

The Influence of Digital Transformation on the Retailing Value Chain

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Abstract

Consumers have traditionally made purchase decisions at the store shelf, giving institutional retailers great power to learn about and influence behaviors and preferences. With the rise of e-commerce, mobile shopping, and most recently smart technologies, new competitors threaten this long-standing supremacy. Depending on the importance of the new sources of value creation (in different purchase situations), stationary retailing may prevail as an important interaction point in a multichannel decision journey. However, increasing diffusion of branded-product platforms including connected devices and online retail platforms is shifting this authority to new players. For the parties involved in this multilayered competition, acknowledging the changes and actively managing their position in the evolving eco-systems is crucial.

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JEL Classification: L81, M31

Platform businesses have revolutionized many retailing markets and forced traditional players to exit the market or consider far-reaching strategy adaptation. Transformative business

model innovations often become necessary, because competing head-to-head on product sales with fully grown retail platforms is almost always a lost cause.

Consequently, platforms have come to dominate online retail sales. In 2018, the platform business on Amazon, Amazon Marketplace, accounted for more than 50% of all of Amazon's ecommerce revenues, corresponding to an annual growth rate of 39%. Owing to easy scalability at virtually zero marginal costs, online retail platforms are growing much faster than institutional online or multichannel retailers. As with other forms of two-sided markets, retail platforms give rise to network effects because the platform's overall value to sellers and buyers increases with a growing user base on either side. Hence, large platforms tend to grow even more while small competitors are pushed out of the market, resulting in winner-take-all outcomes.

Digitization breaks up retail's monopolistic ownership of the customer interface and provides opportunities for new gatekeepers to emerge. It shifts traditional retail functions to different players, rendering the creation of competitive advantage based on these functions increasingly difficult. However, digitization also gives rise to new sources of value creation, which address long-standing customer needs more effectively than previously possible. The players can orchestrate value creation through the new sources to ensure their place in the retailing arena.

Stationary retailers

In this new environment, many retailers recognize that they will not be able to compete efficiently on the price or the assortment dimension with pure online retailers or with platforms. Hence, they increasingly focus on customer experience and sensory and haptic engagement. The trend toward smaller stores, pop-up stores, or experience stores in high-frequency environments speaks to this fact. For example, the car brand and retailer Audi builds digital showrooms in inner metropolitan districts to interactively and virtually engage customers with the brand and the product. However, the challenge is whether and how retailers (and brands) are still able to convert those experiences into the requisite revenues. Also, the move of physical retailing toward showrooms and service hubs creates a need for more product and technical experts, which in turn requires investment in more sophisticated personnel and training and gives rise to new retail jobs like styling advisers (in fashion) or garden planners (in DIY).

Further, true omnichannel touchpoint management asks for competent experts not only on site but also in the chat and call center. Linked to that challenge is the question of whether sensory and haptic experiences generate sufficient value to consumers to enable retailers to compete effectively. Researchers could explore how physical stores can exploit their exclusive value-creation potential in terms of providing experiences and empowerment, enabling them to succeed in an increasingly digital world. For example, studies could develop measurements of experiential customer value and assess which of the various in-store experience attributes contribute most to perceptions of customer value. How do these perceptions depend on product characteristics (e.g., category or price) or customer traits (e.g., need for attachment or stimulation), and what is the role of in-store technologies for value creation? Hence, questions for future inquiry are:

- If stores serve only as experience hubs, how does revenue generation work in the future?

- Does the generation of sensory and haptic experiences actually work to compete against the efficiency of platforms? Many physical retailers struggle to remain in business, as exemplified by the many mall closures in the US or failures of prominent established retailers (Blockbuster, Radio Shack, American Apparel). At the same time, retailers are an essential part of maintaining attractive and vital inner cities. Retailers attract shoppers, visitors, and tourists who then patronize restaurants, attractions, and leisure facilities. Practically, all mature retailing environments in the US, UK and throughout Europe are characterized by the success of companies such as Aldi, Lidl, and Primark. These formats compete heavily on price and are always price leaders in their respective category. Hence, cost control is absolutely essential for these formats.

Most interestingly, these banners rarely have e-commerce activities, as these would be too expensive to create and operate next to the physical stores. In other words, routes to success seem to exist in physical retail, even without engaging in digital offerings. The unanswered question is whether the sale of essential consumables will transfer to automated online branded-platform formats – thereby threatening this hugely successful retail format. Further research questions thus arise:

- What are the societal implications of a diminishing physical retailer presence?
- Is the extremely successful retailing format of hard discounting (Aldi, Primark) shielded against digitization?

Branded product platforms

The goal for branded platform owners is differentiation from rival platforms, establishment of a stable, private eco-system, and creation of a lock-in for existing customers through the platform's intrinsic and extrinsic benefits. Value creation may come through (re-)purchase offerings, inherent use values, complements, or partners. Particularly interesting is the advancement of need recognition and fulfilment in the direction of true solution selling. Insights into customer habits, preferences, and experiences can help create personalized recommendations not only for single products or product bundles but for entire activities. For instance, a travel app could analyze users' profiles to predict the next backpacking trip. It could then suggest options, such as how to prepare for a three-month trip to South America, and advertise the requisite equipment such as tents and sleeping bags. The promotion might include backpacking equipment and accommodation arrangements, along with local tour recommendations and a crash course in Spanish.

The closer platform owners move to these core consumer needs, the more locked-in users become in the respective eco-system. In essence, the brand nudges the consumer from very simplistic product transactions to much deeper and ongoing interactions, essentially providing a real solution to customers' problems. Several questions are related to this activity:

1. What are the mechanics to lock customers into the brand platform? What is the role of the experience/use stage versus the transaction stage? How do solutions fit in? The collateral effect of lock-in and the importance of brand equity become apparent for competing brand platforms. The risk of being locked out of the customer's consideration set increases as platforms begin to serve as the

primary interface for interaction and gaining direct access to those customers becomes difficult. In traditional retailing environments, all brands had, *ceteris paribus*, access to all customers at the point of sale. Likewise, in the traditional communication environment, all brands could send their messages via mass distribution more or less equally. In the new brand platform eco-system, the focal customers become notoriously hard to reach for competitors. This difficulty might arise because customers simply do not pay attention to competing brand platforms or because purchases are being automated. Hence, competitors often simply do not have access to those customers for either the transaction or the communication and have to struggle much harder to gain legitimate access to consumers' minds and hearts.

2. If customers lock into brand platforms and more purchases become automated, how can competition dislodge customers? What is the role of marketing communication? In brand platforms, consumers engage more in subscription-based and automated transactions. While value is generated across the entire search, transaction, and consumption cycle, consumers likely reduce their choice set and may also pay higher prices per transaction than under the old retailing model. In other words, a new balance is likely to emerge involving a shift from a multitude of diverse product transactions in the traditional sense to a transaction that focuses on fewer but more encompassing brand–customer relationships where the transaction itself is immersed into the entire relationship.

3. What is the impact of automated transactions on customers' choice making and prices paid? What do customers value more within the larger relationship context? Finally, future studies could examine how IoT (Internet of Things) products and branded-platform eco-systems affect consumers and consumer–firm relationships. These technologies enable firms to get very close to customers' actual behavior, indeed to invade their very private territory, which may discourage branded platform adoption. A case in point is consumers' alarm at the numerous glitches and capabilities in Amazon Alexa's voice technology. Future studies can explore whether and under what circumstances consumers perceive technological advancements as a threat to their privacy or autonomy and what firms can do to alleviate privacy concerns or to mitigate customer perceptions of lock-in.

4. How do consumers perceive and interact with smart durables and IoT products? Under what circumstances would consumers perceive smart durables as a threat to their privacy or autonomy? For branded platform business models, new monetization opportunities may exist. Hence, future studies could inform firms about pricing or business model decisions. For instance, researchers can use simulation approaches to estimate revenue models that account for new revenue streams, such as revenues from sales of complementary products, from data (e.g., displaying targeted advertisements of third-party complementary providers), or from premium functionalities of smart durables (e.g., paying extra fees for specific functions).

Conclusions

Clearly, online retail platforms seem to be the big winners in the retailing environment. However, even they encounter challenges, which open new avenues for research. These platforms often operate as a department-store model, as exemplified by Amazon or Alibaba. However, the platforms may suffer when both retailers and brands counter this trend with more focused relationships with

customers. Retailers and brands may offer solutions, expertise, and tailored customer experiences for products and thus serve as gatekeepers with respect to many decisions once made on online retail platforms. The attractiveness of general platforms may also suffer. How can retail platforms advance their value propositions as manufacturers and retailers attack their current “department store” business model through branded product platforms and specialization/solution selling? Another challenge for platforms is suppliers’ and brands’ ambivalence about their relationships. Brands feel intermediated from their customers, transaction commissions tend to be significant, and some platforms choose to sell their own versions of certain products once they realize the revenue potential of those products. Therefore, some brands will not consider selling on those platforms and other brands withdraw after their negative experience with the platform. Brands often search for ways to be independent of those platforms – especially large brands that do have enough clout on their own.

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