

21ST CENTURY RETAIL: AN INSIGHT TO CONSUMER ADAPTIVE RETAIL

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ABSTRACT

Digital-savvy, multiple device-doting consumers are becoming increasingly dependent on the technology that surrounds them and have come to expect a single-screen, store and shopping experiences across all channels and touch points. Today's consumers are sophisticated, empowered, informed and are not prepared to wait around for straggling retailers and brands who aren't delivering that smooth technology-enabled experience.

Implementing robust, agile systems that are compatible with various business tools will assist in providing a seamless customer experience, while streamlining and simplifying business operations.

Over the years, leading retailers will strive to go beyond merely connecting those channels. Retail strategies should focus on the convergence of various channels and customer touch points to enable a seamless and congruent experience – whether online, in-store, on a mobile device, tablet or anywhere else.

Consumer adaptive retail is a relatively new concept in the retail industry. Consolidation and integration are key to adopting a Consumer Adaptive Retailing model – enabling business to be flexible and fluid in their approach to retailing.

This research paper gives an insight to consumer adaptive retail and retailers need to adapt and change themselves to target the well informed customer and sustain the competition offered by the retail industry.

Keywords: Consumer Adaptive Retail, Online Retail, Future shopping Experience

INTRODUCTION

The outlook of global economy looks uncertain. While emerging markets such as those in Asia will continue to grow, the rate of expansion is expected to be subdued in the near term especially for those in export dependent countries.

However, the fundamental trends in the Asian market, most notably rising income ensure that over the medium-to-longer term, Asia will be the key engine for growth in the global retail and consumer goods industries. The region's prospects for growth continue to attract increased attention from multi-national retail and consumer product firms. Online retail in India will continue to grow

Online retail is now embedded in consumer's behavior and will force changes to the traditional retail operating mode; those retailers that do not move to the new model will not survive

The PwC/Frost & Sullivan research conducted in 2012-2013 shows online shopping expenditure is predicted to reach nearly \$27 billion by 2016, growing by about 14 per cent each year, with consumers being driven online primarily by lower prices, as well as greater choice, convenience and better technology. Online retail is now embedded in consumers' behavior and will force changes to the traditional retail operating mode; those retailers that do not move to the new model will not survive," the report states. Although local retailers clearly recognize the importance and value offered through digital channels and e-commerce, few are really leveraging it to their advantage. Not a set and forget strategy in order to keep up with increasingly sophisticated consumers; retailers need to adopt a Consumer Adaptive Retailing approach.

As the ways in which people make purchase decisions multiply, retailers of all kinds are at a crossroads. One of the key Reasons for operating a bricks-and-mortar store – building a strong distinctive brand experience – no longer seems relevant. Due to the rapid rise of social media and corporate transparency, consumers now wield tremendous influence in shaping retail brands and are growing increasingly skeptical of overly-slick store designs, clerks and marketing messages. The once-dependable competitive edges for bricks-and-mortar retailers are eroding, which means they can no longer afford to assume any inherent advantages over their online competitors.

For instance, store owners have long believed that the 'thrill' of shopping – that visceral, emotional rush that people get when touching or interacting with a product before they buy it – would uphold their popularity. But e-commerce Web sites are disproving this axiom by generating similar excitement online with concepts such as 'flash sales' and 'social shopping'.

As online retailers slash shipping times and costs to next to nothing, bricks-and-mortar retailers can no longer depend upon instant gratification as a competitive edge. Online giants Zappos and Amazon now send purchases overnight at a discount and provide second-day service for free. The success of these tactics suggests that virtual storefronts can be at least as effective as physical ones, if not more so.

So, how can bricks-and-mortar retailers survive – and thrive – as consumer attitudes and buying habits change?

Getting CLEVer

So the world of retail is in transition as digital technology disrupts shoppers' expectations regarding how they interact with the world around them—a world in which computing is no longer locked up in devices but embedded in everything, pervasive and persistent, sensitive to the presence of people and objects.

Both retailers and suppliers alike will need to adapt to this new world to survive the shoppers' changing expectations about how they wish to engage all along their path to purchase. Digital tears down the walls of the store, and the successful retailers of the future will need to tear down the walls of their current thinking about retailing. The retailers that win in the new environment will do at least more than one of these things well:

- Reinvent convenience.
- Redefine loyalty.
- Re-imagine experience.
- Reposition value.

Re- Invent Convenience: Historically, ‘Convenience’ has referred to a physical channel or store that caters to shopper missions such as fill-in, top-up, impulse or distress. These shopper need states have historically been addressed through smaller stores with optimized assortments intended to save the shopper time. However, this definition of Convenience is no longer sufficient in a world in which the shopper is digitally dependent and channel agnostic.

In order to meet the needs of the future shopper, the idea of Convenience will not necessarily involve a physical location and will shift to contextual and situational methods of solving the ‘now’ need state of the shopper for instant gratification all the way along their path to purchase.

It can simplify the ‘now’ need state into three main buckets:

1. Shopping (information gathering)
2. Purchasing (transacting)
3. Fulfillment (taking ownership of the purchase)

Retailers and suppliers must be ruthless in understanding how the shopper behaves within each of the buckets, and active in creating multiple options for the shopper to move between them. In stores, this might involve arming the floor staff with mobile devices to facilitate in-aisle purchasing, or building robust mobile applications that allow the shopper to browse and purchase virtually while in the store.

Re-Define Loyalty: In today’s world of large consumer datasets, loyalty has traditionally been about identifying correlations and understanding behavior, with the end goal of optimizing pricing and assortment to maximize trips and basket.

This sort of analysis, while being strong on transactional record-keeping, has been weaker at understanding underlying motivations as well as at uncovering shopper activities outside of the confines of the store or dataset. Simply put: current loyalty data reveals the Where, What and When, but fails to reveal the Why.

The future digitally dependent shopper has different expectations on how he or she interacts with the world.

Re-Imagining Experience: The re-emphasis on Experience has been one of the more obvious levers that retailers are using to meet the expectations of the Future Shopper. New stores with emphasis on design, visual aesthetics, theater and service open every day—often in an attempt to replicate the success of the Apple store without fully understanding Apple’s economics.

The first task of retailers, then, is to create emotional resonance for the shopper in a way that is contextually appropriate—the ‘wow’ needs state—while also removing the barriers to purchase once shoppers reach their decision points.

One of the key issues for retailers is that getting the emotional environment in perfect tune is not enough; the execution must be flawless as well. Retailers need a individualized offers that go beyond the club card discount.

Re-Positioning Value: Value is a word often used to describe low prices or to justify higher ones. For the future shopper, value will move beyond simply price to a message from the retailer that the shopper is making a 'smart' decision to purchase from them. Retailers catering to the 'smart' need state of the future shopper are experts on one of the components of the new value equation: price, service and quality.

But value propositions can be simpler. In the apparel category, Zappos has created an unlimited free shipping/return policy for products bought online—because it identified that shoppers' concern about the cost of returning items was a barrier to sales.

One of the opportunities afforded by everywhere is based on the fact that retailers can expect to have information about individual profiles and the shopping history of every shopper.

Customer Tracking

Retailers have fewer places to hide in the future environment. Pricing is becoming more transparent, and environmentally and socially irresponsible behaviors are publicized online.

At the same time, though, the shopper has few places to hide as well. As with distribution and supply, the Big Data of digital devices mean that retailers can monitor customer behaviors much more closely, and in real time. This takes CRM and 'precision marketing' to unprecedented levels. By mining Big Data, retailers have a stronger platform to better manage existing relationships and start new ones. However, shoppers aren't always fans of such personalization. There is a fine line between helping shoppers and stalking them

The Evolving Consumer

With the evolution of digital mediums, consumers are becoming increasingly sophisticated, connected and have high expectations of the retail experience.

The reasons for shopping online are wide-ranging but typically begin with convenience and incomparable unmatched access to information. Consumers embrace savings, thrive on efficiency and cut across purchasing everything from basic commodities to luxury goods. The ability to better research products and discern the best price or the right features is core to an Internet-preferred shopping experience

The web has clearly shifted consumer behavior towards research to varying degrees based on purchase category. Foremost, technology purchases are planned with some level of research three-quarters of the time. From there, one in two consumers allocates research time for discretionary purchases (apparel, accessories, furniture), followed by commodity purchases (office supplies, health/beauty and diapers).

Through the proliferation of the internet – retail is now borderless. Although local retailers clearly recognize the importance and value offered through digital channels and e-commerce, few are really leveraging it to their advantage. Not a set and forget strategy in order to keep up with increasingly sophisticated consumers; retailers need to adopt a Consumer Adaptive Retailing approach.

The Shift Occurs: Consumers Connect Their Way

The Internet via PC remains a powerhouse for consumers. They are not only comfortable with but continue to spend a greater share of wallet this way and their satisfaction with this channel trumps all others. Expectations for enhanced satisfaction among tablet and smartphone users is likely, given early days of adoption.

Mobile owners browse and buy from their myriad of devices. Smartphones serve as an everyday tool along with being a conduit to cross-channel purchasing. Tablets, on the other hand, have taken the retail world by storm as shoppers enjoy the convenience and ease of use they represent. Many consumers surveyed, as well as those interviewed, expressed that their smartphones are not always convenient for shopping. Positively, these phones excel as a means to locate and gather store information and consumers enjoy the expediency of receiving and cashing in offers via their phones while in the store rather than relying on an old fashioned paper trail.

On an average, one in three shoppers is active in this regard and has also taken to scanning products at retail for information gathering and comparison activities. Additionally retailers must face a new world of email where customers tend to take a drive-by browse and as such their attention is challenged and a shopping focus is lacking. SMS appears to be in the early stages although not all retailers seem to be convinced of its growth potential.

From Driving Transactions to Encouraging Inspiration

Research states that 48 per cent of consumers who used a smartphone in some way said they purchased goods in retail stores, while nearly as many – 45 per cent – bought items online via computer. However, the majority also said that, regardless of how they ultimately acquired the product, they had visited an actual store to browse.

Likewise, Nike's branded stores pull in repeat visits from owners via its Nike+ Run Clubs, which meet at designated shops worldwide. Building on its platform of performance-tracking products and Web site, Nike+ is now the largest running club in the world, with more than three million members. Athletes of all skill levels train together and are privy to product trials and expert clinics. Nike motivates owners to use its products as a group, and the group inspires other curious runners to join them – and buy Nike gear – through camaraderie and knowledge-sharing.

In a study conducted by social-networking site myYearbook, 81 per cent of respondents said they had received online advice from friends and followers related to a product purchase, and 74 per cent of those who received such advice found it to be influential in their decision. Meanwhile, 90 per cent of online consumers trust recommendations from people they know; and 70 per cent trust the opinions of unknown users. The 'owner' or existing user of a product, then, can be the most powerful influencer of all.

Thus, by focusing on participation in the store – through education, trials and membership experiences rather than marketing, promotion and sales – retailers are positioning themselves for a longer-term, more open relationship with customers, helping them successfully evolve with the 21st century.

Consumer Adaptive Retail

In the traditional retail model, the online channel sat as ancillary to the bricks and mortar business. Retailers were not geared towards integrating digital offerings into their broader businesses.

From the back-end, fulfilment, stock management, merchandising, etc. – all too often each channel sat in competition with the other, perceived as cannibalizing sales.

With the advancement and penetration of digital mediums, retailers looking to future proof their businesses not only need to provide customers with a seamless experience across multiple touch points, but must integrate all processes and business systems. In addition organizational structures need to be consolidated to maintain financial sustainability in the rapidly changing retail environment.

Businesses with an inability to recognize, enable and efficiently manage new channels put themselves at risk of being targeted and outplayed by disruptors and channel specific intermediaries that focus on uncovering these weaknesses and providing solutions for gaps in the market.

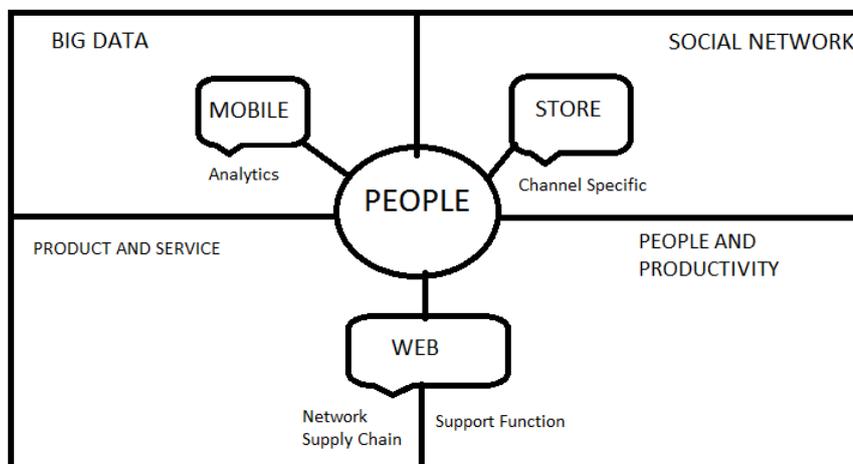


Figure1: Consumer Adaptive Retail Model

Agile Technology

The use of technology is vital to the successful operation of all businesses. Implementing robust, agile systems that are compatible with various business tools will assist in providing a seamless customer experience, while streamlining and simplifying business operations. Consolidation and integration are key to adopting a Consumer Adaptive Retailing model – enabling business to be flexible and fluid in their approach to retailing

Key to future proofing a business is within the design and development of online offerings and ensuring responsive adaption to various platforms and devices. Design must be undertaken with external integration in mind as well as reducing redundancy.

Retailers also need to be mindful that due to the rapid evolution of technology, they should be re-evaluating their core systems on a frequent basis against the changing market and

consumer needs. Investment into business technology should also be based on shorter cycle times.

In the present day, though retailers recognize the importance of leveraging technology for business purposes, all too often they are not necessarily aware of the valuable and insightful customer metrics gathered from these systems. Analytics hold the power to enable retailers to identify niche audiences and effectively deliver a targeted and personalized experience to customers.

This information can be invaluable for not only marketing, but merchandising in assessing trends and for evaluating the business model as a whole to identify gaps and weaknesses. At a granular level, analytics can be used to determine where cost of acquisition is too high and either remedy or wait until channel volume justifies effort.

A major part of the technology offering is supply chain and fulfilment. Although there is unlikely to be a massive shift away from the traditional model of fulfilment, this area requires businesses to think laterally about potential solutions to suit increasingly demanding customer expectations.

Where once retailers were required to keep warehouses full of stock, there are now multiple models of supply chain and fulfilment emerging that alleviates this. Drop shipping, re-parceling and third party fulfilment services allow retailers to better service customers and be more adaptive in their approach.

Forecasting the Future of Shopping Experience

In the world of Consumer Adaptive Retailing key to the customer experience is automation, innovation, personalization and convenience.

A few potential futuristic retail scenarios have been explored:

- **Automated Everyday Shopping** – Purchase of everyday household items will happen automatically, through prompting and/or direct purchasing via intuitive household appliances and machines (eg fridges, washing machines, coffee machines). For example, a washing machine will hold washing powder and automatically adds these items to a customer's shopping list when applicable.
- **Centralized Profiles and Preferences** – Customers will be able to store all purchasing preferences in a central location and share information with retailers seamlessly. The customer expectation will be that the returned product, for example a shirt, will suit their specific needs in terms of the perfect fit, while matching pricing and quality requirements.
- **Free and Convenient Supply Chain** – Delivery of products will be free and made at a time, date and location that is convenient to the customer.
- **Anywhere, Anytime, Any Device Shopping** – Offers are presented contextually depending on the customer's device and environment at the time of offer. For example, a customer listening to a song on the radio in their car will be able to purchase the track by simply pressing buy on the steering wheel and an MP3 will be loaded onto their storage device of choice.

- Bidding for Conversions – Customers will be able to register intent for items they want to purchase and receive offers from relevant retailers with these products, only sharing details with the merchant they have decided to purchase from.

The Road Ahead

The world of shopping is now connected more than ever before. The Internet has made a profound impact on global commerce; providing unprecedented access. Commerce has now moved beyond the PC where smartphones mean immediate access at one's fingertips. Tablets also have been readily embraced as their ease of use and portability resonate with researchers and shoppers alike. Amazingly, no one could have predicted that this device, introduced less than two years ago, would create a culture of couch commerce.

Today, we have it all -- until the next innovation presents itself. The customer will always embrace a better means to browse and buy so as retailers we must have the foresight to progress as opportunities come our way.

With online retailing now a mainstream sales channel, new competitors entering the market, pure plays expanding their offer and consumers putting increasing pressure on local retailers to provide an increasing competitive multi-channel offer to match offshore retailers, the traditional retail operating model is now at a critical junction.

Retailers are going to have to adapt the current retail operating model if they are going to meet the demands and engage with consumers.

The rafts of new competitors are bringing new value propositions, whether they are pure plays, manufacturers, or other global retailers entering the market. Consumers have shown they are more than happy to embrace these new offers.

This new model will evolve the marketplace to meet the needs of the increasingly sophisticated consumer and to accommodate the rapid development of technologies.

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