in terms of digital technologies that are transforming our organisations. For those to be successful, they require effectively to be embedded within those organizations and they require inspirational, stimulating and concerted leadership.