

New Retail Models and Strategies for Turbulent Times

The new demanding consumer has higher needs and expectations from life in general, and retailing in particular, than ever before. This has been created by the well-educated smart shopper, a new communications paradigm, pervasive advertising, and a surplus of just about everything (wheat, money, manufacturing capacity, merchandise, retail space, and stores, etc.) – except time. The result is the “I want it better, cheaper, easier, faster, and now” consumer who knows that if he/she can’t have these demands met by your business there are a dozen alternatives.

Now, in an era of hyper-competition along comes another rock-us-to-our-roots phenomenon – e-retailing. This brash young start-up (most e-retailers are just two years old) has exacerbated the competitive situation by offering the “I want it better, etc.” consumer better assortment, lower prices, easier shopping, and better product information than traditional retail channels. And while predictions for e-retail range from 5% to 10 % share of industry (and some as high as 15%), many observers say these low amounts are not a threat to traditional channels. On the other hand, there are companies that are throwing all their resources into e-retailing in order to get their share, whether it’s 1% or 15%. There should be concern about this either/or model.

The New Retail Channel Model

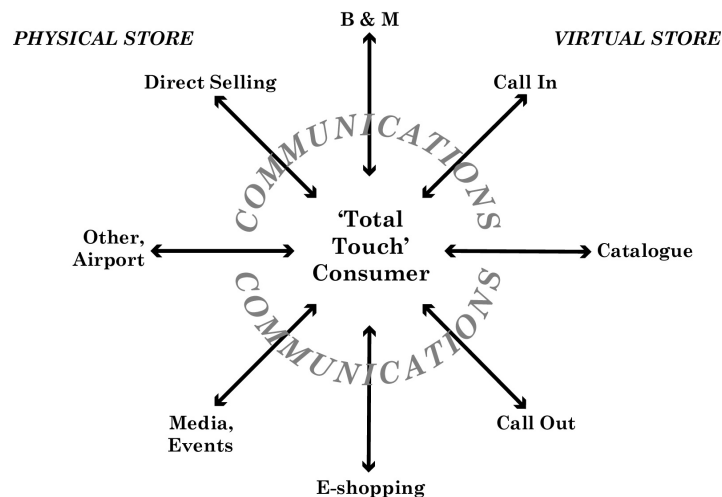
While on the surface not a whole lot has happened, it is important that retailers quickly assess their channel strategy to ensure that they are in a position to maintain and grow their share of total market and stay healthy.

Certainly a variety of store formats and channels are not new to retailers. For example, Sears has built a formidable presence with its traditional department stores and catalogue, and is now expanding with specialty home stores and services. And it's publicity stated that the key to Sears' future growth will not be bricks and mortar. So, obviously growth will come from a wide range of services, plus e-retailing. Similarly, Canadian Tire has several store formats, a catalogue, e-flyers, and services – all working together.

The arrival of e-retailing, another channel, is shaking up the status quo because it has enormous competitive advantages (plus some disadvantages, too) over traditional channels. Basically, it helps fill our need for instant gratification while saving shoppers time.

The key observation about this situation is that there now is a need for retailers to have a model that meets the demands of the "I want it better, etc." shopper – one that they can reach out and touch and be touched at any time and place. To stick to a one-channel distribution strategy makes about as much sense as running a marketing campaign with only one medium.

Retailing Total Touch Model



In the fight to dominate a consumer segment and to 'own' individual consumers, the critical link is communications – advertising through to personal dialogue. It is communications, in the fullest sense, that facilitates action and determines shopper trial and buying decisions. E-retail is powerful because it integrates the retail and communication experience so effectively.

The challenge for all retailers is to ensure that they are utilizing all appropriate channel options. The trick will be to have consistent and seamless management of the Total Touch, multi-channel strategy.

This Total Touch Model is simple and obvious. So what retailers, manufacturers, shopping centres, etc. must do is come to grips with the reality of the changing channels and their sales usage, shifts, and opportunities. Retail and retail-related businesses should have a strategy on how they will get ahead or at least stay with this wave of change, rather than getting swamped by it.

The need to embrace and deal with a multi-channel, Total Touch strategy seems obvious:

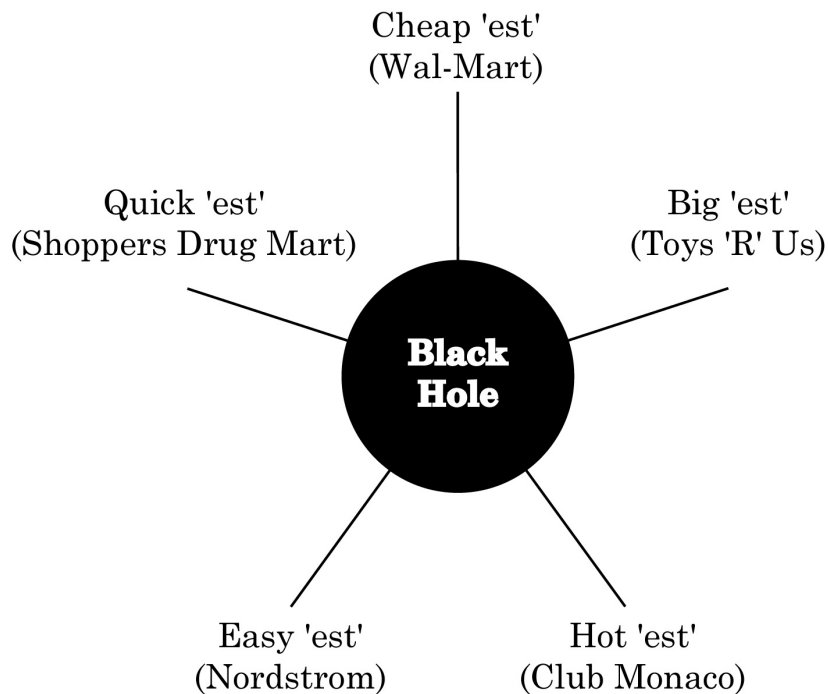
- People shop across channels. We are not channel bound today:
 - So offer multi-channel choice.
 - Be prepared to manage customer relationships as they shop and communicate with you across several channels.
- E-retailing is setting new high standards for pricing, product, assortments, information, ease of shopping, services, and speed:
 - Ensure that you have similar policies, practices, and standards across all of your channels – or risk alienating customers.
- Not embracing or testing a new channel for fear of cannibalization is foolish:
 - Play a market share game because your competitors are. If you don't, they will take market share from your basic/traditional channel and block you from new channels.
- Very importantly, in a proliferation of channels, stores, and Web sites, a powerful brand will be one of the most important keys to success:
 - B & M retailers have a huge advantage if they capitalize on their established brand power.

Traditional Retail Strategies

So it's obviously a very consumer-centric game on a hyper-competitive playing field. Success will come from you giving customers **solutions** to their needs/wants via many different channels. While this is not a revolutionary observation and recommendation, the need to quickly change is.

The latest strategic model that J.C. Williams Group was a proponent of is the Retail EST Model. It simply states that to win, a retailer has to be the best (the strategic differentiator) in one of several retail offerings. This is described as clearly positioning the company in one or more of the preferred locations to win. The losers are not best at anything, gravitate to central "all things to all people" position, and are sucked into the Black Hole of retailing – never to return again.

Retail EST Model



McMillan Doolittle

A New Strategic Model

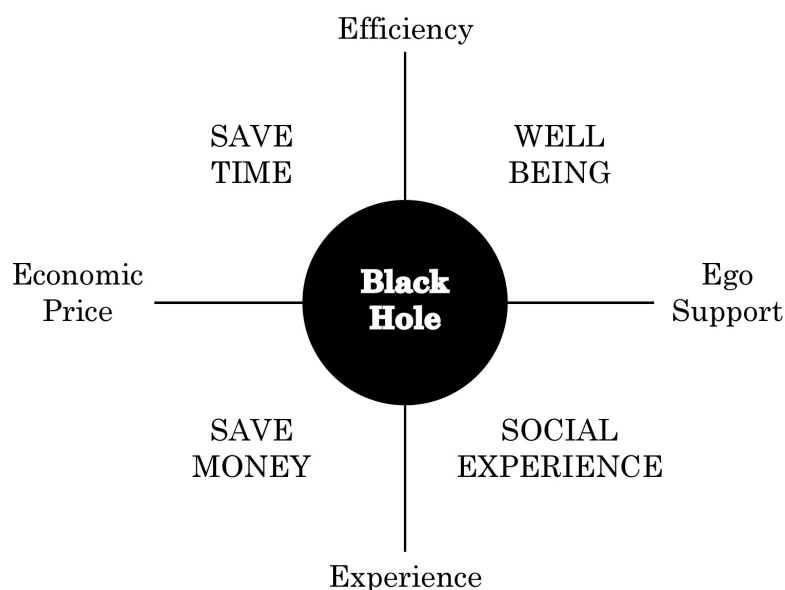
The simplicity of the Retail EST model makes it compelling. But is it time to rethink this approach from a consumer viewpoint? We think so.

Basically, what most shoppers want now more than ever because of their hyper-busy lives, are solutions to time, money, well-being, self-esteem, and social experiences. Retailers should revisit the “I’m going to be better at assortments, or service, or experience” because this is a one-dimensional approach that is retail-centric rather than shopper-centric. It is “What my store is going to do for you” rather than “Here’s how I can offer you a solution to your wants/needs.”

Retail businesses should be built on a multi-dimensioned format that delivers solutions to

- save me time = efficiency,
- save me money = low price,
- enhance my well-being and self esteem = ego support, and
- give me special social contacts = an experience.

This solutions approach to retail strategies forces retailers to think not only in terms of the many factors that provide a solution, but also the retail channels that can do it best. And of course the company’s core strategy needs to be deliverable in each channel!



Assessing Alternative Strategies

In reviewing the components of each major solution to a consumer's need and the channel's ability to perform, the following appears (H – high performance, M – moderate performance, and L – low performance).

1. “Save me time” (30% of Canadian adults will pay more to stores that deliver this)	B & M	Multi-channel e-retail	Pure play e-retail only
- Easy to access	L	H	H/M
- Speed of search, finding it	L	H	H
- In-stock, buy, get out	L/M	H	H
- Broad assortment/narrow assortment	M	H	H
- Efficient service	M	H	M

2. “Save me money”	B & M	Multi-channel e-retail	Pure play e-retail only
- Comparison shop	L	H	H
- Cheapest	M	M/H	H

3. “Enhance my well-being/self-esteem”	B & M	Multi-channel e-retail	Pure play e-retail only
- Brand spin-off	H	M	L
- Personal solutions and relationship	H/L	H/L	H
- Enjoyable environment	H	H	L
- Focused assortments based on lifestyle	M	H	H

4. “Give me a special experience”	B & M	Multi-channel e-retail	Pure play e-retail only
- Entertainment – social environment	H/L	H/L	L
- Entertainment – media based	M	H	M
- Educate me	L	M	H
- Personal interaction	H/M	H/M	L
- Enthrall me	H	H	L

There is a clear winner in terms of combining B & M, e-retailing, and other channels for a multi-channel approach. At the same time, management issues seem to favour e-retailing – at least in theory. The trick will be to find operational models that are great for both the consumer and the bottom line.

5. “Management Issue”	B & M	Multi-channel e-retail	Pure play e-retail only
- Speed of change	L	M	H
- Attracting talent	L	M	H
- Value of the company (for now)	L	M	H
- Flexibility of capital	L	M	H
- Services	L	H	H

Getting Full Potential from E-Retailing

Assessing e-retailing from strictly a sales viewpoint would be making a big mistake. Even in commodities where share of shopping estimates are 1% to 5% of total sales, the e-retail channel will be a major influence of the performance of traditional channels. Because of its multi-dimensional power to deliver better service, assortments, product information, speed, prices, etc. we estimate that e-retailing can **influence** sales in traditional channels to a factor of three-to-five times: much like a store's non-direct response catalogue and e-flyer, which sells nothing **per se**, but functions as a major determinant of where you shop and how much you buy. The power of e-retail and a Total Touch Model is an opportunity to lever traditional strengths, particularly for B & M branded stores.

Ignore this opportunity at your own risk!