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SCHOOL OF ECONOMICS AND BUSINESS

MASTER THESIS

**CHALLENGES OF CREATING A DIGITAL STRATEGY FOR  
RETAILERS**

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## **LIST OF ABBREVIATIONS**

**KOL** – Key Opinion Leader

**B2C** – Business to Consumer

**B2B** – Business to Business

**VR** – Virtual Reality

**AR** – Augmented Reality

## INTRODUCTION

As Salesforce phrased the definition of digital transformation, it is “[...]changing the way business gets done and, in some cases, creating entirely new classes of businesses. With digital transformation, companies are taking a step back and revisiting everything they do, from internal systems to customer interactions both online and in person.” (Salesforce, 2021). With the early starts in the mid-1990's and acceleration throughout the past decades, many industries have undergone digital transformation and significantly changed the way that value is created and delivered to consumers with the help of digital technologies. New business models and even new markets were created, new revenue streams were opened up and a multitude of new services and products were made available to customers globally, and still today, industries and companies are continuing to find new ways of value creation with ever-evolving technologies unlocking new potentials. We were able to witness this transformation in e.g., the Aviation and Hospitality industries as well as in financial services, education and health care among others. Digital transformation brought profound lifestyle changes to people in many areas of their daily lives, which becomes very evident when comparing the way that e.g. media was consumed in the 90's with print media and television prevailing, in contrast to today's diverse social media and streaming platform offerings (Steven Lerner, 2019). The Retail industry has a very long and successful history with brick-and-mortar stores, but it is not surprising that consumers nowadays expect a similar level of convenience. They desire the offerings and delivery speed of all products and services they consume whether online or offline, from media to financial services to all their retail needs. In the age of consumerism, which describes an economy where people are constantly stimulated to purchase material possessions to benefit the capitalistic system as well as their own wellbeing (Adam Hayes, 2021b), retail has experienced a boom across all segments, with total global retail sales expected to reach a volume of 26.69 trillion U.S. dollars by 2022. (Statista, 2020) Consumers expect more than ever from their shopping experience, and retailers globally are competing for customer's attention and loyalty. This makes the retail industry a perfect playground for many innovations and new digital trends to be born to keep up with the global demand.

While the retail market is rapidly evolving, becoming more digitally-driven and with re-shaping of the consumers' expectations and shopping habits globally with a growing offering of innovative e-commerce business models, there are only a few players currently coming out on top of the race. Despite rapid development of new technological solutions, allowing for the collection of vast amounts of data and advanced analytics of customer profiles, many industry players still lag behind on their digital capabilities and miss out on business opportunities and market potentials.

In a highly volatile business environment, strong innovation capabilities are as important as ever. New business models disrupting the market, decreasing consumer loyalty, and

increasing international competition are forcing companies more than ever to upgrade their overall offering and attractiveness to consumers.

Shoppers are increasingly moving seamlessly between online and offline experiences and expect retailers to facilitate those transitions. The right customer data can help retailers in creating an omnichannel customer experience, which would allow their customers to shop and interact in the way they wish while incorporating real-time feedback across channels and devices to best engage the customer. (eTail Blog, n.d.)

Navigating this increasingly complex and fast-paced market is not easy for retailers of all kinds. Many have already set up a modern marketing and sales infrastructure, enabling them to connect and interact with customers across many different channels. This often leaves them with separated siloes of customer data if no cohesive technology and communication processes are set in place. This can potentially lead to confusion and conflicting messages, not only hurting the customer relationship, but also making internal processes and employee efforts inefficient or even redundant. (eTail Blog, n.d.)

With the use of digital technologies, retailers will find themselves building up digital platforms to optimize and digitize every step of their value chain. They open themselves up to the potentials so they can reap from an ecosystem approach paired with their digital platforms. Those concepts will be defined and examined in more detail in the thesis.

While the exact digital portfolio of industry thought leaders cannot be generalized as a handbook for success in the era of new retail, a few pointers and key components for a retailer's digital strategy can be derived from the analysis of retail through leaders of different industry segments. Identifying those pointers and success factors will be the main goal of this thesis.

## **1 RELEVANCE OF THE TOPIC AND PROBLEM**

The topic of digital technologies and their application in the retail industry is a crucial success factor for retailers in this advanced and fast-paced market. Many smaller or traditional retailers feel the pressure to keep up with the standards consumers are used to from their shopping experience in the global market, but they struggle to find their way in this complex market. With the role of Information Technology (IT) and technologies of all kinds becoming more and more relevant with each year, the digital strategy, or lack thereof, is becoming a bottleneck for many companies. This thesis aims to outline the challenges retailers are facing in defining their digital strategy and describe the technical foundations for a successful digital strategy, which may be applicable for many retailers across different sectors of the industry.

## **1.1 Trends changing the retail industry**

“We are entering the world of “phygital” – physical and digital at the same time, where there is not a physical world or digital world in retail, but rather a completely connected one” (Hazan, 2021). Technology of all kinds is becoming more and more crucial for the retail industry. The Covid-19 epidemic was a strong push forcing the retail industry to accelerate their digital transformation quickly. With stay-at-home orders and social distancing, customers increasingly turned to digital channels for all of their shopping needs. This includes ordering groceries to home-improvement project materials to clothing. While international e-commerce was impacted by border closings and disruptions of supply chains, domestic e-commerce services experienced substantial increases in demand. (United Nations, 2021a, p. 39) “Evidence from all across the world illustrates growth in online sales, and in the market share of online retail against offline, since the start of the pandemic, even if that has occurred within a context of stagnant or contracting overall retail.” (United Nations, 2021a, p. 40). The United Nations Conference on Trade and Development (UNCTAD) Acting Secretary-General Isabell Durant said: “Businesses and consumers that were able to ‘go digital’ have helped mitigate the economic downturn caused by the pandemic. [...] But they have also sped up a digital transition that will have lasting impacts on our societies and daily lives- for which not everyone is prepared.” (United Nations, 2021b)

Another trend heavily impacting the world of retail is the global demand for more sustainability in all industries. Retailers will be expected to transition to Net Zero Retail and decarbonize their operations, products, and supply chain. (Deloitte, 2021) Shifting demand to online sales compared to brick-and-mortar stores will help companies reduce their carbon footprint, as transport-level emissions for e-commerce can be reduced to a fraction of what they amount to in traditional retail. (MIT Real Estate Innovation Lab, 2020, pp. 11–13)

Lastly, retailers need to adapt to the directions led by consumers in order to cater to their needs in the years to come. This does not only mean that retailers are expected to create a personalized shopping experience, but will also need to overall position themselves as a brand that consumers can identify with. According to Deloitte, purpose is expected to be “as disruptive in the next ten years as digital has been in the last ten. In 2021, it will be more important than ever before to lead with purpose and create a culture of inclusion.” (Deloitte, 2021)

## **1.2 Changes in consumer behaviour**

Consumers are at the heart of the retail industry and their preferences, habits and priorities are constantly changing and evolving, with new generations gaining more purchasing power and global trends influencing their purchasing preferences. This makes customer-centricity an essential virtue for retailers worldwide. Mintel, the world’s leading market intelligence

agency, has been at the forefront of predicting the most impactful consumer trends for over 15 years. In some of their latest market research efforts, they defined the seven core drivers of consumer behaviour shaping the global markets over the next ten years (Mintel, 2021), which are:

- Wellbeing: seeking physical and mental wellness
- Surroundings: feeling connected to the external environment
- Technology: finding solutions through technology in the physical and digital worlds
- Rights: feeling respected, protected and supported
- Identity: understanding and expressing oneself and one's place in society
- Value: Finding tangible, measurable benefits from investments
- Experiences: seeking and discovering stimulation

A lot of these drivers are impacted by the Covid-19 Pandemic, which has had the globe in its grip since the early months of 2020. As Mintel puts it, “[c]onsumers are in search of a wellbeing experience through an entirely new lens, seeking a total integration into nearly all aspects of their lives. This new outlook is built around a sense of uncertainty as to when life will translate back into more balanced routines, and this is driving demand for comfort and structure.” (Mintel, 2021, p. 4). According to McKinsey, more than 60 percent of global consumers have changed their shopping behaviour since Covid-19 (McKinsey & Comapny, 2020), which retailers can use in their advantage if they are able to leverage the arising opportunities driven by the changed market situation. They need to know what their customers are seeking, not only in the individual product, but also the overall shopping and brand experience. Then they need to translate this into a seamless user experience – which is a great challenge.

Another key market shift, which retailers need to take into consideration is the generational shift of purchasing power. Generation Z accounts for 40 percent of all global consumers in 2020 and continue to gain influence on purchasing decisions worldwide (Amed et al., 2019). This generation will have the highest purchasing power in the next five to ten years. This generation differs significantly from past generations in behaviours, habits, expectations, needs, and values. Members of this generation are omni-present, digital native, tech-savvy and empowered, with strong opinions about their lifestyle and footprint in the world. This persona group is very conscious about the value they get for their money and is highly perceptive towards uniqueness, sustainability, and is focused on self-expression rather than brands. They want to establish an authentic identity. This generation of Social Consumers are in search of truth, engagement, contribution and authenticity and will not tolerate fake brand communications, dishonesty or a lack of social responsibility. They care about connections and community both in their online and offline lives. They follow the opinions of friends, family and influencers. They seek trust, matching values, constant innovations, availability, convenience, transparency, a seamless omni-channel experience and real-time customer service.



For retailers, it is virtually impossible to beat the customer in this race as their needs and wants are rapidly evolving. In order for them to come close to perfection in fulfilling the consumer's each and every need, a carefully composed and advanced digital strategy is the foundation for their success and countless innovations, which can be added onto every part of their value chain as their digital and physical operations are evolving.

### **1.3 Research Questions**

The thesis will answer a number of research questions to help identify some of the challenges for retailers to position themselves in the market and build a digital strategy.

- a) Will tech companies eventually capture the market of traditional retailers, or will retailers become technology companies?
- b) Do marketplaces and ecosystem approaches add more value compared to individual digital platforms?
- c) What are the key challenges for retailers in creating their digital strategy?
- d) What are the key success factors for a seamless online-offline retail experience?

### **1.4 Scope of Work**

The thesis aims to identify challenges faced by retailers in the global retail market, taking into consideration the main influencing trends and looking at global thought leaders from different segments of the retail market to derive insights from their strategies. The global retail market is a very advanced and fast-paced market, with a handful of global leaders setting the pace. Many smaller and/or regional retailers feel the pressure to keep up with the standards consumers are used to from their shopping experience, but they struggle to find their way in this complex market. With the role of IT and technologies of all sorts becoming more and more relevant with each year in this sector, the digital strategy, or lack thereof, is becoming a bottleneck for many companies. This thesis aims to outline the challenges retailers face in defining their digital strategy and describe the technical foundations for a digital strategy, which may be applicable for many retailers.

In order to achieve the objectives of this master thesis, I will be mainly using descriptive research combined with case studies. With the descriptive approach, I will be reviewing secondary literature to conduct a qualitative study of the global retail market and examine the main influencing trends, success factors and defining concepts for the era of new retail. I will be combining the findings of the market and literature research with case studies of some of the most advanced retailers leading the market in various segments of the retail industry to derive conclusions about important factors for the digital strategy of retailers to remain competitive in the era of new retail. Throughout the thesis, I will add thoughts and insights to the topic, based on my experiences gained through various projects in my work as a project manager and a consultant in an IT Services company. This has allowed me to

gain a deeper understanding of the concepts, upsides and potential pitfalls of digital technology in the context of different industries.

The study will not create an exact business model and technological handbook for retailers, but rather will answer a series of research questions to help generate general pointers for important success factors for retailers that need to be taken into consideration when shaping the business model and platform structure for every specific case.

The focus throughout the entire research work will lie on the technology aspects influencing the retailers' success. I acknowledge that there are many other factors influencing the success of a business, but as the focus of the research lies in the challenges in creating a digital strategy, other factors of the business model for retailers will be excluded from the research. Furthermore, the research in this thesis focuses on the Business to Consumer (B2C) retail model and will not examine Business to Business (B2B), Government to Business (G2B) or other forms of retail.

With the insights derived from the case studies of international thought leaders in different segments of the market, assumptions about the essential components for a digital strategy will be stated. However, due to the complexity and volatility of the market, it is not possible to make reliable predictions and recommendations for a coherent digital strategy. The likely success factors and potential pitfalls in the creation of such can be pointed out, however, the exact combination and choice of those components needs to be customized for each individual case based on the retailer's business model, market, and other influencing factors. Since theoretical research analysis of global cases aims to find common denominators in the digital strategy, generic digital strategy components will be described and will not take geographical, legal, or cultural specialities into consideration.

## **2 THEORETICAL BASICS**

In order to examine the international case studies and drawing conclusions about digital strategies for retailers from them, a few theoretical basics should be defined, and scope of work stated.

### **2.1 Definitions**

The following definitions are important to be clarified, as they are the defining principles discussed and mentioned throughout the research work.

#### **2.1.1 Digital Transformation**

According to Gartner, "Digital transformation can refer to anything from IT modernization (for example, cloud computing), to digital optimization, to the invention of new digital

business models. The term is widely used in public-sector organizations to refer to modest initiatives such as putting services online or legacy modernizations. Thus, the term is more like ‘digitization’ than ‘digital business transformation’.” (Gartner, 2021). This statement shows, that when trying to define Digital Transformation, a number of aspects have to be considered. Digital Transformation surpasses the scope of Digitalization, which defined the early days of the digital era with the translation of analogue to digital formats, mostly in industrial and corporate contexts (Jason Bloomberg, 2018). Digital Transformation can be applied to different contexts, mainly into organizational, technological and social. In the organizational context, it describes the added value brought by digital technologies to processes, value creation, business models and extended supply chains as well as new opportunities opening up for companies to collect and analyse data and apply data-driven decision making (Tratkowska, 2019, p. 33). The technological context “stands for introducing novelties in technologies and innovations, which use and enable major improvements in quality, efficiency and revenue.” (Tratkowska, 2019). Those improvements allow for automated data processing, predictive detection, and problem solving. Additionally, they provide the scalability of operations due to the reduced demand for human resources in various processes ( Tratkowska, 2019, p. 33). The third context refers to the social aspect, “resulting in networking, communication channels, customer models of demand, and creating new experience and mindset among customers. The source of data derived from mass media, apps and devices used every day, provide unlimited information with which the use of technology might improve and strongly influence on daily life. The way society evaluates demands is illustrated by major changes in customer experience.” (Tratkowska, 2019, pp. 33–34).

Based on those insights, for the research done in this thesis, Digital Transformation will be considered as a concept of enriching a company’s processes, operations, and potentials with the help of digital technologies, considering all three areas of context from operational and technological, to societal.

### 2.1.2 Ecosystem Approach

Even though the term Ecosystem has been widely adapted in economic circles, its origins are found in the world of biology. An ecosystem describes a biological community of interacting organisms and their physical environment (Oxford Dictionary). In an economic or business context, the term is also used to describe a group of market players coming together in changing formations to create a value proposition for specific business cases. In each case, the players can hold different roles in a variety of ecosystems at the same time.

The Boston Consulting Group suggests “[...] thinking of a business ecosystem as a solution to a business problem, as a way to organize in order to realize a specific value proposition. To this end, a business ecosystem is a governance model that competes with other ways of organizing the creation of a product of service, such as a vertically integrated organization,

a hierarchical supply chain, or an open-market model. [...] [A] business ecosystem is a dynamic group of largely independent economic players that create products or services that together constitute a coherent solution.” (Pidun, Reeves & Schüssler, 2019).

For retailers, this means they don’t have to do everything from A to Z of their value chain themselves. They can focus on the parts, which add most value for their customers while also adding other pieces of the solution through engaging other players who themselves focus on that specific part of the value chain. Some examples could include contributors who specialize in the delivery of parcels or some specific IT solutions.

What mainly differentiates ecosystems from other collaboration or governance models are the following characteristics: (Pidun, Reeves & Schüssler, 2019)

- Modularity – unlike with vertical integration or hierarchical supply chains, the individual parts of the solution are created independently but function as an integrated whole
- Customization – unlike open-market models, the different parts of the ecosystem by each player tend to be customized and made mutually compatible
- Multilaterism – unlike open-market models, ecosystems are based on relationships that are not decomposable to an aggregation of bilateral interactions
- Coordination – unlike vertically integrated solutions or supply chains, ecosystems are not fully hierarchically controlled but rather coordinated through e.g., standards, rules or processes

### 2.1.3 Platform Economy

Platform Economy is often described with a variety of names, including ‘sharing economy’, ‘gig economy’ or ‘peer economy’. They all describe “[...] any type of digital platform that uses the internet to connect dispersed networks of individuals to facilitate digital interactions between people. Within the platform economy there is a triangular relationship between three parties (1) the platform (2) the worker and (3) the customer. [...] Platform based business models [...] create their value by connecting users (both consumers and producers) in an online network. The platform does not own the means of production, but rather creates the means of connection.” (Deloitte, 2018, p. 2). Digital Platform companies can be seen as matchmakers between supply and demand of any good or service. They are popularly known in examples like ridesharing, streaming, or e-commerce, but also in digital platform business models like software-as-a-service solutions in the business-to-business space. Platform Economy companies are often highly specialized digital technology companies, which focus on creating value for customers through digital connections in meeting their demands rather than focusing on delivering said service themselves. This is why they are relying on a strong business ecosystem that they embed their core platform into. This means that they build a “Network of organizations – including suppliers, distributors, customers, competitors,

government agencies, and so on – [which are] involved in the delivery of a specific product or service through both competition and cooperation.” (Hayes, 2021a) .

#### 2.1.4 Retail and E-commerce

Shopify defines retail as “[...] when a business sells a product or service to an individual consumer for his or her own use. The transaction itself can occur through a number of different sales channels, such as online, in a brick-and-mortar storefront, through direct sales, or direct mail. The aspect of the sale that qualifies it as a retail transaction is that the end user is the buyer.” (Shopify, n.d.)

The main four categories of retailers are: (Shopify, n.d.)

- Hardlines, which are things that are used for a long period of time
- Soft goods or consumables, which are things like clothes, shoes and toiletries
- Food, including all common food items
- Art, which are things like books, music or fine art

Within those categories, there are different types of retail stores, with the most common ones being: (Shopify, n.d.)

- Department Stores – traditional and often large places for consumers to shop for many different products in the same place
- Big Box Stores – major retailers specialized in one type of product only
- Discount Stores - department stores that offer items at a discount and lower priced brands
- Warehouse Stores – often require a membership card for shoppers to access the warehouse and often offer large quantities at low prices
- Mom-and-Pop Stores – small, often niche stores run by small business owners, like small corner stores and convenience stores
- E-tailers – online retailers selling products through the internet and deliver it to the customer without the need for a physical store

While the overall Retail term includes online transactions, the term E-commerce is focused on the retail experience, which solely takes place online. “E-commerce is the buying and selling of goods or services via the internet, and the transfer of money and data to complete the sales.” (Zande, 2020)

## **2.2 How Digital Transformation is changing businesses in different industries**

Consumers nowadays are using apps for practically everything from ordering groceries, booking holiday vacations, hiring people for services like cleaning, gardening, dog-walking, and even selling their used items. They are accustomed to an innovative, modern, and convenient user experience, hassle-free payment and everything being available 24/7. Those consumer trends are the most extreme in China and America, but the same mentality and expectation of consumers is spreading globally. This is the case even though it was primarily introduced by some start-ups and large tech companies, users expect the same experience also in other areas of their life. This includes many legacy services. For example, the banking sector is being disrupted by neobanks as they struggle to keep up with the new level of service those incumbents provide to their customers. Neobanks did one main thing differently. They created a user-centric business model in contrast to the service centric business model the legacy banks were following. Traditional banks still brought innovations to the market and digitalized their offering, but those innovations are considered incremental and not disruptive. By not having any large legacy organization to transform, with thousands of workers in an old structure and infrastructure to maintain, the newcomer neobanks were able to gain leverage in an otherwise unfavourable market position. An increasing number of customers, and even some small to medium sized businesses, now have their banking needs catered by online-only neobanks as the users are now comfortable and trust their banking to be in an online-only environment. This was unthinkable just a few years ago. We can find similar examples in other industries like Booking.com and Airbnb that challenge the business of traditional travel agencies and manage to gain a market-dominating position. All of this, even though they have quite hefty shares taken from the hotels. Their user experience and user loyalty became undeniable, so that many hotels now sell the large majority of their rooms through those online booking platforms.

## **3 NEW RETAIL DEFINED BY SOCIAL CONSUMERS AND DIGITAL TECHNOLOGIES**

Back in the 16<sup>th</sup> century, shopping was a personalized service. For example, when a person wanted to buy a suited armour, he would go to the armourer and have it specifically made for him. This made the shopping experience a rare, expensive, and lengthy process. With the industrial revolution, this concept was slowly overturned as factories were built and products started to be produced in standardized patterns and in large quantities. Mass production made items much cheaper to manufacture and purchase, however, it also made the experience less personalized. The business model of retail became increasingly more complex from that time onwards, as large quantities of goods had to be stored and shipped to be distributed to where customers were shopping – creating warehouses and the first shops. Over the years, the choices for consumers kept growing and large department stores and shopping malls were built. When retail first moved online, shoppers suddenly had more choices than ever, and producers and retailers globally had to keep up with the demand of customers at any point

in time. Back in the time before consumers had the option to largely shop online, brands were the main influencers of trends. They pushed their products to the market with flashy TV and print ads. However, with the growing popularity of the internet, people were more and more connected online, and power gradually shifted towards the consumer who now were the ones to decide what was in or out. With product reviews, ratings and especially the emergence of online influencers recommending products to their followers, consumers gained the power to heavily influence the retailers with their opinions. China is especially outstanding when it comes to online influences, which are perfecting the art of selling products to their millions of followers through live streams (The Economist, 2021a).

There are many influencers – also called “KOL” Key Opinion Leaders, who sell all sorts of products through live streams on platforms like Tmall or Taobao (both part of the Alibaba Group) or via WeChat and similar platforms. The products sold go beyond traditional influencer products like makeup or clothes. There are KOL’s selling everything from appliances to fruit and produce to even large expensive items like cars. For example, a popular KOL called Becky Li (real name Fang Yimin) with around 20 million followers, sold 100 Mini Cooper Countryman cars within five minutes in the year 2017 through her WeChat blog, with a price tag of \$45,500 USD per car (Chen, 2018). This shows just how much shoppers in China trust popular KOLs to guide them in their decision-making process for all sorts of purchases.

In the 1990’s a tradition called Single’s Day was started by a group of students at China’s Nanjing University as an anti-Valentine’s Day to honour and celebrate being single. It has since become the largest online-shopping day in the world and is celebrated on November 11<sup>th</sup> every year. By now, it has spread through many parts of the world beyond China, including most of Southeast Asia and even some European countries. In 2009, the e-commerce giant Alibaba started to offer huge discounts for many goods on their platform, and they have since then continued to reach record sales for that day year after year (Liberto, 2020). Alibaba is clearly the epicentre of the Single’s Day shopping hype and have since made their event into a huge extravaganza. In 2019, the last Single’s Day before Covid-19 hit the world, they hosted a large live-streamed event with celebrities from all over the world attending. It included a performance by Taylor Swift at midnight to open the event and Alibaba reportedly sold goods worth \$1 billion in the first 68 seconds and \$12 billion in the first hour. It is worth noting that 90% of sales came from smartphones, which shows the extremely high smartphone market penetration in Asia. This further fuels the success of mobile-first influencer streaming platforms. In 2019, over 200,000 brands participated in Single’s Day with one million new products being launched on the event with the top selling brands being Apple and Nike. In the course of the event, 299 brands reached gross sales volumes of over \$14.3 million each, which illustrates the sheer size of the event (Kaplan, 2019). In 2020, Alibaba for the first time extended the usual 24-hour duration of the Single’s Day discounts event and decided to run it for nearly two weeks starting from November 1<sup>st</sup>. According to Alibaba, the merchandise volume in this time period amounted to \$74.1 billion

in comparison to the \$38 billion generated within 24 hours in the year prior. Alibaba managed to further enhance the live-streaming sales experience by providing shoppers with artificial-intelligence driven virtual hosts in addition to the human live streamers as well as real-time translation of all those streams into four different languages. Hosts handed out discount coupons and created flash deals in real-time for their followers and fans, which provided them more tools for fuelling sales. Overall, the Chinese government estimates that within the first half of 2020, more than 10 million live-stream sessions for selling goods were hosted, and a Shanghai-based Consultancy estimates that the live-stream shopping market in China was worth around \$66 billion in 2019 (Kaplan, 2020). However, it is not easy for Western celebrities and influencers to reach the Chinese audience by themselves. This is why they often team up with Chinese KOLs to support their sales events and advertise their products to the audience in Mandarin and tap into the KOLs large following. This sort of collaboration allowed Kim Kardashian West to sell out her entire stock of over 150,000 bottles of her new perfume via a livestream on Tmall Global in a matter of a few minutes. She was supported during her livestream from New York by the local KOL Viya, who did most of the selling for her. Viya helped out with her knowledge of the local culture and understanding of what arguments would work best with the crowd of followers. (GMA Marketing to China, 2019)

Considering the rising popularity of purchases made from smartphones and through livestreams, it does not come as a surprise that e-commerce sales in China in 2020 surpass other nations like the USA and major European countries by a multitude. It is predicted that in 2021, more than half of all goods sold in China will be purchased online. The online retail market in China is worth over two trillion US dollars and the market is clearly dominated by the three large companies Alibaba, JD.com and Pinduoduo, which combined amount to almost 80% of market share. While consumers in the West mostly split up their online journey across multiple platforms like searching on Google, socializing on Facebook, ordering things on Amazon, and paying for things through platforms like PayPal, consumers in China can simply join one of the super-apps. These super-apps are closed ecosystems in themselves and cover all online needs of a person from social media to shopping to payments and other services. Those super-app ecosystems are giving companies very intimate knowledge about the users which allows them to put the gathered data to use to identify exactly what a person likes, dislikes, does, and buys. This does not only allow retailers to cut waste, maximize their margins, and predict the demand to optimize manufacturing, but also allows them to make very accurate predictions of a person's shopping behaviour and personalize their experience to a much further extent than the solutions we see in the west. At this point in time, Chinese consumers are much more open to companies tracking and using their data compared to a high sensitivity around this topic shown by consumers in the west (The Economist, 2021a).

In 2021, the Chinese Government, for the first time, started to regulate and tighten the reigns of the Chinese Tech Giant companies, which have achieved a monopoly in the market. The



Ministry of Industry and Information Technology had announced a six-month campaign to attempt to regulate technology companies, in particular practices that “disrupt market order, damage consumer rights, or threaten data security” (Conrad, 2021). They proceeded to launch multiple investigations into corporations and have already issued a few record antitrust fines, like the \$2.8 billion USD that Alibaba was hit with in early April for allegedly abusing its market dominance. The Chinese antitrust agency then went on to call in thirty-four other large tech firms including well-known corporations like Tencent, Didi, Baidu or JD, which are active in different parts of the tech sectors from ride hailing over e-commerce to entertainment. They, among many other companies, were fined for various antitrust violations occurring throughout the past years. This move by the Chinese Government is often referred to as the ‘Big Tech crackdown’ and shows the Government’s determination to break down the technology and internet company monopolies, which have been built up throughout the past decades (Che, 2021). It is likely that similar approaches will be observed in other parts of the world with powerful technology companies in the years to come. This is as governments increasingly see the benefit of healthy competition and the threats of overly powerful monopolistic technology companies, whose powers reach far beyond their core services into society through their insights, data and overall market position.

In the west, still to date, there are many retailers who are far from being a monopolistic tech giants. In a lot of cases, throughout the past decades, western retail stores that did have an online presence largely saw this channel just as a second route into their stores. This was part of their focus for their strategy and business model. Considering the significant investment they typically put into the large physical presence with large shores in desirable locations, this decision made sense for them. But this focus on the physical shopping experience led to them typically have very little to no data about their customers, with the most common way of data collection being loyalty cards. Even from the few existing data points, the utilization and insights taken from the collected data was limited. In contrast to that, retailers with a strong focus on online channels typically gather vast amounts of data, allowing them, as incumbents, to cut out the legacy retailers in many instances over the past decades (The Economist, 2021a).

Companies that already invested in their online presence are now more than ever harvesting the success of their early investments into the digital retail space. A great example of this is Amazon. In the last quarter of 2020, largely fuelled by the uptake of online shopping during the Covid-19 crisis, their quarterly sales surpassed the 100 billion US dollar mark for the first time ever. Many brands started to sell their products via marketplace platforms like Amazon, which is an easy way to start online sales, as companies do not need to invest in creating their own online presence. Additionally, Amazon marketplace already has a large pool of customers worldwide which retailers can tap into. On the downside, retailers barely get any information about who buys their products through Amazon, as this data largely remains with Amazon only. Therefore, larger brands are increasingly focused on the creation of their own online presence and make the switch to direct-to-consumer selling. One

example for this was Nike, deciding to only sell online through their own website. This allows them to keep much closer tabs on their customers, allowing for the creation of customer profiles. They can gradually create an offering and ecosystem around their core products of sporting goods and shoes. For example, an online membership for member-only products or a self-guided workout app. They already have 250 million members worldwide, out of which 17 million joined during the pandemic. Consumers allow Nike to process their data about their workouts, the gym they visit, and even the workout shoes they wear while running. In return, the user gets a personalized experience and perks such as a free workout app. This allows Nike to better understand the desires their customers have and better know what to produce or where the consumer's preferences are shifting towards. For example, by knowing how much a customer is running and by allowing users to customize their own shoe designs, they can not only suggest to them when it is time to get a new pair of running shoes, but they can also gradually create a special bond with each customer. The recent developments in the market fueled by Covid-19 have increased the retailers' need for this kind of direct-to-consumer selling. One very fast and fairly cheap option for retailers of all sizes to set up their own online store is by using out-of-the-box e-commerce platforms to host their online shops. Two very popular providers of such e-commerce platforms are Shopify and Spryker. Shopify registered a 60% increase of new shops being set up on the platforms in the first six weeks of the pandemic compared to the previous six weeks. Shopify aims to create an ecosystem, combining e-commerce and social media into modern shopping experiences, much like the Chinese role models do with their super-app ecosystems. Shopify provides retailers with insights about which channels are generating demand and which items are trending. This allows retailers to target their marketing and sales efforts into the right channels with the right offerings to better engage with their audience. Future retailers need to be everywhere their customers are. This means, that traditional brick-and-mortar stores are not bound to disappear. They are still an important part of the overall shopping and brand experience, though their exact shape and form might shift to a new role in the years to come. They will be more focused on giving people the brand experience. This would allow them to see and experience the products. They could get an expert consultation or even a stylist experience from employees, which an online experience could not provide. When looking again at the Nike example, they have re-imagined their stores to be a personalized and extraordinary experience for shoppers based on their digital profile. They also offer interactive experiences in the store, further breaking down the barriers between the online and offline shopping experience. In return this experience creates new data points for their system to further improve. A perfect combination of online and offline data allows stores to optimize their stock control, have less waste in the supply chain, and increases their levels of sustainability, all while conveniently improving profit margins (The Economist, 2021a).

With the levels of online retail and personalized features and experiences on the rise, privacy and the possible exploitation of personal data is a rising concern. It is on retailers to prove their loyalty to the shopper by carefully looking after their personal information, habits, and patterns. The level of such concerns will likely increase globally alongside the expansion of

the digital offering. This will need to be addressed carefully by retailers in order to maintain the intimate and trusting relationship with their customers in the years to come.

“The opportunity for brands to reach customers direct, without paying huge mark-ups, may democratise retailing in a way not seen since the Industrial Revolution. Before e-commerce came along, retailers were cosy oligopolies. Only through consolidation could they create economies of scale to hold their own against consumer-goods companies. Under the retail renaissance, that will change. Some say it will create a more frictionless economy, with smoother pricing, fewer barriers to entry and more innovation. It will also allow brands to plug more consumer data into their manufacturing models, so that they produce goods closer to what customers want, with less surplus inventory (i.e. waste).” (The Economist, 2021d)

The new era of retail in both online and physical spaces is often referred to as ‘new Retail’- a term, which was coined by Jack Ma, the founder and former executive chairman of the Chinese e-commerce giant Alibaba. He envisions a complete blurred line between online and offline retail. A vision where physical stores are not obsolete, but rather are completely digitalized to allow shoppers to get the best of both worlds. Details of how this strategy is currently being implemented across the Alibaba group will be examined in the case study part of the thesis. On a conceptual level, the new retail architecture is built on a few main pillars for success, the first being ‘social commerce’. This means that the focus on getting consumer’s attention lies in live-streaming, short-form videos and social networking platforms. An example of this is through platforms like TikTok. Alibaba has their own live streaming platform called Taobao Live to support their vision of future retail. Secondly, they build their great digital mall in a similar concept like the omnichannel approach seen in many retail strategies worldwide (The Economist, 2021c). In this way, they are able to provide customers a seamless shopping experience across all channels – physical or digital. It allows them to pick up their shopping where they left off, even when switching channels like from social media to website or store changing room to the smartphone app.

It should be noted that while Alibaba has outstanding results with their e-commerce empire, the Chinese e-commerce market is changing dynamically with newcomers like Pinduoduo. The numbers show Pinduoduo capturing 14% of the market since their entry and cutting Alibaba’s market share from 67% to 61%. Furthermore, digital tech companies from outside of the retail market are starting to enter the playing field with their short video and streaming services applications as a great point for entry, like the famous short video app TikTok or its Chinese cousin app called Douyin (The Economist, 2021c).

To date, Chinese consumers still buy a large share of their goods in physical stores. However, especially outside of large metropolitan areas, the selection in stores does not offer the variety or quality of goods that shoppers desire. Hence, it is not a surprise that also in rural areas, where internet and smartphone penetration is very high, shoppers increasingly gravitate towards online shopping, which is perceived as more convenient and rewarding. As a result, there are digital forms for many sorts of entertainment, arcade, shops or typical

'mall experiences' in a hybrid form with links to the physical world. For example, KOLs would show videos of goods being hand-crafted or give their viewers tips and background information about the usage of items or friends recommending products to each other via social media. Some shoppers even form groups with strangers to get discounts on bulk purchases for larger amounts of the same item. The new culture of live-streaming is turning the whole experience into an entertainment spectacle and a fun activity, with real-world businesses still carrying out and delivering the purchases made online (The Economist, 2021c).

“The ultimate purpose of New Retail is personalization. From data mining to targeted advertising, the digital industry is a land of opportunity for each brand. Today, brands can bring customers a highly personalized, interactive, convenient, and satisfying retail experience by utilizing the power of new technologies and data science. Why is that important? Because brands ensure to interact with the right targeted consumers and generate deeper engagement.” (GMA Marketing to China, 2021)

When comparing the developments, sales volumes and ways of engaging customers between the Chinese market and Western markets like in America, it is undeniable that there are worlds between the two. Alibaba is likely to be compared to Amazon in the US, which also offers shoppers a large ecosystem of services. Amazon offers traditional online shopping, Prime Video and Music streaming, and even its streaming platform Twitch, mainly used for the streaming of games. Russell Grandinetti, Amazon's head of international retail, points out that Amazon managed to attract millions of customers to their free shipping of goods, who were primarily interested in entertainment in the beginning. He notes, that live-streaming has not picked up the same momentum in the West as it has in China, but it will eventually. However, more factors like lower population density, the size of physical retail presence, greater concerns about privacy, and heavy investments needed into the successful combination of online and offline, amongst other factors, make it likely that America and the West will forge their own path towards new retail. Furthermore, most firms, even industry giants, in the West have been sticking mostly to their own known waters in the past years and are just now starting to meddle in entering markets outside their core business. This may play a role in the slower developments towards New Retail, but will eventually start to blur the lines between businesses and their involvement in different market sectors (The Economist, 2021c).

### **3.1 Platforms as market disruptors delivering new value to customers**

“Technology companies exhibit a curious lexical property. Google and Zoom are verbs. So, in Chinese, is Taobao, the name of Alibaba's vast e-mall. Uber and Didi, its Chinese ride-hailing rival, are synonyms for “cab”. Facebook means, simply, the internet in Vietnam, where people mostly access the web through its social networks. Amazon, Apple, Microsoft and Netflix are not literally bywords for, respectively, online shopping, smartphones, office software and video-streaming—but they might as well be.” (The Economist, 2021b) This

change in commonly used words emphasizes just how much power certain tech companies have been able to establish over consumers worldwide. It becomes apparent when individual service offerings become so present in their user's lives that their names are used interchangeably with the names of the service they are providing.

Platform-based businesses are currently disrupting several established industry players with the help of digital technology. For example, in the hotel industry with Airbnb, the transport industry with Uber, the retail industry with Alibaba, and even old banking institutions are faced with being disrupted by digital incumbents. In the case of banks, neobanks focus on creating an exciting and modern user experience for their customers without having any physical bank locations. This allows them to fully focus on perfecting their online banking experience.

Traditional businesses can be described like pipelines, doing one step after another for creating and transferring value from producers on one end, to consumers on the other. This represents a linear value chain.

In contrast to that, a platform is a complex network of relationships in which producers, consumers, and the platform itself enter into a variable set of relationships. There are different types of users involved, including consumers, producers, and the individuals who are both at the same time. The platform enables them to connect and conduct interactions, using the resources provided by the platform. The platform business can lay its focus in different areas of the value chain. Doing this mainly with the means of innovative digital technology, in most cases not involving physical infrastructure, makes it easier for them to scale very efficiently and quickly. This is because they removed the gatekeepers which traditional businesses have to deal with in connecting producers to consumers. The platform is a suitable business model for any industry which can gain value from information about their customers' needs, price fluctuations, supply and demand, or market trends, which includes almost any business.

The platform enables businesses to unlock new sources of value creation and supply. New levels of efficiency in the value chain are achieved by the reinvention of traditional concepts. The leanest traditional businesses are operating with just-in-time or just-in-sequence inventory. With platform-based businesses, this shifts to not-even-mine inventories. Thereby, platforms are able to disrupt the traditional competitive landscape we have seen in the markets before as they are able to bring new supply to the market. They are using data-driven tools to create community feedback loops, which enable them to generate value from the community base of users and have them take over the jobs of control functions of managers, editors, and supervisors. Positive community feedback can be a more powerful marketing tool than any traditional method. Feedback from the community enables the platforms to continuously improve their offering and quickly react to changed demand and wishes of their users and global events which impact their industry. This gives the users the power to create a bulk of value of the platform themselves and proactively contribute to

shaping the platform. In return, this enables the platform-operating company to focus on external, rather than internal activities. This reaches from marketing activities over information technology to the strategy. All of these are increasingly centred on people, resources, and functions that exist outside the business, and either complement or completely replace those in traditional businesses (Parker, Van Alstyne, Coudary, 2016, pp. 6–11).

In today's market, customers are the main drivers of innovation for business models, service offerings and user experience. They expect relevant content matching their interests and preferences and relatable to what they are doing at any time. They desire content in different formats from blogs, short videos, and podcasts available instantly on any of their devices. This expectation from consumers leaves companies with a big pressure to adjust their digital strategy and deliver outstanding customer experiences in order to keep up with the 'always-on' customers and their demands (Lund, 2021). Considering this market dynamic, it comes as no surprise that the most successful businesses have put the customer as the centre of attention for their businesses. They have created a user-centric business model rather than continuing to operate at a product or service-centric business model and trying to push their ideas to the market. This strategy may have worked in the past but is bound to fail with the new generation of opinionated, informed, and connected consumers.

High smartphone penetration, infinite amounts of apps and technologies like machine learning, automation or big data analytics have made it possible to allow customers to get exactly what they want at any given point in time. This over time has caused a change in consumers mindset and expectations. Because of the endless opportunities for both consumers and businesses in the digital space, customers often tend to rate companies on their digital user experience first. They are very aware of the power they have over businesses with publishing reviews and comments about their experience with a product or service to their online network. This new dynamic means that organizations need to reconsider their approach to build relationships with customers across the entire customer journey. Sales teams may resort to social selling rather than untargeted outreach. They can do this by simply meeting and bonding with customers in the space they are already active in – their social media accounts. Marketing activities are becoming increasingly targeted and data-driven. Additionally, customer service is experiencing a makeover as well. It is ultimately the most incremental part of customer retention and ensuring no angry customer is left waiting in endless call centre lines listening to light jazz until they give up and likely not return to the same business. Companies now aim to be proactive in their customer service, reaching out to customers experiencing troubles in their app and offering a wide range of channels for them to get support, including social media, review sites, communities and forums (Lund, 2021).

Many businesses today are not at a point yet where their digital setup is solid enough to support this kind of service level across their value chain. They need the right technology to power their digital strategy and need to match the best suitable technology stack with their envisioned digital strategy for their business. Incorporating agile principles, cloud

technology, gathering the right data, and creating those required data points among many other parts of the technology architecture and setup allows for the required speed, flexibility, and insight for companies to get a clearer view of their customers. If they then also learn how to extract actionable insights from the collected data, they are on track for continuous improvement and creation of new value for their business and ultimately their customers (Lund, 2021).

### **3.2 Benchmarks from global thought leaders**

In order to derive insights about digital strategies and their components, a number of thought leaders from different parts of the retail market, covering groceries, home improvement, fashion and make-up, are examined. The purpose is to highlight the way they use technology to delight customers and see how they advance their business model and value chain with digital technologies while finding ever-new ways to engage with their target consumers. Those global benchmarks can help give pointers for other retailers on where to start and lay the emphasis in the creation of their own digital strategy and help to paint a vision of how advanced digital strategies can look in action.

#### **3.2.1 Alibaba Hema (Freshippo)**

Alibaba is a global thought leader for retail in many different areas, and they managed to build an impressive ecosystem of services. These span from live-stream shopping platform Tmall, the consumer-to-consumer platform Taobao, to traditional online-shopping platform AliExpress, to public cloud services, and even financial services and payment solutions called Alipay. While they managed to build an impressive user experience and digital strategy for their entire ecosystem, for this case study, the focus will be on their grocery retail chain Alibaba. The grocery retail chain, called Freshippo in English, was launched in 2016 and “exemplifies the creation of a new shopping experience through the convergence of online and offline activities by using retail stores to warehouse and fulfil online orders, in addition to offering a rich and fun experience for customers who shop in-store. Its proprietary fulfilment system enables 30-minute delivery to customers living within a three-kilometre radius of a Freshippo store. Freshippo offers a mobile app that allows consumers to search for products and place orders while browsing in store. As of March 31, 2020, Alibaba had 207 self-operated Freshippo stores, primarily located in tier-one and tier-two cities in China.” (Alibaba Group, 2021)

The digital experience in Hema stores is truly blurred within the physical world, with the smartphone being the primary point of interaction for everything from placing items in the digital shopping cart, scanning items in the store to get more information about origin, nutrition and recipe recommendations, to paying for everything at the checkout (McKinnon, 2021).

When speaking about their vision of New Retail, Alibaba Group's president Michael Evans said: "If you haven't been to China in a while, I invite you to come because it's a way to glimpse what the future of retail will look like globally. What you will see is the full digitization of the entire retail value chain – from product innovation, consumer engagement, inventory management, logistics, payments and even product development. Consumers don't think about the world online versus offline – neither should brands and retailers. When we digitize this, retail becomes more consumer-friendly, more efficient and adaptable, and more profitable for merchants.

From the consumer perspective, retail is more of a lifestyle than a chore in China. It's the difference between "buying" something and "shopping" for something. Artificial intelligence-driven personalization means consumers are opening our app nearly eight times a day to see what is being served up for them. Livestreaming, short-form video and gamification erase the lines between shopping and entertainment. And your mobile phone is the remote control to your life – you're increasingly able to get whatever experience you desire in 30 minutes or less. This is what the future of retail looks like, and it is already happening in China on Alibaba's platforms.

For merchants, New Retail is also very exciting. Every brick-and-mortar store has the potential to be a fulfilment centre. AI is the heart of everything we do at Alibaba, and we are leveraging it in support of our merchants – for customer service, inventory control, logistics and even product development. For example, when Mars was looking for a new flavour of Snickers for Chinese consumers, we looked at the consumer insights and determined that a new "spicy numbing" flavour fit the bill. It has been a great success." (Alizila, 2019)

This statement nicely illustrates how both technology and consumers are at the very heart of Alibaba's strategy. They put technology to work in order to get to know their customers better and apply those insights to make the shopping experience more enjoyable, fun and personalized for shoppers to truly delight them. This user-centric digital strategy has allowed Alibaba to grow at impressive rates and achieve great popularity among the Chinese consumers.

In a video published by Alibaba, they explain their strategy for New Retail. They want to achieve complete digitalization of all commerce, which they believe will be a key component in saving traditional retailers. They believe they are no longer cut-off from the infinite possibilities of the e-commerce world, but rather a part of it. Every Alibaba Hema store doubles as a distribution centre, and customers who live within a three-kilometre radius from one of the stores can get their groceries delivered within 30-minutes. This has made living within the range of a Hema store highly desirable and some people go as far as moving closer to one of the many Hema locations (Alibaba Group, n.d.).



Alibaba plans to open 2.000 Hema stores by the year 2023, which is showing both the success of the existing ones and their ambitious growth plans for the years to come. There are a few key characteristics, which set the HEMA stores apart from grocery shopping as we know it. The first is that customers need to have the Hema App installed on their smartphones, so they can scan each item they want to buy to add it to their digital shopping cart. They can also see nutritional information, customer reviews, recipes involving the ingredient, freshness by checking when it was delivered to the store, and the delivery options for the product. Secondly, Hema remembers the customer's past shopping behaviours and based on machine learning, is able to give personalized purchase recommendations for every person.

Thirdly, every product comes with a digital price tag, allowing Alibaba to update prices in real time. This is helpful for flash sales or reacting to market prices of items with fluctuating value like fresh seafood. Furthermore, as mentioned earlier, every store is acting as a fulfilment centre for online orders, making their delivery system decentralized and highly efficient. Alibaba did not stop there. They also started acting as delivery hub for other retailers, like debuted through their collaboration with Starbucks. This was introduced in 2018 for selected Hema stores and allows Starbucks Delivers Kitchens to leverage the excellent delivery network of Hema to fulfil their online orders.

Another futuristic part of the Alibaba Hema experience is the way customers can pay for their purchases. They can choose to pay with a tap of a finger in the Hema App linked to Alibaba's own payment provider Alipay. Another option they can choose is the facial recognition technology at self-checkout kiosks equipped with cameras in the screen to verify the customer's identity. A customer also has to insert their phone number into the kiosk to prevent fraud attempts. Hema only introduced cash payments after faced with resistance from the customer and the Chinese government.

By now, it is clear that Hema blurred the lines between online and offline grocery shopping, but they also started to incorporate other concepts. For example, in their restaurant-hybrid style, customers not only can shop for groceries, but can also sit down for a meal by selecting fresh seafood in the store and having it cooked right there to be enjoyed in the in-store restaurant or take home as carry-out upon completion of their shopping. In one of Hema's supermarkets they even have a restaurant called Robot, where the meals are brought to tables by robots and dining guests checking in to the restaurant through a kiosk, again using their Hema App. They can read the menu by scanning a QR code on the table and order their food through the same app they use to do all their shopping. (McKinnon, 2021)

This shows just how much fun experience and functionality Alibaba Hema managed to package into their application as well as their overall Hema concept and business model.

Even though this case study mainly focused on Alibaba's Hema stores, it is worth to add a short insight about the way Alibaba digitalized traditional mom-and-pop stores all over

China by connecting them to their two-sided LST platform and branding them as T-mall stores. They provide store owners with a mobile app, which shows them consumer analytics of their store, and allows them to order the most popular items through the app. With intelligent insights, they recommend to stores which products to order, based on their many data sources. “For example, LST once suggested a store to sell dog food because it found that the neighbourhood owns significantly more dogs than average based on consumers’ online purchase behaviour on Taobao and Tmall.” (HBS Digital Initiative, 2019) The platform allows stores to offer smart payments to their shoppers, manage their inventory in a smarter way, give assortment guidance, help with accounting and financial planning at the same time as the Tmall brand helps them to attract more customers, who like and trust the unified shopping experience of Tmall-branded stores. Alibaba centralized the distribution system, which cuts out intermediaries and reduces the struggle of negotiating with different vendors for the store owners, which helps to cut costs. It is important to note that while those small convenience stores do take on the Tmall branding and integrating with the LST Platform ecosystem, they retain ownership and full operational autonomy over their store. While adding value to those small businesses, this concept allows Alibaba to tap into the very large and highly fragmented offline retail market across China (6.8 million independent mom-and-pop stores, often in low-tier cities and rural areas) without having to commit significant capital. As a next step, Alibaba plans to enable Tmall-branded stores to fulfil online orders as well (HBS Digital Initiative, 2019).

It does not come as a surprise that Alibaba is often referenced as one of the most visionary retail companies worldwide, being one of the industries thought leaders that constantly comes up with new concepts and experiences for their customers. Their huge success is based on their advanced technology setup, digital strategy, and the deep understanding of their customers. Their success is constantly improving through their data sources and advanced analytics. Alibaba has managed to create a closed ecosystem, which captures consumers in every part of their life from social platform over online shopping to news, financial services and more. This becomes evident from their diverse set of business arms which was described in the beginning of the case study. This closed ecosystem paired with the much more liberal laws around use and collection of personal data in China (especially compared to the European laws) gives Alibaba an extremely powerful position in the market, allowing them to generate extraordinary results. Technology is clearly at the heart of Alibaba’s strategy and operations, with many voices in the industry calling them a tech giant rather than a retailer.

### 3.2.2 Sephora

Sephora is a global beauty retail chain owned by LVMH Moët Hennessy Louis Vuitton, and was founded in France in 1970. It has since grown to over 2.700 stores in 35 countries worldwide with an expanding network of over 500 stores across the Americas (Sephora, 2021a). Since the 1990’s, Sephora has increasingly put digital at the center of their strategy

for both their on-and offline channels. They made a bold move in 2015 by converting one of their warehouses near San Francisco into their own Innovation Lab, which was previously used to evaluate in-store display models. They then tasked a team there to actively envision the future of retail for Sephora in an attempt to stay ahead in the race against other competitors, trends, and customers' wishes. The Innovation Lab has a full-sized model store down to the detail even complete with display windows. With this test store, Sephora's team can develop and test a variety of digital experiences for customers to have an enhanced and more informed shopping experience across all channels from web over mobile to traditional brick-and-mortar stores. The Innovation Lab concept allows them to really put the customer at the center of their thinking throughout their digital-physical value chain. They want to ensure to bring truly useful and helpful technologies to their shoppers, not trying to just squeeze in a bunch of flashy technologies to be buzzy and check a few boxes in the innovation department (Nagy, 2015).

Alongside the rollout of the Innovation Lab, they launched four digital programs for shoppers.

The first of these is Pocket Contour, which is giving customers contouring tutorials based on their specific face shape – directly on the customer's mobile phone by simply uploading a selfie to the app. The customer then sees their own face with step-by-step instructions on how to best use highlighting and shading to underline their natural face shape and get product recommendations to achieve the best results. They identified contouring as one of the next big things in the beauty industry and want to be there for their clients to tell them how to do it to look their best. In addition to offering mini makeovers in stores, clients now have the digital assistant to help them achieve the same result at home with their new Sephora products.

The second program is all about Beacons being launched in all locations, after having beta-tested the program in two stores in the San Francisco area. Beacons are small hardware devices, which can be installed in Stores and constantly send Bluetooth signals, ready for mobile phones to pick up the signal. This means, that location-aware, opt-in notifications can appear on users' phones when they step into a Sephora store through the Sephora to Go mobile app, which is linked to every shopper's online account. In this way, customers can be notified about promotions, get special birthday discounts, be offered a mini-makeover, or even see the point balance needed for a reward with their Beauty Insider loyalty rewards program before checking out at the cash register. The Beacons also ask the users to switch their app to store mode, so they can see a menu limited to in-store information like what they have saved in their digital shopping cart or the bar code for their loyalty card.

The next innovations Sephora rolled out are augmented reality front-window displays to inform about female founders of some of the cosmetic brands offered at Sephora. All a user has to do is hover their phone over one of their faces to see a video about the founder and their brand and link to makeover tutorials by the respective founder, which they have on Sephora's site. The video stops playing if the phone is moved away.

Finally, Sephora launched a service called Flash, comparable to Amazon Prime, that allows customers to get free two-day shipping for an annual membership fee of \$10USD or even overnight shipping for an additional \$5.95USD. They offer Flash for free for loyal customers spending upwards of \$1.000USD at Sephora in the course of a year. With this feature, they want to allow shoppers to get instant gratification and keep up with the expectation of their customers to get their desired make-up products to try them out as soon as possible. Bridget Dolan, VP of the Innovation Lab, said that they ran a successful pilot of the program before rolling it out, which showed that customers who were part of the Flash program tended to spend twice as much as other comparable shoppers did prior to the new program (Nagy, 2015).

One of the main pain points for customers while shopping for make-up online is the inability to try out shades of lipstick or otherwise try out the product. In response to this issue, Sephora introduced their Virtual Artist product, which lets customers test out different make-up products virtually with the help of augmented reality technology. In order for augmented reality (AR) to be an enjoyable experience for customers, the technology needs to be built to scale and be very reliable to avoid frustration. For their Virtual Artist and other AR features that Sephora offers, they partnered with the technology provider ModiFace to perfect the facial recognition that enables customers to try on the make-up through their mobile app (IPG Media Lab, 2017). Sephora advertises the Virtual Artist as a tool for customers to get a virtual makeover, to star in their own makeup tutorials, to share their choices with friends with the tap of a finger. Shoppers can experiment with different shades of eyeshadows, lipsticks or try on false lashes from the convenience of their own living room. After selecting the product, they want to try on, the app scans the face of the user, detects the main facial features like eyes, lips and cheeks to correctly place the products on the face, and from there on the user can freely try out all sorts of products and compare different products to help decide which one to buy. In that way, customers can even create whole looks and get step-by-step tutorials customized to their face shape to create exactly the look they are going for (Sephora, 2021c). Customer can easily place the products they tried on virtually in their shopping cart and order the whole selection of products they used to create their desired makeup look.

With Fragrance IQ, Sephora found a fun way to put technology to work in order to help shoppers find the perfect fragrance. In the perfume section of their stores, they have installed touch screens, which allow shoppers to answer a number of questions about the type of fragrance they are looking for, like how they want to feel when wearing it, or if they generally prefer light or rich fragrances, and the algorithm behind helps them to find the custom scent match. Based on the results, customers see a number of recommended perfumes, which they can evaluate with different filters and sample them right in the store. They can see ratings and reviews of each perfume and email themselves the Sephora shop link to the selected perfume right from the touchscreen in the store, if they don't wish to buy it right away. To help them to make their decision, each customer can take three free

fragrance samples home with them (Sephora, 2014). Fragrance IQ is not the only way in which Sephora managed to integrate online and offline shopping experiences for their customers. Another of their smart ways to assist shoppers is called Color IQ, which helps customers find the perfect matching foundation, which is often a struggle, especially in artificial lighting settings inside stores. For this nifty feature, Sephora collaborated with the Pantone Color Institute. For this to work, Sephora equipped employees with handheld devices, which scans the customer's skin surface and capturing their skin tone. From this, the technology in the background matches the results with their database of shades, which are assigned numbers and letters. The result of this analysis is a four-digit code, which reflects the customer's Color IQ. With the knowledge of their Color IQ, a customer can not only always ask for the right shade when shopping in stores but can also insert it in the mobile app or web shop to easily find suitable foundations. If a customer is enrolled in Sephora's loyalty program, Beauty Insider, the colour code can be added to the account and thereby automatically applied for future online searches. The company since has spun off the same concept for finding the right shade of Lipstick called Lip IQ (Milnes, 2016). For shoppers who don't have the opportunity to visit a physical Sephora store, Sephora has created a 'find my shade' quiz for shoppers, which is not as accurate as the skin scanning practice in physical stores, but still gives shoppers a hand in choosing their next foundation and tries to recommend suitable options for each customer (Sephora, 2021b).

One new venture, which came fresh out of Sephora's Innovation Lab, Tap and Try, was brought to two selected stores in New York City. It lets shoppers pick up any lip or lash product from an endcap display in the store and immediately try it on with the Virtual Artist paired with RFID scanning. This again creates a blending of the online and offline worlds for shoppers. The aforementioned Fragrance IQ system was also further enhanced with a system called InstaScent, which is only available in a few selected stores in North America for now. InstaScent allows customers, after they complete the aforementioned fragrance quiz, to sample 18 different scents with the help of a dry air delivery system. This means that customers get to smell the fragrance without having to spray it onto a test strip or their own arm. For this, Sephora partnered with the tech company Inhalió (Rayome, 2018).

This shows that Sephora has technology embedded at the core of their strategy, and they only put it to work in a purely user-centric way. They do not try to bring advanced tech to anything if it is not needed. They do listen to their customers, and see themselves from the customer's perspective, and try to remove every hurdle and inconvenience for shopping for beauty products in stores as well as online. In their quest to achieve this fun and hassle-free shopping experience they make sure to keep their focus on their core business and do not shy away from partnering with different tech companies, which are specialized in different niche technologies, to help them bring helpful and fun features and programs to their customers.

With the great efforts Sephora puts in the blurring of online and offline shopping experiences, they not only delight their customers and create a very loyal customer base, but

also create a growing number of data points, which is key for their digital strategy. It will allow them to detect their customer's frustrations and find answers to smoothen those hurdles for them as well as create a more personalized shopping experience. With data about face shape, skin shade and search and purchase history of a customer, they will be able to offer their customers ever-more accurate recommendations (Rayome, 2018).

### 3.2.3 The Home Depot

The Home Depot, founded in 1978, is the world's largest home improvement retailer with its main presence in North America, where it is represented in over 2.200 stores. Home Depot was originally envisioned as a one-stop-shop for the many do-it-yourself (DIY) enthusiasts. They appealed to these enthusiasts by having much larger selection of products compared to the average hardware store. The Home Depot did start off as a supplier to home improvement handymen, but over the years they noticed a growing demand of people who did not want to build, install and repair things around the house on their own, so they started to create a growing offering for the group of people whom they call the do-it-for-me customer. By catering to both main groups of home improvement as well as professional contractors, they did create their unique mix of hardware store, e-commerce offering as well as the industry's largest installation business (The Home Depot, 2021).

The Home Depot started off as a traditional brick-and-mortar retailer with large warehouse-style stores stacked to the roof with all kinds of home improvement materials and products. However, they started to invest heavily into their online presence and complete integration between their online and in-store inventory as well as focusing on their distribution capacity and supply chain management. In 2017, The Home Depot announced an aggressive digitalization strategy to transform into a more digital-centric retailer. They wanted to invest \$11.1 billion USD from end of 2017 to end of 2020 with the hope to lift their revenues as a result. In order to make this vision a reality, they needed to break down internal data silos to be able to better understand customer patterns and behaviours and gain valuable insights; as well as further optimizing their supply chain. They showed their dedication to the digital strategy by committing to employ 1.000 new IT experts spanning from software developers over product managers to user-experience designers. The Home Depot already had a lot of legacy technology from prior years., This inevitably makes their re-structuring and digitalization efforts trickier as it is typically more complex to modernize and enhance legacy systems compared to starting a completely new system from scratch. Nonetheless, the Home Depot has dedicated to become a more digital-centric retailer and chose to take a multi-step approach towards this goal. One of the first steps on their way was the modernized B2B website, which is targeted at contractors and construction professionals, rather than the DIY-handymen. On this B2B site, Home Depot introduced personalized experiences for the business users (Giles, 2019). Their B2B platform has grown to one million users by 2020 already.

Home Depot's CEO and president Craig Menear calls their digital strategy: interconnected retail strategy. Around 50% of online orders are being picked up at Home Depot stores, with most of the user journey starting in the digital world and finishing in the physical world. Home Depot has identified their digital capabilities as a growth engine and driver for their overall business and they continue to invest in their digital capabilities. They experienced a rising demand on their home décor offering called HD Home, which is exclusively available online and thereby fuelling their online sales. In terms of bridging the gap between online and offline, Home Depot introduced digital appliance labels in the end of 2019, which enable shoppers to scan items while they are browsing through the store and immediately access online reviews of the items they are checking out (Evans, 2020).

At the core of the Home Depot's interconnected shopping experience is clearly their mobile app that assists people with their shopping both online and in stores. The app is packed full with helpful features for shoppers of all experience levels. One of those features is store-specific wayfinding and visual product search, which identifies the store a person is shopping in and guides them directly to the right section in the right aisle to find their desired product(s) and informs the user about the inventory of the item they are searching for. Furthermore, the app features 360-degree product views, personalized video buying guides, and augmented reality features for searching products in stores (The Home Depot, 2019). The wayfinding feature is very helpful for shoppers, especially considering the sheer size of Home Depot stores and the volume of available products in those stores. This feature can help to keep the shopping experience efficient and short, without wandering the aisles repeatedly in search of a specific item.

Especially during the Covid-19 pandemic, the early investments Home Depot had made into their digital strategy allowed them to grow in an economically highly challenging and volatile environment, with an increase in the areas of sales, average order value and number of transactions in Q2 of 2020 compared to the year prior. In the face of global lockdowns, many people spent more time at home compared to their usual daily life, which inspired many to take on home improvement projects or even gave others the impulse to move from a city apartment to a suburban house and making themselves a new home. The Home Depot was thereby able to reap the benefits of their early investments into digital-centric retail and were able to accommodate shoppers' increased sensibility regarding physical contact and crowded places. This resonated in higher numbers of online shoppers who turned to HomeDepot.com to decorate, improve or re-build their homes during the pandemic. The Home Depot offers great flexibility and choice when it comes to the delivery of goods and they were able to record a triple-digit growth in each of the offered ways: in-store pickup with lockers, online purchase shipped from a store with an express car/van delivery and curbside delivery. Due to the highly increased order volumes and the resulting fulfilment delays, they turned one of their market delivery centres into a direct-to-consumer fulfilment centre, which allowed them to speed up deliveries and avoid frustrating their customers with long waiting times (Berthene, 2020).

The Home Depot early on understood the value and importance of unifying the shopping experience across all their channels and invested into digital infrastructure to allow them to create a modern shopping experience for their customers. In that way, they created more data points, which allowed them to understand their customers better and create experiences, features and offerings to keep up with their demands and make the shopping experience more efficient and enjoyable for them. This strategy has clearly benefited the Home Depot as it allowed them to further optimize their supply chain and operations, helping to cut costs at the same time as they increased revenues across all their channels.

#### 3.2.4 Fabletics

Fabletics is an active wear company founded in 2013 by Adam Goldberg and Don Ressler together with American actress Kade Hudson. They aimed at creating a sportswear brand combining stylish designs and high quality with affordable prices. They started selling and marketing the brand exclusively online and only expanded the business to brick-and-mortar stores two years after the founding. Through 2021 they plan to expand their physical store representation to 74 stores mainly located in the USA (Fabletics, 2021b).

Fabletics differentiates from other active wear brands in many parts of their strategy. One part of their strategy is their subscription model. They offer a VIP membership program for \$49.95 USD per month, giving customers access to personalized offers and discounts and providing them with new sportswear of their choice every month. By the beginning of 2020, Fabletics surpassed two million VIP members. This membership program allows them to gather more customer data and gain a better understanding of the trends and shopping choices made by their members and allows them to maintain a steady client base (Havrysh, 2020). Fabletics is conducting a large market search study every year in order to understand their customers better and find new ways to improve their service and offering. In that way, they also find out what members and customers value most about the brand and ensure they can track their progress and KPIs over the years (Fabletics, 2021a).

The seamless connection of online and physical retail is also at the heart of Fabletics' digital strategy. Their shoppers are connected to their accounts through a mobile app, and as soon as they walk into a brick-and-mortar store. This allows them to check the availability of sizes and other colors of an item they like in the store or view matching products directly from the fitting room and place them in their online shopping carts or vice-versa - pick up an item they had previously put in their digital cart and finish the transaction in the store (Havrysh, 2020). This feature, called Omnicart, allows employees in the store to scan the products a customer is trying on with an iPad. If the customer is an existing Fabletics member and the retailer has their email address stored, the products will be automatically added to their digital shopping cart. Once the shopper is done trying on the selected products, they can give their feedback to the shop assistant on how they liked the items. If they do not like any of the items they tried on or choose to buy them directly in the store, they are removed from



the online shopping cart. If they liked it but did not want to buy them straight away, they wait for them in the digital cart, where the shopper can return to them later. This real-time feedback loop also allows Fabletics to gain a better understanding of how different products fit different people and hence can adjust their marketing and messaging accordingly. When combining the fitting room feedback of shoppers with the knowledge of their shopping history, Fabletics can understand how and whom to recommend certain products to. For example, if a number of shoppers, who have bought multiple leggings in size Medium, did not find a Medium size to be the right fit with a new leggings model after trying them on, and buy them in a size small instead, they know that they should notify online shoppers, that this product line tends to run larger than their usual models (Lindner, 2017).

The e-commerce part of Fabletics' business is using data-driven decision-making based on machine learning algorithms to optimize their visual merchandising. They personalize every registered shopper's online experience by showing them images based on their preferences and past purchases. They also consider shoppers' different body types and feature models of different body sizes, making it easier for shoppers to identify with the models and imagine themselves wearing them. This has helped Fabletics to reduce the amounts of returns to well below the industry standard. Fabletics' average return rate lies between 6.5% and 8.5%, while the industry averages around 35%. Furthermore, Fabletics is tracking the overall performance and responses to new styles and follows a fail-fast mindset. If a newly uploaded style is not gaining traction and underperforming within the first five hours after being added to the online store, they will re-shoot the images of the product and upload them again until the responses hit their targets (Havrysh, 2020).

It is also worth mentioning that while Fabletics is an online-native brand, they are working hard on increasing their physical network of stores. This allows shoppers to get even more in touch with the brand and get inspired by trying on products physically. Due to their excellent connection of online and offline shopping they do not need to fear customers turning to another e-commerce business to purchase their products after trying them on in the store. "Customer insights from its online stores are used to customize and personalize stocks in-stores. Store inventory is based on online local data about membership preferences for local members, social media sentiment, store heat-mapping data and real-time sales activity. In-store data about customers also reveals customers reception and response to what is in stock, sending alerts if they repeatedly try items but don't make a purchase, or have size, fabric or other issues." (Royghatak, 2017)

In this way, the company ensures to provide a fun and meaningful shopping experience for their customers both online and in the physical stores with the help of data and technologies put to work in a smart way. They understand the world their customers live in, understand their needs and use advanced technologies to gain a deeper understanding of their wishes, needs and desires. They integrate their findings into their offering and strategy and constantly work to evolve and adjust their strategy in accordance with their customer and market insights. They do not only gather data about their customers and the operations, but

also transform them into actionable insights on their quest to offer a personalized shopping experience and bind loyal customers to the brand. They also create touchpoints with their customers through social media to interact with consumers through the platforms they are most comfortable with and give them inspirations for their next workout outfits.

### 3.2.5 Ocado

Ocado is a UK-based company founded in 2000 as a purely online grocery retailer. They have made a name for themselves as being a highly innovative tech company on the forefront of technological innovation. They use artificial intelligence and machine learning in many ways throughout the entire business, helping them to be efficient and productive in getting groceries to their over 580.000 customers daily. When starting off their business, they tried to build their online grocery store based on bits and pieces of existing technology but quickly realized that their very specific requirements would not be met by any existing solution in the market. They started to build the required hardware and software themselves. Today, their platform runs end-to-end e-commerce and is even being sold to other traditional retailers worldwide. They provide all the required software as a service and hardware to successfully operate a digital grocery store as a standalone solution or in addition to existing brick-and-mortar stores. Their warehouses operate completely automated, meaning they have an army of robots and IT systems, fuelled by artificial intelligence, big data and machine learning. This allows them to deliver an outstanding customer experience at scale. Machine learning allows them to constantly increase the efficiencies within the warehouses from routes for the robots to the placement of trays and bins to predicting maintenance needs of robots. With this level of automation and data flow, they are able to react quickly to changes in demand or stock and leaves them better prepared for spikes or drops in demand through e.g. promotions, events, trends or the recent purchase behaviour changes caused by the global pandemic. This technologically advanced setup has allowed them to cut food waste to a minimum, which is usually a big concern for retailers of groceries. Applying their arsenal of technological optimizations and insights, they managed to reduce the food waste to only one in 2.000 produce items. With a growing concern over global waste of food, putting technology to work in helping to tackle this problem is a major success. The Ocado Smart Platform is able to detect the food and produce, which customers want and buy and automatically adjusts the orders from suppliers in accordance with the anticipated demand. They create a staggering amount of 20 million forecasts each day, which allows them to have the freshest produce available for their customers while avoiding waste and large inventories. If those predictions do come short, the algorithms make sure to send a notification to suggest a promotion on the overstocked items to ensure the inventory gets emptied before any food expires. If any food does get close to the best-by date, they donate those products to charity and again – algorithms help in monitoring and managing the donation efforts. This all goes on in the background without the customers even noticing all the efforts which are put into delivering their favourite groceries to their doorsteps whenever they need them. On the customer-facing side, Ocado again puts advanced technologies to work to ensure their

customers keep returning and are fully happy with their service. Some examples of these efforts are the AI steering the delivery routes to avoid heavy traffic or any other delays; or their multiple channels for customers to contact them through email, social media or phone calls. This in itself is not really an outstanding achievement, as most customer-centric companies nowadays offer multiple channels for their customers to reach them. However, Ocado brought a tech aspect into it by applying machine learning and natural language processing. This allowed them to filter and categorize the customer requests, correctly rank the urgency and priority of each request, and ensure it is directed to the right team for resolution without connecting the customer multiple times before being able to help them (Marr, 2020). It is safe to say that Ocado put tech at its very core and is delivering value to customers through applying advanced technologies throughout the entire value chain. This is the key foundation of their success and allows them to keep growing their business. Not only have they been able to scale up their own digital grocery store, but the outstanding technical performance allowed them to turn their tech stack into a business in itself in a software-as-a-service model. This is an outstanding achievement and the best proof of just how good their tech-and customer-centric approach works.

### **3.3 Best practices setting industry standards for new retail**

When looking at all case studies, it becomes evident that they follow a common pattern in approaching their digital strategy.

While the exact strategies and components of the digital toolset differ largely, they all started by completely integrating online and offline channels to create a unified shopping experience. By not only treating online channels as a secondary path into the stores, they unlocked the potentials that digital technologies bring to the table.

With integrated online channels, new data points were created and they did not stop after creating the online channels. They actually gathered relevant data from all online sources and paired them with any data available from their physical stores. For example, they used loyalty cards or beacons in the stores to create algorithms to generate insights from the collected data.

The structured data gathering, processing, and generating insights allowed them to see where they currently fall short of customer demands and wishes. Some companies also try to enrich their insights from data analytics with direct feedback from their customers. For example, this approach is taken by Fabletics, who as aforementioned, conducts an extensive market research and customer questionnaire once per year. This allows them to gather suggestions, issues, and wishes from customers that they would not have found if they solely relied on the insights gained from data analytics. This is because analytics are always limited to the existing ecosystem and data points.

By gathering an increasing amount of data, data points and advancing algorithms, they gradually create a detailed data structure with constant flow of information. This ideally reaches a level of real-time information and ability to act and react to changes in the market in real-time as well. On the strategic level, the better understanding of the market and the customers allows them to shape and test new offerings to enhance the shopping experience and build the loyalty of customers. In that way, they can gradually further blur the lines between online and offline shopping and find their perfect mix of different offerings.

Aside from the strategic product and service portfolio, a robust and extensive digital technology infrastructure also allows for improvements in daily operations. Retailers are able to monitor sales, stocks, and trends in real-time and react to them by offering discounts, adjusting order sizes from wholesales, releasing a different marketing campaign, or by reaching out to frustrated customers to help them and solve their problem before they decide to shop elsewhere or – even worse – publicly complain about the brand and damage their image.

When looking at the international best practices, it becomes clear that they all create an ecosystem to guide shoppers through the entire purchasing journey from initial browsing to enjoying their newly purchased products. This means, that the retailer creates digital touchpoints throughout the entire value chain. It starts with the supply chain and the initial collection of data, which is then processed by artificial and human intelligence to create insights. By adding to those insights with market- and customer-specific knowledge, it becomes competitive intelligence. This intelligence helps to optimize the marketing and sales funnel and move customers through the funnel as well as allow the company insights into their marketing and sales funnels through visual dashboards. The monitoring, insights and data points then continue throughout logistics and shipping to the after-market in customer service. Different companies choose different technologies, tools and ways to approach this value chain. But in essence, they all create a closed feedback cycle of information and data flows across their value chain and organization and make sure that they act on the cues they get from the data.

Innovations, enhancements and new offerings can be added to each part of the value chain as the company develops. For example, logistics is constantly evolving, and new logistics service providers are evolving in the market or more companies are extending their marketing operations to social media and live streaming to get closer to their target audience. In that way, the ecosystem and offering of the company can be enhanced and improved over time and quickly altered and adjusted to reflect changes in the market or troubleshoot any issues. A crucial part of the digital offering is A/B testing, which allows them to test new features, designs and functionalities with a limited number of users compared to the old or an alternative suggestion for the same feature or design. In that way, they can quickly and inexpensively test innovations before rolling them out and drastically limit the risk associated with the change.

All of this is possible and easily manageable, if the right, solid foundations for a digital strategy were laid out initially. This is why many retailers like Home Depot chose to renovate their legacy technology stack in the beginning of their new digital strategy, because they understood that they cannot create the advanced experience they envisioned on old and limiting technology. The correct technology stack and the smart use of existing IT services combined with custom-developed parts of the platform and technology stack will allow them to constantly extend and scale their overall retail performance and not limit themselves with poor technology choices. For example, Alibaba on their Single's Day needs to be able to process a multitude of the regular requests per second, where any second of downtime or service breakdown can cost them hundreds of thousands in revenue.

Even for smaller retailers, who don't yet have anywhere near as many visitors on their channels, a smooth and modern experience offline and online is the only way they can keep up with the strong international competition.

For all retailers, it is essential to understand the rising importance of 'phygital' and the need for them to invest in their digital strategy beyond the simple creation of an online shop. They need to allow customers to have a fully satisfying shopping experience either fully digital or in a combined online-offline setting.

In a world, where customers have limitless information, possibilities, and choices, retailers cannot afford to fall short of the experience clients are accustomed to in other parts of their life, where they interact in physical and digital ways with service providers or product companies. The bar is set extremely high by those new innovative start-ups and international thought leaders. Even if customers in different geographical areas do not have the same expectation towards service levels, the general trend is going into the same direction. Customers want to have whatever they think is in style, they want to receive it within a very short amount of time, and they expect the product or service to be as advertised, if not they are not afraid to mobilize their network and publicly state their anger and frustration.

Retailers therefore need to catch up and create a digital strategy, which is centred around their target customer and aims to satisfy all their shopping needs in an easy, satisfactory, and even fun way across all their physical and digital channels.

When looking at the cases of Fabletics or Home Depot, it nicely illustrates that on the way towards their vision, retailers should neither be afraid of partnering up with experts in niche technologies like Fabletics did – nor be hesitant to tear down legacy technology and invest time and capital to build solid foundations for the new digital strategy. The case of Fabletics shows that they clearly focus on the core parts of the technology, which directly interacts with their customers and adds value to them and creates data points while leaving the deep technology focus for nice solutions to partners. In that way, they stay focused and dedicate their time and capital to the core components of their strategy without trying to create all the products and solutions themselves.

In the following, the technological components of the digital environment are described, but the before analysed cases illustrate, that each retailer needs to use those technological toolkits integrated into their overall business model and strategy and adjust them to fit their custom purpose. There is no one size that fits all cases.

### **3.4 Pillars of success for new retail**

As mentioned previously, there is no definite way of determining a digital strategy that will work for all retailers and all cases. But throughout the case studies and market research, a few concepts are repetitively mentioned, which indicates their significance in any digital strategy and can be considered a key-component to build a foundation for the digital setup for retailers. A few of those foundational concepts and tools will be explained in the following.

#### **3.4.1 Data Driven Platforms**

At the heart of the digital strategy lies the digital platform of a retailer. The platform is describing a backend system, which unifies all data sources, processes the information and informs the retailer about the operations, trends and possibly forecasts the demand for the period to come. In addition to the backend system, the platform is connected to the frontend points, which include all means of interaction for the employees and clients, meaning the internal dashboards for supervising the operations as well as the retailers' website, smartphone app, social media presence and other digital channels through which they interact with their customers. In that way, the platform should span across their entire value chain from wholesales and procurement over the internal processes and organization to the logistics, client interactions and customer service points. All of those parts of the value chain can be adjusted, and innovations can be plugged in at any point according to the detailed strategy and needs of the retailer and their target segment. But in general, they create data points throughout the value chain, ideally both in online channels and in their stores. In that way, they get a real-time overview of their operations and their sales in the stores as well as through their online channels.

Data-driven platforms are not solely describing the presence of data points and a collection of data to enrich the database, they aim at helping retailers make decisions based on the data from all channels. This means that in data-driven platforms, there can be suggestions or even automated actions for steering tools such as pricing, discounts, order management, or even automating responses to customer complaints like handing out coupons or refunding orders based on the insights from the data. All customer interactions should be backed with data insights ideally, in that way retailers can finely adjust their actions and reactions and create a more refined shopping experience for customers while improving the internal process efficiency.

Especially in the context of the new retail trend of ‘phygital’, the merging of online and offline retail, it is increasingly important for retailers to break down data silos across their organization. Additionally, retailers need to put an emphasis on the unification and cross-channel data integration in order to get a clear picture of what their customers wants, needs and current demands are and how the current performance in fulfilling this demand is in real-time. If their data inputs and – analysis is advanced enough, the data can help forecast demand and by pairing data with experience and insights of employees, the offering and day-to-day business handling can be improved and extended over time.

### 3.4.2 User Centricity

User Centricity is a concept, observed across many different industries and virtually dominates the business model of any technology driven business. In retail, the customers have gained a very high power and influence over the market throughout the past decades. They have the possibility to consult friends, influencers and complete strangers through the means of online networks, forums, referrals and product reviews. This allows them on the one hand to make very informed purchasing decisions, but on the other hand also creates a platform for them to publish their views and opinions about brands, products and stores in return. They expect a high level of service and fun in all their daily interactions and transactions from retail over financial services to all sorts of services accessible on demand through apps. Consumers are used to be put in the centre of attention by companies and service providers, so naturally they expect nothing less when shopping online or offline.

Hence, retailers should put the customer in the centre of attention when designing their digital strategy rather than basing it on organizational needs and structures. In order to do so, they need to gain an initial understanding of their target audience and the different segments they are aiming to cater to, so they can keep those groups of customers in mind whenever designing any functionality, service or new feature. Many companies use so-called Buyer Personas to help them achieve this. They create a set of fictional characters, which each represent a group of people with the same patterns and interests, which are part of their target group. In that way, they can classify the three to five most significant customer groups and include them in the decision-making and in the innovation process for new products and services.

There is a multitude of tools and techniques which can be applied to ensure customer centricity, but it is first and foremost an issue of mindset and priorities within the organization. There needs to be determination to put the customer truly in the centre of attention. Once this mindset is set across the company, many techniques can be used, ranging from the aforementioned buyer personas to hosting workshops or market research studies with actual customers or running A/B testing for new services or designs. A/B testing works in a way that a new feature, product or design of an existing product is rolled out to a small group of users and the performance is compared to the old or alternative new solution. This

allows for cost-effective and fairly quick market research before rolling out the feature or product to the whole group of customers, with a possibility to run many of those small experiments in parallel, tweaking the proposed solutions based on the insights and repeating the testing. In that way, customers' reaction to the offering is directly impacting the products, features and services and ensures they will be delighted with the final solution once it is rolled out to the whole market.

With fully integrated Data-Driven Platforms, also sales data, social media interactions and complaint and feedback rates from the customer service department are cues for retailers about their performance and the opinion of customers. If pairing the reactions of customers with their direct feedback through reviews or contact channels, retailers can clearly see impacts of changes in their offering or some marketing campaigns and link them to the market reactions. In that way, they can create closed feedback loops between their activities and the customers' reaction and learn from them for the future.

### 3.4.3 Predictive Analytics and Artificial Intelligence

Once a retailer has established their digital platform and integrated multiple data points from their stores and online channels, they will want to look into generating value from the gathered data. In order to get good results and valuable insights, they will quickly start to look into data analytics, predictive analytics, and artificial intelligence to help with the processing of data and the generation of insights.

A fully digital and integrated retail organization will inevitably generate large amounts of data from a variety of data points. However, there are a few things to consider in relation to data analytics in order to get real value from data. It is not enough for companies to simply store data and feed them into some dashboards or internal tools; the right data needs to be gathered in the right way and needs to be analysed to create relevant insights. But insights only become actionable for companies once they are put into context of the industry, meaning pairing insights with (human or artificial) intelligence to create action recommendations and inputs for strategic decisions. Advanced technologies like machine learning, data analytics and artificial intelligence can be very helpful and add a lot of value, but there are some common pitfalls, which need to be avoided by retailers in order to reap the benefits and get the most value out of those tools. The first of those pitfalls is commonly referred to as 'garbage in – garbage out' - what this phrase refers to is the fact that even the best technologies cannot make miracles happen with poor, wrong, incomplete or irrelevant data being fed into them. Organizations need to ensure in the foundational groundwork of building their digital platform, that they know how to gather data and ensure to gather the right kind of data. Often, data points and -models are built with wrong underlying assumptions, in which case also good data and the right processing of those data will not reflect the reality and give misleading insights due to the wrong business logic behind them, which resulted in wrong or irrelevant data being gathered and processed (Fisher, 2019). It is



important to understand that from the technology side of things, it is often fairly easy to measure and analyse various factors. However, the interpretation and underlying logic for the gathered data can easily be logically flawed and give wrong outputs, hence the business logic needs to be considered and thought through extensively before building data models of any kind. It may easily happen that a set of poorly constructed questions or hypotheses for analysis lead to findings of correlations in the data which are true according to the data but have no realistic correlation when put into context in the real world. This means that all findings should be paired with human intelligence, logic and common sense and not blindly taken for the absolute truth. For the best insights and results, retailers should also consider analysing data sources not only from their own operation and organization, but also enriching their insights with market data and competitor data for their relevant markets and segments.

With a well thought-through and properly set up data structure and analytics model, advanced technologies can help to bring the customer-centric operations to a higher level and help in strategic and tactical decision-making. A few examples of the added benefits of having an elevated digital infrastructure are in areas like customer segmentation. This is where technology can help build micro-segmentation with individual customer personas instead of just having broad segmentation groups filtered by a few demographic factors; having intelligent product recommendations based on a better understanding of the individual customer requirements instead of basing it solely on the sales history or related product search (Subramaniam, n.d.). Other factors like pricing, sales forecasting, and hence inventory management and other optimizations in store labour or logistics are also possible with the right use of those advanced technologies, as it can also be observed in various degrees in the previously examined use cases.

#### 3.4.4 Digital – Physical Touchpoints

In the course of merging online and offline sales channels, retailers need to find ever-smarter and innovative ways to intertwine the digital and physical shopping experiences for their customers, making their purchasing journey fun, enjoyable and hassle-free no matter how they choose to combine the variety of available sales channels. The business model of having a unified retail strategy for online and offline sales channels has become increasingly popular and is now commonly referred to as ‘brick and click’ (Kriss, 2020). It is becoming the new reality for retailers and the digital-physical touchpoints will be an incremental part of their strategy in intertwining the different sales channels into a seamless, combined customer journey and -experience.

In the case studies, it can be seen that many retailers are getting creative in new ways of engaging customers in stores as well as providing a more exciting online shopping experience and assist online customers in new ways to help them find the best product for their needs. One of the main means to achieve this intertwined shopping experience is the

mobile app for customers' smartphones, which can give them additional information about products while shopping in-store as well as allow them to shop online while they are on the go. This allows shoppers to get more information about products as well as reviews, recipes, style recommendations, or other useful things depending on the type of product.

Besides the mobile apps, there are a variety of other technologies available to retailers on their mission to elevate the shopping experience and enrich it with the help of digital tools and technologies. Many stores have already incorporated large interactive displays in stores to help customers with any wish or concern during their shopping experience. Interactive displays are widely used across different industries and can for example also be found on airports, where the so-called InfoGates are helping passengers navigate airports, find their gate or help them find products or services at the airport or even connect directly with a member of the airport information team via videoconference (Munich Airport, 2021). In a similar way, retailers could adopt virtual shop assistants on their websites and in interactive displays in stores in the future.

Other technologies that will help retailers create new fun ways to interact with their products virtually and in stores are Virtual and Augmented Reality technologies. Essentially, both technologies help to simulate a virtual reality. Augmented Reality projects virtual objects into the physical world around a person for example by pointing the phone camera around them and overlaying the real image seen through the camera with a virtually rendered image, making it seem as if the object was in the picture (Tulane University, n.d.). For retailers, this allows shoppers to try on outfits or glasses virtually or see how a piece of furniture would look like in their own living room. Virtual Reality does not incorporate virtual objects into the real world, but rather renders a completely virtual world for people to explore, mostly by the help of special-designed VR-glasses and often gloves or other sensors, which allow people to immerse themselves into the virtual world (Tulane University, n.d.). For retailers, Augmented Reality will often be the preferred technology, as the experience only requires users to have a compatible smartphone and most use cases would focus on displaying their product on the shopper in the case of clothing or accessories or showing it in their physical environment for other products.

Besides technologies, which customers interact with directly, there are also various supporting technologies, which help retailers to bring the physical and digital worlds closer together in the background. Those include Beacon technology, which allows retailers to monitor movement inside the stores, send notifications to shoppers when they enter the store and access other proximity-based functionalities. Other technologies are quick response (QR) codes, which can be scanned by customers for more information or other interactions with retailers or near field communication (NFC) technology (Kriss, 2020). NFC technology could for example allow shoppers to tap a device next to the item they want to purchase with their smartphone or smart watch to direct them to the purchasing page or make an inquiry to a sales assistant instead of waiting in long checkout lines. NFC can help in many areas such as enabling a true self-service customer experience from getting more information about

products or services over placing them in a cart and paying for them with smart payments such as digital wallets or direct mobile payment. Furthermore, they can help to truly personalize the shopping experience and allow retailers to fine-tune the offer, discount, notification and loyalty offering to each shopper as they have detailed information about e.g., which store they visited previously, what their purchasing history with the brand is or if they are classified as a potential non-returning customer who is considering converting to shopping with another brand. It overall helps the retailer to gain more insights and data from in-store shoppers and allows to make their online and offline shopping experience more seamless and convenient. This hopefully allows them to turn them into loyal, returning customers (Hegde, 2020).

#### 3.4.5 Seamless and omnichannel user experience

All those technologies and tools are aimed at creating a seamless user experience across all available channels whether they are online or physical ones. Creating such a seamless user experience forces retailer to break down internal organizational silos and put the user into the centre of their activities and attention. A true omnichannel experience would mean that a user can start his interaction with the brand through social media, then browse their product catalogue on their website or smartphone app, maybe put a few items in their basket and go to the physical store to check out their favourite products live before deciding to purchase them either directly in the store or through the app. When they switch channels, their preferences, Wishlist and shopping cart should be known and when they reach customer service when having a customer account, the chatbot or call center agent should know where they are in their purchasing journey and help them quickly to resolve their issue. Along the whole purchasing journey, retailers can add little means of communication or incentives to move users along the sales funnel, which is easily possible for them if they have all the data points in real-time and tools to steer the personalized offering reaching from notifications to discounts or coupons, which can be sent to the customer as incentive in real-time.

Allowing customers to switch between channels for different stages of their purchasing journey gives them the maximum flexibility and convenience while allowing the retailer to understand their wants and needs better and observe their shopping patterns. If retailers pay close attention to those patterns and roadblocks on the way to completing a purchase, they can optimize and improve their digital portfolio over time to constantly improve and evolve their omnichannel experience for their customers. The previously mentioned technologies, in particular the robust digital technology platform gives the retailers the means to observe, analyse and draw conclusions from the behaviour of customers across different channels, which should influence their decisions on both strategic and tactical level.

As described earlier in this thesis, customers nowadays are highly demanding, informed, empowered and they expect a similarly high level of service in all areas of their life, whether that might be shopping for clothes or groceries, buying furniture or consuming different

services from financial services over hairdressers to booking vacations – they expect to have a seamless experience with flawless customer service to help the troubleshoot if needed and they won't hesitate to voice their frustration or even turn to another retailer or company who can deliver the customer experience they are expecting. Therefore, it is crucial for retailers in all segments to put their customer in the centre of attention and work towards a truly integrated online-offline and omnichannel shopping experience, which they constantly tweak, upgrade and extend based on the insights generated from the interactions with customers as well as from processes and daily operations.

### **3.5 Finding the right fit for each retail business**

As mentioned throughout this thesis, there is no standard way to success for retailers in creating a digital strategy. They can build the foundations for their digital ecosystem and then design the functionalities and digital services for customers based on their target audience, market segment and product strategy. They can add innovations, technologies and new features to enhance and improve operations in each step of their value chain gradually and based on insights generated by the foundational platform and data analytics. In that way, they will over time grow, refine and perfect their digital offering to the customers as well as the digital machinery that runs their internal operations.

There are a few factors, which should be considered in the course of building their digital strategy. In the previous chapter, foundational concepts were introduced as important pieces to build the technology and digital ecosystem on. Now, the different factors for business decision-making should be looked at by retailers in their process of building their digital strategy.

#### **3.5.1 In-house vs. outsourcing of parts of technology**

A common assumption of organizations is, that it is always best to develop and own all the technology from point A to point Z in their digital strategy. However, a lot of times it is better for them to focus on their core platform and partner with focused niche-technology providers for specific functionality, which they would otherwise need to invest significant time and capital into developing. This can nicely be observed in the Fabletics case study, where they build the majority of their digital portfolio and platform in-house but partner up with different companies for their specific needs for Augmented Reality features or their new fragrance dispensing-technology.

In this context, in-house development both considers having own developers in the retail organization as well as hiring a software engineering service provider to custom-develop technology for the retailer. Outsourcing parts of technology in this context is considered as the integration of software-as-a-service solutions. There are companies, which are focused on certain niche services or technologies, who can provide their platforms, know-how and

resources as a service to retailers, who then don't need to procure the functionality themselves as their own intellectual property.

Other areas, in which features or parts of technology can be outsourced can be found in various parts of the value chain. Depending on the nature of the business of each retailer, they need to determine, which parts of the value chain are directly related to their competitive advantage and core business model, which should always be kept in-house. However, some parts of the value chain like last mile logistics, customer service technology, in some cases also e-shop software, payments services or special niche technologies like facial recognition or virtual reality technology can be outsourced by retailers to provide their customers with the highest level of service. In that way, they can expand their technological bandwidth and offer new features to their customers without having to invest into specialized know-how, time and capital before going to market themselves with a feature, which is only a relatively small part of their overall offering.

Especially technologies or services, in which technologies are changing rapidly are worth considering outsourcing to specialized companies to gain more flexibility to changes in the market and technology. One example of this is last-mile logistics. If a retailer invests in their own fleet of delivery vehicles and technology to track deliveries, manage the fleet and optimize routes among other things, they will have to invest significantly and once for example drones and delivery robots will become available a few years later, their initial investment will become gradually obsolete, and they need to invest again into the new delivery technology and update their software to adjust to the new fleet. If the last-mile logistics is not an important part of their unique market positioning, they can rather integrate a logistics and delivery service company into their ecosystem and outsource this part of the value chain to them, who will have specialized technology to efficiently deliver all the orders and who will in the best case always be up to date with the latest innovations in the last-mile-logistics market. If the supplier does not sufficiently follow and incorporate the market innovations, they can be replaced with another supplier or service provider, which is easier than updating an own fleet and delivery software.

In many cases, in-house development is more expensive than outsourcing, as it requires software engineers, project managers, digital infrastructure like cloud services and servers amongst other tools. However, it provides the retailer with great flexibility and possibilities of customization with tailor-made technology which is purpose-built for their use case and can be extended and changed over time. This is the best option for the core-services and core-platform of retailers' digital ecosystem at the core of their business model and for functionalities which will play a vital role in their long-term strategy or for very specific custom-needs, which cannot be found in the outsourcing market.

Outsourcing of parts of the technologies along the value chain is a suitable option for some short-term needs like a simple e-shop to get started and go to market quickly. Procuring out-of-the box solutions and just fitting them to the retailers' needs tends to be faster to bring to

the market, often is cheaper and can be switched relatively easy for another solution in many instances. The retailer can either buy solely technologies out-of-the-box like their own website on an e-shop platform or an existing software which is branded for them; or they can procure software-as-a-service for niche technologies like applying the Artificial Intelligence or Virtual/Augmented Reality technologies of some company for their use case, or they can integrate with a service provider for things like logistics or customer service, without handling their technology themselves. This is a good option for features, which need to be brought to market quickly as well as for short-term or temporary features or testing a new branch of the business model and technology strategy before custom-building their own solution.

### 3.5.2 Focus on value-delivering innovations for the target customer

In the process of creating their digital strategy and digital technology ecosystem, retailers shouldn't only consider which parts to outsource or create in-house, they should also carefully evaluate which features are needed and which are not.

In today's retail market, the possibilities for entertaining and drawing in customers in digital as well as physical spaces are practically endless. This may tempt some retailers to try to offer all available innovations, gadgets and trendy products and features to their customers, but they should try to narrow down and focus their activities to the most value-delivering innovations for their target customers. In that way, they can avoid creating a confusing and over-crowded customer journey. They should focus on solving the issues for their customers and improve the customer journey with the help of technologies and avoid creating unnecessary distractions and risk overwhelming or even annoy the customer with too many new features and options.

Sometimes, it seems like riding on every trend wave and creating as many interesting and fun offers to the new generation of shoppers should be the way to success for retailers, but in reality, every marketing campaign, every digital interaction, tool, functionality and innovative piece of technology should only be released and published after careful consideration and backed by data and market and user research in order to ensure the best success.

In order to roll out innovations and new functionalities to customers, retailers need to ensure they know their customer and have ongoing near-real time data analytics. From this they should be able to identify current blockers in the customer journey and find out where frustrations arise. Based on those pain points, new solutions and features can be tested to see how to best solve the issue and even the path towards a seamless and enjoyable customer journey. Again – the ability to gain those insights and run those analytics is largely based on a solid and well-constructed digital core platform of the retailer with the right data points to deliver those insights.

Furthermore, retailers can utilize methodologies like focus groups, innovation labs and A/B testing to get initial responses and feedback from a selected group of customers to their new innovations before rolling them out to all their customers, which enables them to improve and tweak their offering until it reaches the desired reaction and creates real value to the customers.

If retailers consistently make it their priority to look for imperfections and possible frustrations along the customer journey and combine their data and analytics with real user feedback and ensure to sufficiently test their new innovations, they make sure to keep their innovations to the most value-delivering and useful ones and continue to delight the users instead of rolling out unnecessary innovations and wasting time and capital on the wrong efforts.

### 3.5.3 Future-proof retail strategy

Even though the focus of this thesis is the creation digital strategy for retailers, it is important to also consider the wider context of those strategies in the retail business. It is not only important for retailers to know the market and their target segment and create the right online and offline strategy to cater to those needs, but they need to have a future-proof strategy.

Consumers nowadays are already increasingly aware of their footprint and try to reduce their negative impacts from CO<sub>2</sub> emissions to waste creation and effects on the planet caused by their overall lifestyle from energy usage to meat consumption. An increasing amount of people are following the movement of minimalism, which promises people “ a tool to rid yourself of life’s excess in favour of focusing on what’s important – so you can find happiness, fulfillment, and freedom.” (the minimalists, n.d.). People seem to shift towards purchasing local and organic products, which are becoming available more broadly and labelled clearly understandable. Market studies conducted in the USA found that: “Consumers prefer organically produced food because of their own concerns regarding health, the environment, and animal welfare, and they show a willingness to pay the price premiums established in the marketplace. Organic products have shifted from being a lifestyle choice for a small share of consumers to being consumed at least occasionally by a majority of Americans.” (Donaldson, n.d.).

Overall, there are pointers in the market that consumers are moving away from established patterns, which could be observed throughout the past few decades in shoppers, and they are starting a new era of conscious lifestyle, and hence also more conscious shopping. This general trend is in contradiction with the current setup of many global businesses at the moment and movements like global village vs. regional and eco-friendly production or consumerism vs. minimalism and fast fashion vs. small sustainable labels are seen in their infancy. This controversy will in the author’s opinion become more relevant and gain global momentum in the years to come, with the new generation of opinion leaders and consumers establishing their presence in the global economy. The consumer group, which is currently

in their 30's to 60's is still considered the most influential consumer group in terms of purchasing power, but a new generation, will take their place in a while and their values and views are strongly influenced by sustainability and environmental protection.

Retailers, who are seeing ahead and re-thinking their business model to the core already now will come out ahead, if they find their spot in the new, changed retail market of the future, where they need to find a business model, which does not rely on excessive unit sales, unsustainable global supply chains and blind consumerism. The retailers who will find ways to combine great products and services with ethical, sustainable and local/regional production will come out on top in this new market. Wherever possible, retailers should take the United Nation's sustainable development goals as their guideline towards their future-proof retail, like the goal to ensure responsible consumption and production or to protect life on land and below water (United Nations, n.d.).

## **CONCLUSION**

After analysing the retail market, the customer of the future and a variety of global thought leaders in different segments of the retail market, it is safe to say that the market is in a phase of disruption, which has been ongoing for a few years and was fuelled and accelerated by the Covid-19 crisis. Many retailers who did not have a digital presence before or who had just a simple online shop used this opportunity to focus on their digital strategy, but also users changed their priorities and spending patterns in times of uncertainty. As the world is emerging from the initial shocks of living through a pandemic, the relevance of digital interactions and online shopping are prevailing. The retail industry is just at the start of creating the shopping experience of the future and more exciting innovations will be seen on the market in the years to come, with the role of physical stores being revolutionized and shopping experiences seamlessly bridging the gap between physical and digital worlds. But a lot of efforts, innovations and technological changes are still required on the way to the future of retail.

As seen in many other traditional industries, there is an increasing overlap and merger of disciplines with technology moving into the core of most industries with disruptive innovations. The retail industry is no exception from that, with many players already having realized the importance of an excellent digital strategy for the future of their business. Just as much as retailers are moving into the digital technology space, technology companies are also moving into the retail sector for themselves, for example with many social media platforms becoming an important marketplace for goods and a key entry point for the shopping journey for many customers. This raises the question, whether tech companies will eventually capture some of the market of traditional retailers or if retailers will rather become more of digital technology-driven companies themselves. The answer for this probably lies in between the two possibilities. With the significance of digital strategies and digital technologies supporting their core business, retailers are increasingly moving into the



technology space to various extents. In the example of the Ocado case study, their technology has become so successful, that they sell it as a software service solution to other retailers who wish to excel their own online shop performance. Other retailers might keep their digital technology involvement and efforts to a minimum, with purchasing out-of-the box solutions and procuring engineering service providers to build their necessary digital infrastructure for them, as they don't see a need to go high-tech for their target demographic and business model. On the other hand, technology companies seem to see the great revenues generated by the retail industry and have a definite interest in tapping into that market. With social media platforms, they have an excellent stepping stone for entering the market through models like live-stream selling, affiliate marketing and other social-media based sales practices, which are increasing in popularity throughout the market; however, it is reasonable to believe that they will keep focusing on the platform and technology aspects rather than venturing into their own products to be distributed through their platforms, which will remain in the corner of the retailers to provide. In that way, the industries will have a certain overlap, especially in the digital services and technology area, but the pure retail part of the market will most likely stay with retailers for the foreseeable future, with the exception of tech-retail giants like Amazon or Alibaba, who create their own tech and retail closed ecosystem for their clients.

A number of global retail tech giants have created their own closed ecosystems, which cater to their target group in all retail-related needs and beyond. This means they provide a number of services like payments services, social media platforms, delivery logistics or sometimes even their own cloud computing, media streaming and other entertainment services. In that way, they minimize dependencies on third party services or partnerships while being able to know and learn a lot about their customers from their multitude of touchpoints with them. However, many retailers don't have the resources, size and need to build such complex and large ecosystems for themselves. They instead rely on teaming up with other niche companies to solve a specific business issue as part of their value chain and focus their own technology efforts on the core of their platform, where they have most interactions and information from their clients, without losing focus on that core of their digital strategy. Some companies even don't try to create ecosystems and rely on individual digital platforms and keep their digital strategy to the minimum required extent while focusing to only deploy technology wherever it is needed to remove roadblocks in their customers' journeys. The question is if ecosystem approaches automatically equal more added value to companies when compared to individual digital platforms – and it is not an easy answer, because as many cases, this depends on the individual use case of the retailer. What can be said with certainty is, that business ecosystems in various shapes and forms have been around for a long time and with the rising involvement of digital technologies in most business models, ecosystems often make sense to have at least to a certain degree. For example, digital payment and financial services are extremely hard and capital-intensive to create from scratch, so most retailers would opt to integrate their platform with one or multiple payment service providers. In the same way, there will be a variety of niche technologies or

components of secondary priority in the customer journey, which can be outsourced to ecosystem partners, which are specialized in delivering given service. This means that in a lot of cases, ecosystems naturally arise for retailers in the course of the execution of their digital strategy and only for a few of them it is necessary or even advisable to create a wholistic closed ecosystem in which they create all of the related services by themselves instead of partnering with niche expert companies to create a frictionless customer journey. The digital strategy is always built with the customer in the centre of attention to deliver them the best possible experience, but there must also be sensible use of resources in terms of both capital and time for the initial creation of the digital platform as well as the maintenance of it and the gradual expansion and improvement of the digital offering. An open ecosystem approach with a mix of own core platform paired with certain business issues solved with partnerships in the market is often a good way to get a good service to the market in a cost-effective and timely manner while giving the retailer flexibility to adjust the offering to the changing market conditions without having to handle, maintain and finance incredibly large amounts of technology.

For many retailers, finding their path into the world of digital is a challenging task. Whether they are a supermarket chain, a fashion brand, a department store or a small retailer for a niche product, their customers all expect an enjoyable shopping experience in their online stores and physical stores alike. Many retailers, which were founded in the past three to five years may have started off with an online store first and are now slowly creating their physical store footprint in desirable areas for their customer groups. Their business model has started with a strong focus on digital and they have hence often gathered customer data and gained insights since day one, which allows them to make data-driven decisions about their physical store expansion. In contrast to that, many traditional retailers have appealed to their customers with an almost ubiquitous network of stores and have seen their online presence as a secondary path into their stores and hence neglected the powers and value which can be unlocked with a strong digital strategy. Those traditional retailers were under time pressure to extend their online shops when Covid-19 urged most stores worldwide to close for prolonged timespans. At the same time, they were struggling to keep up with online shopping requests and having to ramp up their delivery systems among other processes, they had to maintain their physical store network, which consumed further capital and, in many cases, resulted in the closing of some physical stores. This was a key accelerator for the digital movement in the retail industry. However, it also gave them little time to think through their digital strategy and build a solid foundation.

Generally, many traditional retailers have identified the importance of digital channels but struggle to keep up with the global competition and the international thought leaders, which their customers benchmark them against. Often, they don't create a digital strategy based on the knowledge they have about their customer group and their preferences, or they fail to demonstrate foresight beyond their current customer group, which may be belonging to an older generation group, and disregard their long-term strategy, which should be targeted

towards the needs of the up-and-coming generations, which have drastically different views and purchasing patterns and preferences. A digital strategy should not solely consist of making the current inventory available online. It should enable the company to gain more insights about their current and future customers, as well as point out inefficiencies in the current flow and processes in both online and offline shopping experiences. Based on their insights and data outputs paired with their own understanding of their business, retailers are equipped with a highly efficient tool to expand their offering to customers and measure the effectiveness of every of their new innovations and features and fine-tune them until they reach the desired response by customers. If retailers get too excited in the creation of their digital strategy and try to include every technology, fancy innovation and gadget they know of and offer it all to their customers, they can overwhelm the customers and create a confusing and frustrating user experience regardless of their best intentions and efforts put into the new features. Hence, a key challenge for retailers is finding the right balance to create a frictionless, intuitive and entertaining user experience for shoppers, which combines new trends and technologies with a clean user interface and well thought-through new feature releases. Many retailers have made it an essential part of their digital strategy to include direct feedback from users in test groups, A/B testing or innovation labs to ensure they catch concerns, ideas or frustrations, which are not included in their data models and hence wouldn't come up in their analyses. Often times, frequent users are a great source of new ideas for digital or non-digital features to improve their shopping experience. Once retailers have a detailed understanding of their customers, find ways to engage them in a feedback process and find a process, which works best for them in finding ways to incorporate new trends, technologies or services in their online and offline portfolio, they are well on track in running a successful digital strategy based on strong technological foundations with add-ons across their value chain and user journey.

As described throughout the thesis, the merging of online and offline retail experiences into a seamless experience for customers will be one of the central aspects of the further development of the industry in the years to come. Different retailers have begun creating this 'phygital' user experience to various degrees already. Users expect to have a choice to connect different online channels as well as physical stores in different ways throughout their purchasing journey. Whether this means seeing and being informed about a product in a store, reading more about it in an online forum and finally purchasing it through a mobile app or seeing a product in an Instagram live stream, clicking on the embedded link and ordering it to the store to try it on and buying it there, they expect the retailer to know them and switch channels seamlessly without having to search for the product and insert their information repetitively. This poses new challenges for retailers and there are various ways they can enrich this experience, as it was showcased in the global thought leader case studies in this thesis.

Depending on their core business, those retailers found new ways to engage customers with digital technology in their stores, provide guidance and information while they stroll around

the stores, but also find new ways to give the personal touch and consultation to online shoppers, which they usually only get to experience when shopping in stores. They are making use of a variety of tools spanning from geolocation technologies, in-store displays, artificial intelligence and augmented reality technologies to traditional loyalty systems and mobile apps to work towards the goal of seamlessly integrated physical and digital shopping experiences. On the way to this goal, the most successful retailers rely on creative teams working close to their customers to keep the experience relevant for them and solving their issues and pain points and they are not shying away from cross-industry collaborations and partnerships to bring in innovations from different industries, which they feel can be adjusted to the retail use case. They partner up with expert companies from different niche areas to bring in the best in the game for whatever new venture they are experimenting with, from augmented reality over live video call consultations to other innovations and new concepts.

As with other efforts, retailers should ensure that innovations in the merging of online and offline shopping result in an increase in convenience for the shopper or solve an issue for them in their user journey instead of bothering them with many features without added value for their shopping experience. Again, careful monitoring of the dashboards and data analyses can help to determine the success of new innovations, features and trials, which should be tested in an innovation lab setting or in a small selection of stores before being rolled out broadly and invested in heavily. In that way, retailers can try out many innovations and ideas without risking to upset or annoy customers nor do they risk too high investments into unsuccessful ventures.

To summarize, retailers need to carefully piece together the most suitable parts of technology into a coherent digital strategy. They should firstly focus on building a robust foundational platform, which covers their core business use cases and interacts with users across all channels. Once they have this foundational platform set up and have connected all the relevant data points in their online and offline channels as well as data points in internal processes, they can start to get data analyses to give them detailed insights into their current performance, customer behaviours and patterns and further analytics can point them towards potential shortcomings or poorly designed parts of the digital purchasing journey, if many customers abandon their shopping in a certain point for example. They can then start to gradually improve the basic customer journey to ensure a smooth online shopping experience. Once they have polished this part, they can use the customer feedback paired with their data analysis, market trends and their own market understanding to come up with ideas for extending the shopping experience with new features or innovations in online or offline or both spaces. They should always thoroughly research and test their ideas and back them up with supporting data in order to generate the highest value for their customers and themselves.

The global retail market will continue to change and evolve in the years to come, strongly influenced by the drastic changes in the new generation, which is gaining significance in the market and who has strong opinions about ethical sourcing, carbon footprint, local and

regional support as well as overall sustainability and impact when making their purchasing decisions in all parts of their live. At the same time, they are digital natives and expect digital interactions at the highest convenience and standard, as they spend a significant amount of their time online, mostly on their smartphones. Retailers, which will combine flawless and modern digital user experience and inspirational flagship-style experience stores with an increased consciousness for sustainability will have the upper hand in the long run. Retailers will need to become future-proof and adjust their business models and digital – physical strategies to the coming generations in innovative, smart ways.

A robust, de-cluttered and well thought-through digital strategy paired with a company culture of flexibility, problem-solving and customer centricity will be the road to success for retailers in all industry sectors.

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## **APPENDIX**



## **Appendix 1: Povzetek (Summary in Slovene language)**

Pri prodaji končnim kupcem se trgovci soočajo z vrsto sprememb, med drugim s čedalje zahtevnejšimi kupci, z optimizacijo dobavne verige na globalni ravni ter z digitalno transformacijo, ki z odpiranjem novih priložnosti in vključevanjem kupcev na številne inovativne in zabavne načine na glavo obrača eno industrijo za drugo. Prodaja končnim kupcem beleži dolgo in uspešno zgodovino s fizičnimi trgovinami, vendar pa so sodobni kupci stalno prisotni na spletu in pričakujejo tako digitalno kot fizično interakcijo s produkti in storitvami na vseh področjih svojega življenja, pri čemer nakupovanje ni nikakršna izjema.

Mnogim trgovcem predstavlja zagotavljanje neopazne fizično-digitalne izkušnje velik izziv in zato pri ustvarjanju svoje digitalne strategije kaj hitro zaidejo v težave iz več razlogov. Sprejemati morajo osredotečene rešitve, s katerimi bodo zgradili močno ogrodje za digitalno infrastrukturo, ki bo njihovim strankam omogočala odlično izkušnjo spletnega nakupovanja. Le s solidno osnovo lahko naredijo korak dlje in pričnejo eksperimentirati z novimi funkcionalnostmi, pripomočki ali celo ustvarijo nove digitalne vire prihodka oziroma se lotijo prepleta fizične in digitalne nakupovalne izkušnje.

Namen te magistrske naloge je raziskati izzive pri oblikovanju digitalnih strategij v prodaji končnim kupcem na osnovi analize nekaterih vodilnih mednarodnih podjetij nove dobe v različnih segmentih. S pomočjo primerjave in sklepanjem zaključkov na podlagi njihovih pristopov k digitalizaciji bomo izpostavili kazalnike uspešnosti, ki jih velja upoštevati pri prodaji končnim kupcem.

Trgovci lahko izkoristijo priložnost spreminjajočega se trga in izidejo kot zmagovalci ter ustvarijo trdno, v prihodnost usmerjeno strategijo svoje fizične in digitalne predstavitve. Pri tem morajo dobro poznati trg in trende, hkrati pa odlično razumeti svoje ciljne kupce. S skorajšnjim generacijskim premikom se kupna moč na trgu preveša na stran mlajše populacije, ki ima oblikovana mnenja glede trajnosti, odpadkov in razumne porabe, vseeno pa stremi k temu, da se jih zabava, razvaja in zanje skrbi skladno z njihovimi navadami in okusom.

Da bo pot tlakovana z uspehom, morajo trgovci poznati in poslušati svoje stranke, trg in konkurenco ter na tej osnovi po meri izoblikovati digitalno strategijo, ki bo kar najbolje podprla njihov specifičen primer. Z načeli, s tehnologijami in z razmisleki, podanimi v tej nalogi, želimo pomagati trgovcem pri postavljanju kompleksnega strateškega procesa odločanja ter ponuditi ideje in predloge pri iskanju prave kombinacije. Ker pa enoten pristop ne obstaja in ker so možnosti v digitalnem prostoru tako rekoč neskončne, je ključno, da trgovci najdejo svojo identiteto v tej novi fizično-digitalni resničnosti.