Industry Overview
RETAIL INDUSTRY

SYNOPSIS

The Retail Industry is intensely dynamic. Retailers must constantly find ways to keep up with shifting consumer demands, competition from other retailers, and advancing technology. From informal markets to large corporations and multi-channel retailers, the retail industry has changed dramatically over time and will continue to do so.

The key aspects of the retail industry can be distilled into the following essentials:

SELLING GOODS AND SERVICES

Fundamentally, the retail industry involves every aspect of selling goods and services to consumers. From manufacturing, distribution, point-of-sale, and employment, retailers are responsible for fulfilling the needs of their customers.

LOCAL MARKET TO ONLINE SALES

The most important change in the retail industry is where goods and services are available. In the beginning, goods were traded in a local market or in someone's home. Now the most prominent sales channel is on the internet. Sales are no longer limited to a geographic area—retail has become a global industry.

CONSUMER DEMAND

Of all the changes that occur within the retail industry, none is more capricious than consumer demand. Predicting and monitoring what consumers will want, in what quantities, and for how long is a full-time occupation for retail industry manufacturers and suppliers.

TECHNOLOGICAL ADVANCES

Both the method and the means of retail sales have changed dramatically with advancements in technology. Money replaced bartering, credit cards, PayPal, and Zelle have all but replaced cash, and mobile devices have interrupted traditional face-to-face purchasing.

In this overview of *The Retail Industry*, we discuss how retail has evolved from traditional, face-to-face transactions to the age of online shopping. We also explore retail industry profiles and the challenges facing the industry. We share our insights on the retail industry in the following pages.

INDUSTRY ESSENTIALS

Retail involves the selling of goods to customers. This has not changed over time. However, what is sold and how those goods are purchased and obtained has changed dramatically. The vast web of people and companies involved in the production, distribution, and selling of goods continues to transform and expand.

"Amazon has done something for all of retail, which is resetting the customer expectations about how quickly and easily you can get things."

—MARY DILLON, CEO OF ULTA BEAUTY

HISTORY OF THE RETAIL INDUSTRY

The retail industry began with simple bartering—an exchange of one item for another. While the development of a monetary system made that exchange more efficient, up until the twentieth century, trade was generally conducted in person. Now, shoppers might never see or speak with a proprietor during the transaction. In addition, the scale of the shopping experience has grown from local shops, to colossal malls, to online shopping in which the world can be your marketplace.

The retail industry is tremendously important to the global economy for two reasons:

- consumer spending on retail goods drives much of the global economy
- the retail industry is a significant employer within the global economy

When consumers purchase goods, retailers must order more goods to replenish their stock. In turn, factories must manufacture the goods for the retailers. The factories then purchase more raw materials to use to manufacture more goods. This is how consumer spending is able to drive much of the economy.

Consumer spending is also affected by the state of the economy. In a booming economy, people have money to spend, but factors such as high energy prices, market uncertainty, and tight credit lines lead to less consumer spending, which in turn triggers a slow-down in economic growth.

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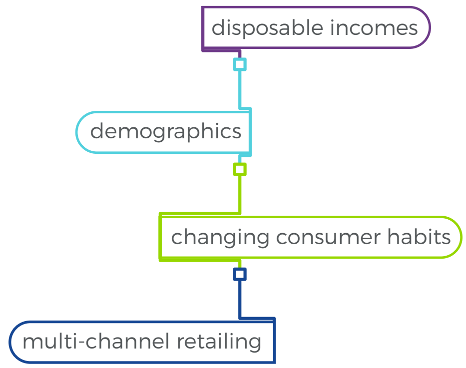
The second reason that retail is important to the economy is the industry's role as an employer. The retail industry employs a tremendous number of people worldwide—nearly 16 million people in the US alone, according to 2017 statistics. In 2017, global retail revenue, including in-store and e-commerce sales, reached over 25 trillion US dollars. The top ten retailers accounted for nearly 30 percent of all revenues. Global annual revenues are predicted to reach approximately 28 trillion dollars in 2018.

Business drivers are influencers, both internal and external, that significantly impact the direction of an industry. **Major business drivers of the retail industry** today are disposable incomes, demographics, changing consumer habits, and multi-channel retailing.

Major Drivers of Retail



DISPOSABLE INCOME

The retail industry depends on consumers who have enough income to spend on goods and services. Changes in economic cycles mean changes in disposable income availability. Factors such as lower savings rates and higher debt levels in developed markets are leading to slow growth in the retail industry. In comparison, in developing markets such as China and India, the number of middle class consumers is increasing, leading to a high-growth rate in retail.

Demographics

Diverse segments of the population are looking for different products and shopping environments. To be successful, retailers need to understand their target market. Population growth is currently occurring in the older and younger generations who are interested in a wide variety of products and services such as entertainment, recreation, off-the-shelf products, and technology. However, the older generation also exhibits a disproportionate amount of spending on experiences and other services such as vacations and health care.

To be successful, retailers need to understand their target market.

An increase in the number of unmarried people and senior citizens means a trend toward smaller households. Products that are geared toward smaller living spaces and family units are in greater demand. The younger generation, which has grown up with technology, will be in the market for products that reflect individualism, self-fulfillment, and personal involvement. To appeal to these people, retailers need to provide enough options and customization to cater to individual needs.

Changing Consumer Habits

Consumers have changed their spending habits over the years and retailers must adapt to these changes to be successful. Some examples of changing habits include:

1980s–1990s

Premium luxury products became more available to the average consumer, who were purchasing products such as microwave ovens and personal cassette players.

2000–2010

Increased internet usage and advances in mobile technology have changed the ways consumers make their purchases, thus giving consumers greater ability to research before buying. Global economic uncertainty has prompted a shift in spending habits to less-expensive, non-brand-name products.

2010–Present

Online shopping has seen a growth during this period with players such as eBay, Amazon.com, Walmart.com and Alibaba leading the way. Most traditional retailers now offer online purchasing options through their websites. The continued improvement in mobile device applications to make purchases has contributed to this trend.

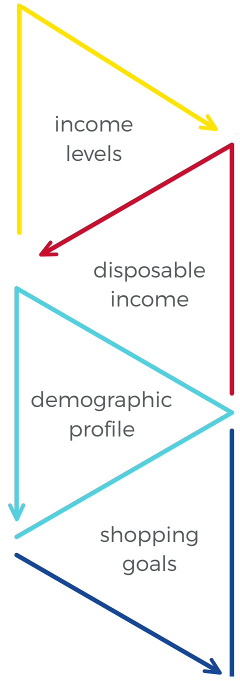
Although spending patterns change over time, the **parameters behind consumer spending** remain the same.

Many consumers today are looking for retailers that share their values and provide good corporate citizenship. Retailers must adjust to serve these consumers and their multi-dimensional communities.

Multi-Channel Retailing

The retail growth of the future is expected to be driven by online sales. To capitalize on this trend and maintain continued success, many retailers have invested in multi-channel retailing. Investing in multi-channel retailing includes user-friendly online stores, both traditional website- and mobile-device-friendly, telephone and mail-ordering, cross-channel services

Parameters Behind Consumer Spending



such as cross-channel stock merchandizing and management, visibility of customer transaction data across channels, and improvement of delivery times and methods.

INDUSTRY PROFILE

The Industry Profile includes individual sectors within the retail industry, examples of business models, a view of the competitive landscape, and trends in the industry. As previously mentioned, the types of retail establishments have changed dramatically. "Brick and mortar" (B+M) shops (stores with a physical presence) have given way to the ease and convenience of online shopping. Technology will continue to have a massive impact on the industry.

INDUSTRY SECTORS

Industry Sectors refers to the different structures and configurations that comprise retail organizations. Each organization is tailored to sell a specific set of products to a specific set of consumers in a manner that is compatible with the consumers' needs and resources.

Types of retail establishments

Retail establishments typically fall into one of seven categories:

- convenience stores
- specialty stores
- department stores
- discount stores
- supermarkets and hypermarkets
- drugstores and pharmacies
- multichannel stores

Increasingly, superstores such as Wal-mart are attempting to serve multiple consumer needs all at once, including groceries, pharmaceuticals, clothing, housewares, automotive products, and gardening/outdoor recreation merchandise, all at discounted prices. We describe each of the above sectors in more detail below.

"Brick and mortar" (B+M) shops (stores with a physical presence) have given way to the ease and convenience of online shopping.

Convenience stores A convenience store is a small store that sells a variety of products, such as newspapers, magazines, candy, soft drinks, tobacco products, and lottery tickets. Many convenience stores also offer some grocery items and prepackaged foods. These stores are usually located in urban neighborhoods or along busy roads. Some convenience stores are located within gas stations.

Convenience stores are often open longer hours than other types of retail establishments, making them convenient for customers. However, customers pay for that convenience, as prices are often higher than in other types of stores.

Specialty stores Specialty stores are retail establishments that specialize in selling a single type or specific range of merchandise and related items. Examples of specialty stores include clothing, party supply, sewing, and musical instrument stores.

Department stores Department stores are large retail establishments that are made up of a number of sections, or departments. A specific group of products are available in each department. For example, an establishment may have departments for clothing, electronics, jewelry, furniture, and appliances. This type of retailer has been struggling recently, especially as shopping malls continue to close.

Discount stores Discount stores such as Dollar General and Designer Shoe Warehouse (DSW) typically sell a broad range of products at lower prices than other retail establishments. However, they generally also offer lower levels of service than the higher-priced retailers.

Supermarkets and hypermarkets Supermarkets are retail establishments primarily involved with selling food. Many supermarkets carry other household products as well. Supermarkets are very similar to grocery stores, but they generally are larger and carry a wider selection of products. In the United States, supermarkets account for the majority of food sales.

A hypermarket is a large retail facility, or superstore, that carries a very wide variety of products under one roof, including groceries and a variety of non-food items. It is a cross between a supermarket and a department store.

Drugstores and pharmacies Drugstores and pharmacies (commonly known as chemists in Australia, New Zealand, and the United Kingdom) are subject to health care regulations, such as requirements for storage conditions, and they are required to have a pharmacist on duty whenever they're open. In addition to providing medications, many drugstores and pharmacies also offer a number of other products and services, such as greeting cards, cosmetics, snack foods, office supplies, durable medical equipment, and photo processing services.

Multichannel stores Multichannel stores sell products to consumers through a variety of channels, including catalogs, mail order, telemarketing, the internet, and vending machines. Many multichannel stores are completely online and do not have a physical store that customers can visit, while others have both a physical store and products available through other channels.

THE COMPETITIVE LANDSCAPE

The competitive landscape in retail is constantly shifting, but there are a few retailers who have maintained their place at the top for several years now, including Wal-Mart, Kroger, Costco, and Amazon. Because they are so massive and profitable, they are able to expand, keep prices lower than their competitors, and move into the internet sphere of retail with ease. Smaller retailers must fight to keep their business alive in this environment.

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Key competitors

Based on a February-January fiscal year, according to 2018 sales reporting from the National Retail Foundation, the top six competitors in the retail industry are:

1. Wal-Mart
2. The Kroger Co.
3. Amazon
4. Costco
5. The Home Depot
6. Walgreens Boots Alliance

Wal-Mart Wal-Mart, a public corporation based in the United States, runs a worldwide chain of large discount department stores, supermarkets, and hypermarkets. The company was founded in 1962 and incorporated in 1969. Wal-Mart remained the top competitor among retailers in 2018 and is the largest corporate employer in the US (with more than 2.3 million total employees worldwide).

Wal-Mart had sales revenues of $374.8 billion USD and a net income of $9.86 billion USD. Wal-Mart has total assets of $204.5 billion USD. It accounts for over 49% of the total revenue of all six of the top competitors.

The Kroger Co. Based in the US, the Kroger Co. is a food retailer which also processes some of the food sold in its supermarkets. Kroger operates nearly 2,500 supermarkets and multi-department stores under brands Kroger, City Market, Dillons, Jay C, Food 4 Less, Fred Meyer, Fry's, King Soopers, QFC, Ralphs and Smith's. More than 1000 of their stores have fuel centers. Kroger also operates convenience stores and jewelry stores.

Kroger had sales revenues of $115.89 billion USD and a net income of $1.89 billion USD. Kroger has total assets of $37.2 billion USD and employs approximately 443,000 people.

Amazon Amazon.com, Inc. was incorporated in 1996. Originally, the company was primarily a book seller. Now it sells nearly every consumer good imaginable, and with its recent collaboration with Whole Foods Market, Inc., it has moved into the grocery and fresh food arena in a new way.

Amazon had sales revenues of $102.96 billion USD and a net income of $3.03 billion USD. Amazon has total assets of 131.3 billion USD and over 563,000 employees.

Costco Wholesale Founded in 1983 and headquartered in Seattle, WA in the US, Costco Wholesale operates through a membership business model offering low wholesale-type pricing. The company utilizes large warehouses containing a limited selection of brands and selective private-label products on a variety of products. In 2014 the company announced plans to expand its online presence in China through the Alibaba Group.

Costco Wholesale had sales revenues of $93.08 billion USD and a net income of 2.7 billion USD. Costco Wholesale has total assets of 36.35 billion USD.

Costco Wholesale employs 231,000 people.

Home Depot, Inc. Home Depot is an American home improvement supplies retailing company that sells tools, construction products, and services. The company is headquartered in Cobb County, Georgia.

It operates many big-box format stores across the United States (including all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam), all ten provinces of Canada, and the country of Mexico. The MRO company Interline Brands is also owned by The Home Depot with 70 distribution centers across the United States.

In 2017, Home Depot had sales revenues of $91.91 billion USD and net income of 8.63 billion USD. Home Depot has total assets of $43 billion USD.

The company employs nearly 400,000 people.

Walgreens Boots Alliance, Inc Walgreens Boots Alliance is the largest retail pharmacy, health and daily living organization across the U.S. and Europe. It is one of the world's largest purchasers of prescription drugs and other health and wellbeing products. Walgreens Boots Alliance and companies under its investment umbrella operate in more than 25 countries.

In 2017, Walgreens Boots had revenues of $82.75 billion USD and a net income of $4.08 billion USD. The company has total assets of $66 billion USD.

Walgreens Boots Alliance employs more than 345,000 people.

Emergence of hypermarkets and supermarkets

During the second half of the 20th century, the supermarket emerged as the primary grocery retail form in both Europe and North America. One reason for this is consumer demand for convenience in shopping for food. Another reason is an increase in the number of car owners. In the past, consumers were more apt to shop at small, local stores that serviced their community. However, more car owners mean more consumers who will drive farther away from home to buy food.

Rising incomes, as well as consumers who were looking for more variety, led to supermarkets expanding their product offerings. Technological advances such as the bar code and point-of-sale systems enabled stores to carry thousands of different items, leading to the birth of the hypermarket.

SECTOR TRENDS

The most prominent trend in the retail industry involves expansion and technology. Increasingly, retailers are entering the global economy, which means they need to invest in technology that allows them to sell online and ship products globally in an efficient and affordable way.

Current trends in retail

There are **four current trends in the retail industry**:

- accelerating expansion of global retailers into emerging markets.
- e-commerce and m-commerce.
- technology for data collection, shopping facilitation, and marketing.
- cultural responsibility.

Accelerating expansion of global retailers into emerging markets In the past, there was little incentive for retail companies to risk expansion into new markets. Many chose instead to focus on opportunities that existed in their home markets. However, retailers in developed markets are now dealing with home markets that are growing at a slower rate and consumers who are becoming more unpredictable in their buying choices. In order to achieve growth, these companies have been expanding their footprint in new, emerging markets.

Specialty stores are best suited for expansion into emerging markets because they tend to have substantial financial resources, a well-established and developed history of success, and may be fully saturated in their home markets. Many clothing and household goods retailers have already invested in global expansion and more are expected to do so in the coming years.

Expansion of local retailers from emerging markets A growing middle class in emerging markets like East and South Asia, the Middle East, Africa, and South America means more consumers with money to spend on goods. Although large global retailers are making inroads into

Current Trends in Retail

these markets, the companies that are best positioned to benefit are those which are already based in these markets.

Many of these local retailers have been successful in expanding into neighboring emerging markets, becoming regional powerhouses. For example, RT-Mart of Taiwan is a hypermarket chain that has expanded into the Chinese market and has the highest retail sales in its sector.

The next step for some of these retailers may be to expand into developed markets. Specialty retailers, such as those selling brands that reflect their home markets, are generally better suited for this type of expansion than department stores or mass merchandisers, as consumers tend to think of these markets as exotic.

E-commerce/M-commerce Many people like to research and compare products before they make a purchase decision. These consumers want to be able to access information, browse products, and make purchases online using their computers or mobile devices (m-commerce).

Retailers need to be consistent across all channels. Consumers expect to receive the same benefits and service from a retailer, whether they make their purchase online or in-store. Store clerks should have access to the same product data that customers can get online. They should also be aware of any specials or campaigns that are available outside the store.

The popularity of social networking sites, such as Facebook and Twitter, is also impacting the retail industry. Online advocacy, peer reviews, and ratings through online social networking are making it easier to promote products and services online.

Data collection Although retailers have been collecting data about their customers for decades, new technologies are being incorporated to better predict customer demand patterns, improve marketing, and optimize product pricing and supply chain efficiencies. Retailers are able to leverage technologies that are designed to aid them in collecting customer information and understand how to use that information to choose the best strategies to increase profits. For example, product pricing software is used to analyze customer information to determine how to best price products to ensure they sell quickly while maximizing profits.

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Retailers can use data they collect to customize their product selection to align with customer demands. They can also use the data to upsell related products to these customers. Upselling is a technique used by salespeople to persuade a customer to purchase a more expensive item or a related additional product. For example, an online store can offer a customer products based on information from other customers with similar buying patterns.

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Smart devices that order items (for example, groceries) according to a set schedule from companies such as Amazon provide highly stable purchasing data. Less traditional forms of data collection are also being used, including eye-tracking. While shopping, consumers wear glasses that allow the retailer to see (on an iPad or other device) what the consumer is looking at and to track what marketing signage is studied and which products are selected. Data from multiple customers can be aggregated for a more comprehensive understanding of shopping behavior and product popularity.

Cookies are a type of technology that enables an online retailer to stay connected to a customer or potential customer. When a person visits a website, that site sends a cookie (a small text file) to the user's device, which allows the site to "remember" the user's history and preferences, thereby customizing the experience for each individual. Cookies also enable consumers to switch among multiple pages or websites and, for example, keep items in a shopping cart, maintaining a stable state while multitasking. This provides the retailer with better sales and relationship opportunities.

Some businesses have also begun to collect emotional data on their customers. Wal-mart has recently filed a patent for technology that will detect the emotional state of shoppers in-store. Fundamentally, cameras would be installed near products to record facial expressions and then, through artificial intelligence analytics, determine and classify the emotional response to the product, pricing, etc. Of course, retailers who employ this technology must be completely transparent with consumers about its use. As the data streams in, retailers look for patterns that uncover the thought processes behind what customers want and how they want to get it.

While in-store purchasing still outweighs online purchasing overall, online research and marketing is increasingly more responsible for directing those in-store purchases. At this point, this is where data collection breaks down a bit. If a person researches but does not purchase a product online, this is considered a failed experience. Yet the consumer may have taken that information and gone into a store to make the purchase. The retail industry needs to find a way to track customers' interactions with their brands from start to finish, thereby creating an accurate picture of shopping habits.

Mobile phones are becoming the dominant means of researching products and brands, as well as making purchases.

Shopping facilitation Facilitating the shopping experience is the main objective of retail technology. Consumers want to shop whenever they want and wherever they happen to be. Mobile phones are becoming the dominant means of researching products and brands, as well as making purchases. However, the mobile phone shopping experience is far from ideal—websites are rarely optimized for the mobile phone environment and there is the "third hand" issue (one to hold the phone, one to type, and one to hold the credit card). The result is fewer purchases than that same customer might make on a PC.

Mobile apps specific to a brand or company make shopping easier, but consumers are required to download them onto their phones, which can become cumbersome and the apps are not discoverable via a web search. Progressive Web Apps (PWAs) are a possible solution to this problem. PWAs are based upon existing web technology and, therefore, do not require separate bundling or distribution. In addition, they are discoverable through a web search and work everywhere, even when there is poor connectivity or the consumer is offline. PWAs merge the strengths of website shopping on a PC with the convenience of a mobile app.

Augmented Reality (AR) is used to enhance shoppers' ability to see what an item might look like in their personal space or on their bodies. IKEA and Wayfair have technology that allows you to render a version of a room and to place a scaled model of whatever product you are looking to purchase in that room. This gives you a realistic idea of what, for example, a sofa or table will look like in your home. In a similar way, clothing retailers such as Adidas, Gap, and Topshop use AR to allow customers to virtually try on clothing before making a purchase. Soon, there really may be no reason to leave the house!

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Marketing/Consumer interaction Social media has become a popular tool for the retail industry to communicate with and sell products to consumers. For example, retailers advertise on Facebook, and consumers can communicate directly with them using Facebook Messenger to research and shop for products. Promotions can also be sent directly to customers' mobile phones when they are in or in proximity to a store. Macy's uses beacons to send promotions to smartphones and can also identify a customer's location within the store to offer more targeted promotions.

Cultural responsibility Consumers expect the retail industry to provide quality products, expedited and personalized service, and to keep up with the technology of current shopping methodologies. In addition, they increasingly want companies to be transparent about their commitment to providing a healthy and supportive environment for workers and to responsible global citizenship. Consumers are sensitive to news stories about mistreatment of workers and companies whose practices harm the environment.

Companies increasingly make supporting their employees a matter of policy. Taco Bell helps to fund its employees' education and Amazon, through Amazon Career Choice, pays up to 12,000 USD for staff on hourly wages to study for new jobs. Environmentally and globally responsible companies such as Toms donate one-for-one for each product they sell (Toms has donated over 60 million shoes to children all over the world) and work to improve the living conditions in under-privileged communities. Toms provides clean drinking water, eye services, and safe birth kits to many regions globally. In addition, their products, including boxes, are made with sustainable, recyclable and vegan materials.

Maintaining a brand's good reputation has as much to do with the products it offers as with how it treats its employees and operates in the world. In sum, trends in the retail industry point towards increased use of advanced technology and the data it affords, automation and outsourcing to Artificial Intelligence and smart assistants, increased personalization of services through direct marketing and Augmented Reality, and more transparency around retailers' treatment of their workers, environmental impact, and global citizenry.

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INDUSTRY CHALLENGES

The retail industry's main challenge will always be to determine how best to serve consumers while making a profit or, at least, remaining viable. Retailers face many issues in their attempts to sell goods and services, pay employees, and build successful businesses. The competitive nature of the industry means that there is always someone out there who will try to take the place of an established business or who has figured out a way to serve consumers better.

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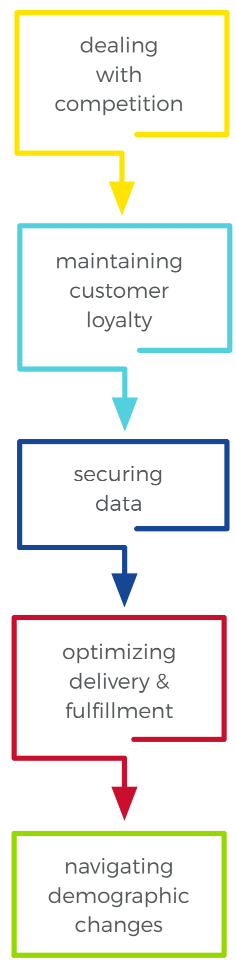
RECENT AND ONGOING ISSUES

Staying competitive and maintaining customer loyalty will always be the key issues in retail. Whether a business is a single storefront selling specialty items or a comprehensive, global superstore with a significant presence in cyberspace, these two issues remain at the forefront of the retail industry.

There are five **challenges companies face in the retail industry**: dealing with competition, maintaining customer loyalty, securing data, optimizing delivery and fulfillment and navigating demographic changes.

Challenges Companies Face



Dealing with competition Competition fuels the retail industry, but the type of competition has changed over the years. There is more between-format competition now than there was half a century ago. Between-format competition refers to items that were once sold at only one type of store but are now available at many different types of stores. For example, filling prescriptions was once a service only available at drugstores. However, many supermarkets and hypermarkets now contain pharmacies, and multichannel retailers offer prescription refills by mail order and online.

Areas of retail competition There are four traditional areas of competition between retailers:

- price
- product variety
- item assortment
- store location

Price refers to both the prices of items within a category of products as well as across categories. Prices can change frequently due to sales and promotions.

Product variety refers to the number of categories of products carried by a retailer. For example, a specialty store, such as a jewelry store, typically carries only a few categories of products, compared to a department store, which generally sells many different categories.

Item assortment refers to the number of items a retailer carries within a certain category. For example, a convenience store or small grocery store may only carry one or two brands of a product, whereas a supermarket may carry several.

Store location can also affect competition. Where a store is located can affect the cost of a purchase. For example, two stores carry the same product but the product is priced lower at one of them. However, the more expensive store is located in a more convenient area and is much closer than the other to a large residential area. Many consumers may choose to pay a little more rather than spending the extra time and money for transportation to visit the less expensive store.

The internet has increased both opportunities and competition within the retail industry. Retailers can create online stores that are open 24 hours a day, 7 days a week. Customers can shop from the comfort of their own homes, searching for products and comparing prices at retailers around the world. As a result, retailers no longer have to worry only about competition within their own geographical area; they must also compete with companies on a global basis.

Maintaining customer loyalty Nurturing customer loyalty comes down to putting the customer first in all aspects of the business. The Pareto Principle states that 80 percent of sales come from 20 percent of customers. In other words, it is the loyal customers who keep a company viable. According to Mike Small, Chief Client Officer of Sitel Group, today's "customers expect fully immersive and seamless experiences." From the first point of contact to payment and delivery, customers want to feel as though they are important to the retailer.

24/7

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Four ways to help customers feel valued are:

Go beyond expectations

Develop a relationship through personalized marketing, offer rewards programs and targeted deals, and provide exceptional customer service at all levels

Appeal to their values

Be transparent about the company's mission and what it does to benefit society, including how and where its products are made and sourced

Be artful

Stay current with technology – from interactive in-store promotions to payment and delivery methodologies, companies need to know how their customers want to shop

Use social media

This can be an effective, personalized way to communicate with shoppers as well as providing them with opportunities to research and purchase products

Specifically, exceptional customer service means that there is a friendly, helpful (and not pushy) employee to greet you when you walk into a store. The environment feels positive and energetic, and the space is well-lit, well-organized and clean. Exceptional customer service also means that there is very little wait time when you are ready to make a purchase with the equally friendly and helpful person at the register who offers a variety of payment options.

Online shoppers expect easy website navigation so that they can quickly find what they are looking for. J Crew, for example, has excellent filters to narrow down a search. They expect a variety of contact options if there is a question—Live Chat is the most efficient—and inexpensive (or free) shipping costs and fast delivery. Amazon and Amazon Prime in particular have led the way in speedy and cost-effective shipping. Online shoppers also expect to get the best deals.

Not all companies, however, focus exclusively on the consumer. Wegmans' approach to customer loyalty is slightly different: the well-being of its employees and creating a positive, supportive, and flexible work environment are paramount. The supermarket chain's central value is that happy employees will translate into positive interactions with customers. And it works! Wegmans is continually at the top of the Harris Poll Reputation Quotient Ranking of companies with the best reputation among American consumers for workplace environment. According to Forbes.com, it is the "most beloved supermarket in the country among its customers and employees."

Customer loyalty is what keeps the lights on.

Customer loyalty is what keeps the lights on. Therefore, companies must stay on top of research that illuminates what consumers want and how they want to get it. It is a never-ending pursuit. The most successful companies with the greatest longevity know their 20-percent customer base well.

Securing Data Data security breaches in the retail industry can have a devastating effect on customer loyalty and sales, and often permanently damage a company's reputation and market share. Although retailers account for only 4.8 percent of data breaches (the financial services industry is at the top with 24.3 percent), they are required by law to notify their customer base when a breach occurs. Breaches at large, well-known companies such as Target generate headlines and cause widespread distrust and avoidance.

Not all industries are required to report breaches, however, so even when a vast number of people are affected, they may not be notified. For example, the banking industry is not always required to report its security problems. If an industry is not required to notify its consumers about these problems, it is less likely to prioritize data security. The National Retail Federation has advocated for a new law that would mandate all organizations that maintain sensitive consumer data to be transparent and report issues when they occur.

Sustaining robust data security is a challenge for all companies. As soon as a system is in place, criminals find a way to hack it. Therefore, all organizations need to have a robust, post-breach protocol in place.

The basic functions of a post-breach protocol include:

- notifying customers.
- analyzing what happened, how it happened, and how to prevent it from happening again

- salvaging the company's reputation
- crisis communication amongst owners and employees—unifying the company's message

The more quickly a company can recover from the violation and show that it is swiftly and proactively seeking to rectify the problem, the better off the organization will be in the long run. A strong, apologetic message to consumers and transparency about the breach soon after its discovery will demonstrate good will and lessen the impact of sudden mistrust. With payment methods becoming increasingly electronic and web-based, criminals will always try to crack the encryption technology. The retail industry needs to be prepared for this as a certainty rather than a random act of criminality.

Optimizing Delivery and Fulfillment E-commerce is growing nearly five times faster than in-store retail, but the physical movement of goods is still an issue. Consumers, especially from younger demographics, are interested in alternative methods of getting goods. For example, Millennials like the idea of pick-up lockers. The partnership between Amazon and Whole Foods allows Amazon orders to be delivered to a customer's local Whole Foods, thereby combining a shopping trip with an order pick-up. Generation Z is intrigued by the idea of drone delivery.

In addition to delivery methodology, delivery pricing is changing. Low-cost or free delivery has become a major selling point for retailers. While this helps to build customer loyalty, the actual cost of delivery has not diminished, so retailers must fold that expense—approximately ten percent of the online budget—into the cost of items or some other part of the business.

Low-cost or free delivery has become a major selling point for retailers.

The most expensive part of fulfillment is called "last-mile" delivery: the movement of goods from a transportation hub to the final delivery destination, typically a personal residence. The Retailers' objective is to get goods to the consumer as quickly as possible. With e-commerce sales expected to reach $1.35 billion in 2018 (an increase of 28.8% from 2013), the retail industry has had to re-evaluate its transportation network capabilities, making use of alternative forms of delivery, especially in areas where UPS, FedEx and USPS may not be effective.

Navigating Demographic Changes Retail shopping habits and values are often dependent upon a consumer's generational demographic. Currently, the most active consumer generations are the Baby Boomers (1946-64), Generation X (1965-80), Millennials or Generation Y (1981-97), and Generation Z (1998-2013). Not all sources agree upon the specific years assigned to each label, but the categories help to ascertain differences in how members of each generation spend their money.

Characteristics of each demographic, according to current research, are as follows.

Baby Boomers

- want a simple, easy shopping experience
- 84 percent prefer to shop in-store
- online purchases are made primarily with known retailers

Generation X

- value shopping atmosphere, technology, and speed
- loyal to brands and quality
- prefer straightforward messaging—skeptical of flashy marketing

Millennials (Generation Y)

- favor a personalized shopping experience
- use a variety of devices to shop and make payments
- hardcore deal shoppers

Generation Z

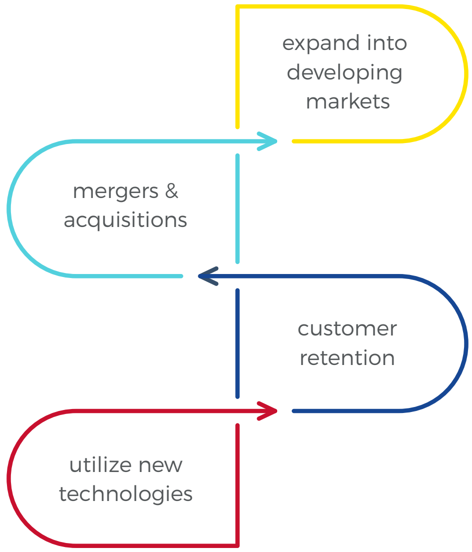
- attracted to interactive shopping experiences
- want to find their items quickly without navigational issues online
- primarily uses smartphone to shop, online and in-store (comparing prices)

Retailers are continually attempting to identify the habits and values particular to each generation, adjusting their product lines and sales and delivery methodology to suit a particular demographic. This is necessary to stay viable in an environment in which technology is changing rapidly yet certain values—for example, excellent customer service and good deals—remain constant.

STRATEGIES FOR OVERCOMING CHALLENGES

Despite the number of challenges facing retailers, **there are four strategies for overcoming industry challenges** or at least mitigating these challenges. These strategies help retailers to keep their businesses growing, retain customers, and develop long-term plans, including how to stay in touch with and utilize technology.

4 Strategies to Overcome Industry Challenges



Expansion into developing markets Retailers in developed markets, such as North America and Europe, are facing declining sales, combined with slow economic growth. In order to overcome these challenges, many retailers are looking to developing markets as opportunities for growth.

There are a number of reasons that developing markets are attractive to retailers, including

- a younger population and growing middle class
- affordable prime real estate.
- a gross domestic product (GDP) that is predicted to continue growing

Mergers and acquisitions Because the nature of the retailing business improves with selling in large volumes and consolidation generally increases volumes, mergers and acquisitions result in increased profits, a better negotiating position to lower unit prices from suppliers, and an improved position over smaller competitors.

There are few new retailers entering the marketplace. Most new chains are actually existing large retailers expanding into new market segments under different banners. Small retailers are merging with large players, decreasing the number of competitors in the industry. The *Financial Times* reported 3.3 trillion USD in mergers and acquisitions for the first three quarters of 2018, up 39 percent from 2017.

Some notable examples of mergers and acquisitions in retail are:

The *Financial Times* reported 3.3 trillion USD in mergers and acquisitions for the first three quarters of 2018, up 39 percent from 2017.

- the acquisition of Whole Foods by Amazon.com
- the acquisition of Shipt by Target
- the acquisition of Jet.com by Wal-mart

The reasons that a company might consider a merger or acquisition are:

- to grow larger and obtain economies of scale
- to focus business on core areas and divest the rest
- to buy an innovative business and synergize it into the existing brand
- cultural responsibility

Larger companies are able to take advantage of economies of scale. By purchasing products in much larger volumes, they can often negotiate better prices from suppliers. In addition, large retailers can purchase smaller companies with new innovative products and market the products under their own brand names. Limited economies of scale mean that smaller companies face difficulties negotiating better prices with suppliers, building strong brand names, and marketing to a large geographical area. Consolidation with a large, global retailer can overcome these difficulties.

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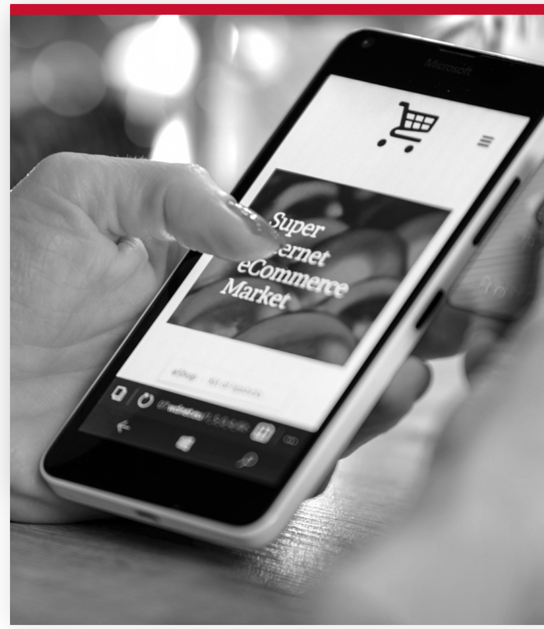
Customer retention

Because the costs associated with acquiring new customers are much higher than retaining current ones, it's important for retailers to find ways to hold onto the customers they already have.

There are a number of steps that retailers can take to retain customers and gain their loyalty:

- **Deliver quality goods and services consistently.** Customers appreciate high-quality products and services delivered in a timely, reliable manner.
- **Troubleshoot any problems that customers have quickly.** If customers feel their problems are being ignored, they may take their business elsewhere.
- **Personalize products for customers.** Find out what individual customers want and tailor products to suit them. For example, a cosmetics company could offer customized shades that can be created in store for their customers.



- **Use promotions to help identify customer needs.** For example, a retailer sends a promotional catalog to its customers. It can then track purchases made by individual customers and target future promotions to those customers.
- **Gather customer information.** Retailers can use information they obtain to market products to customers based on their interests.
- **Train employees to interact effectively with customers.** For example, training could include helping employees improve tone of voice, body language, and eye contact.
- **Use company web sites to gather additional customer information.** For example, customers can be offered a survey to fill out.
- **Use online software to personalize customer preferences. For example, when visiting an online store, customers can be given an option to register.** Browsing habits and purchases are stored and when customers make subsequent visits, they can be presented with products that they bought before, or shown similar products.
- **Reward the best customers with customer loyalty programs.** For example, a bookstore may have a program where if a customer purchases a certain number of books, she gets one free.

Retailers can use new technologies, channels, and platforms to overcome challenges in the retail industry.

Use of new technologies

Retailers can use new technologies, channels, and platforms to overcome challenges in the retail industry. There is now a measure called Digital Strength Index (DSI) that links the digital strength of a company to its revenues. Those with the highest average DSI have most successfully leveraged technology in the digital space to grow revenue.

Mobile devices The popularity of mobile devices, such as tablets and smartphones, means that many consumers are always connected to the world around them, through e-mail and the internet. Retailers are using new technologies to contact their customers anytime and anywhere.

Retailers can also use these devices to increase the efficiency of their staff. Mobile devices can be used to connect to inventory databases, enabling an employee to quickly check whether a product a customer wants is in stock and where it is located, or if it's in stock at another location. These devices can allow employees to speak with managers or product experts to allow them to quickly obtain answers to any questions customers may have.

Integrating systems Successfully integrating technology systems improves customer service. Adapting in-store systems to coordinate with online databases can integrate customer data and provide a better, more fluid shopping experience. This requires a significant investment in technology upgrades. Marketing and promotional campaigns will also benefit from having crossover validity in-store and online.

Providing a variety of methods for customers to obtain goods—omnichannel strategy—will also help to increase customer loyalty. Shoppers can pick up an online order, delivered from a national warehouse to a nearby store (“click-and-collect”), packages ordered online can be delivered from a local store’s backroom (“ship-from-store”), or online orders can be picked up in-store with fulfillment coming from a local warehouse, not in-store inventory. This omnichannel strategy eases the “last mile” burden to retailers.

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Artificial Intelligence (AI)/Augmented Reality (AR)/Robotics

AI devices such as Amazon’s Echo (Alexa) use voice command to research and order products directly. AR product preview technology facilitates the shopping experience by giving customers a realistic view of how a product will work in their lives without having to physically go to a store. Alibaba and InTime have combined forces to create mirrors that allow shopping mall customers to virtually try on beauty products then purchase them from a vending machine.

Hilton Hotels has a concierge robot (Connie) that can help guests with questions about area restaurants and attractions and even point them in the right direction. In-store robots that understand natural language can answer customers’ basic questions, leaving more complex questions to their human colleagues. This area in particular will continue to play a prominent role in retail technology.

HOW DIGITAL TRANSFORMATION IMPACTS THE RETAIL INDUSTRY

Digital transformation involves the increased use of technology and automation to improve and expand a company’s business. Digital transformation has become a full-time occupation in the most successful retail organizations. As consumers rely more heavily on mobile and online channels to make purchases, companies must meet their needs and stay current with emerging technologies and trends.

ROLE OF THE CHIEF INFORMATION OFFICER (CIO)

The role of the Chief Information Officer is more important than ever. Once a supporting role at best, the CIO must now be at the forefront of business strategy in any retail company. The CIO's team needs to be dedicated to answering three main questions:

1 What are the emerging technologies in my field?
2 What are my competitors using?
3 What technologies are my customers using and what are their needs?

Given the constant evolution in digital technology, these questions should be answered on a continual basis, requiring both sufficient staff and data collection and analytics tools.

The CIO will be most successful if he or she can demonstrate how **technology touches and can improve** every aspect of a retail business.

Customers are more likely to remain loyal to a company if they have multiple ways of purchasing that company's goods or services: in a physical store or online with a computer or mobile device. Accordingly, the company's marketing efforts should be present in a variety of modalities. With a multichannel customer interface, warehousing, inventory management, ordering processes, and delivery/fulfillment all need to be coordinated and made competitively efficient through the use of technology.

Getting all aspects of the business to work together and agree upon a digital transformation strategy will be a challenge for any CIO, but the reality of today's retail environment leaves companies with no other choice if they want to survive.

RECOMMENDATIONS FOR PRIORITIZING DIGITAL TRANSFORMATION

As a way to move forward with your company's digital transformation, industry experts recommend focusing on three priorities:

Technology can improve...

1 customer interface & retention
2 marketing
3 warehousing & inventory control
4 orders & delivery

1 the customer experience
2 business and IT leaders working together
3 gaining the support of the CEO and Board members

It has been discussed several times in this document and countless times in every book, article, lecture, etc. ever written about the retail industry—without the customer, there is no company. It is imperative that companies focus on how customers behave in their daily lives. What are they buying and how are they buying it? What are their expectations in terms of service and delivery? What companies are currently fulfilling their needs in the most successful way? The customer experience will determine loyalty and profitability.

It is imperative that companies focus on how customers behave in their daily lives.

At one time, business strategy and information technology did not have much to do with one another. IT staff simply made sure that everyone's desktop computer was functioning properly and that the company had a decent internal email system. Currently, business strategy leaders need to rely upon the technical expertise and knowledge of the IT team to make decisions and design products that will benefit the company. There can be no business strategy without technology.

Some of the most successful companies have even collaborated with different industries to improve the customer experience. For example, Amazon has connected with Whole Foods, giving the company a whole new area of operation: in-store, traditional commerce. Whole Foods benefits from Amazon brand recognition and marketing, and its customers receive discounts in-store in exchange for membership to Amazon Prime. Whole Foods customers need only download an application to their mobile phone or present a phone number linked to the Amazon Prime account.

Digital transformation must be a company-wide initiative. The latest terminology has moved from "multichannel" retail to "unified" retail. This means that the CEO, the Board, and all of the organization's leaders and staff must be aligned with an approach that unifies technology and business strategy in order to improve the customer experience. The unified approach should be monitored regularly to ensure success and to make necessary corrections along the way. Most retail companies are mid-process in terms of this unified approach, but they all must get there in order to survive.

Digital transformation must be a company-wide initiative.

INSIGHTS—EXPLORING THE RETAIL INDUSTRY

CHANGE WITH CONSUMER DEMANDS

The internet and advances in mobile device and payment technologies continue to dominate changes in the retail industry. In order to stay relevant and maintain customer loyalty, businesses must keep up with these changes.

USE BUSINESS PROFILES TO UNDERSTAND RETAIL MODELS

When evaluating and studying trends within a retail industry, it is best to use the case study approach and investigate specific business profiles. Understanding how a specific company operates will give you insights that you wouldn't find by simply studying the definition of a retail model.

LEARN TO OPERATE WITHIN THE COMPETITIVE LANDSCAPE

The retail industry has always been fiercely competitive, but with the introduction of the internet, retail is now global. In addition, large retailers continue to grow through mergers and acquisitions, leaving little room for smaller businesses.

UNDERSTAND RECENT AND ONGOING ISSUES WITHIN THE INDUSTRY

One of the worst things for a company is to be taken by surprise by an issue for which it is totally unprepared. The main issues that will face any retailer are competition, customer loyalty, securing data, optimizing delivery and fulfillment, and staying current with advances in technology.

DEVELOP STRATEGIES FOR OVERCOMING CHALLENGES

Once you understand the issues facing your business, strategies will need to be developed and constantly monitored to keep the business ahead of those issues. For example, consistency in offerings and delivery in addition to customer loyalty and rewards programs will help keep customers coming back. In addition, as mentioned above, staying current with technology is essential to maintaining your customer base.

FOR MORE INFORMATION

The Retail Industry is an exciting and influential part of the global economy. It has changed rapidly in the past ten years and will continue to do so. As a major employer and channel for technological advances, the retail industry's reach is complex and broad, and will always be a fascinating field of study.

> "We see our customers as invited guests to a party, and we are the hosts. It's our job every day to make every important aspect of the customer experience a little bit better."
>
> **—JEFF BEZOS, AMAZON CEO**

If you've enjoyed our overview of The Retail Industry, we encourage you to access the other retail industry assets in the Skillsoft library or visit our course catalog.

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