



RETAIL'S SINGLE BIGGEST DISRUPTOR

A profound dynamic is at play that is turning retail on its head. Spoiler alert: It's not e-commerce

■ *By Steve Dennis*

There is no question that the retail industry is under-going a tremendous amount of change. Record numbers of store closings in the US. Legacy brands going out of business—or teetering on the brink of bankruptcy. Venture capital funded start-ups wreaking havoc upon traditional distribution models and pricing structures. Discount-oriented retailers stealing share away from once mighty department stores. And, oh yeah, then there's Amazon.

In assessing what is driving retailers' shifting for-

tunes most observers point to a single factor: the rapid growth of e-commerce. But they'd be wrong.

To be sure, online shopping has, and will continue to have, a dramatic impact on virtually every aspect of retail. One simply cannot ignore the dramatic share shift from physical stores to digital commerce, nor can we underestimate the transformative effect of e-commerce on pricing, product availability and shopping convenience.

Yet, a far more profound dynamic is at play, namely

what some have termed “digital-first retail.” Digital-first retail is the growing tendency of consumers’ shopping journeys to be influenced by digital channels, regardless of where the ultimate transaction takes place. It’s obvious that this shift helps explain the success of Amazon and other e-commerce players. But when it comes to how traditional retailers need to reinvent themselves, several factors related to this phenomenon need to be better understood and, most importantly, acted upon.

The majority of physical store sales start online. Deloitte has done a great job tracking digitally influenced sales and its most recent report indicates 56% of in-store sales involved a digital device—and this will only continue to grow. Moreover, quite a few major retailers, across a spectrum of categories, have publicly commented that they are experiencing 60-70% digital influence of physical stores sales.

Digitally-influenced brick and mortar sales dwarf e-commerce. While e-commerce now accounts for (depending on the source) some 10% of all retail sales, both Forrester and Deloitte have estimated that web-influenced physical store sales are about 5X online sales.

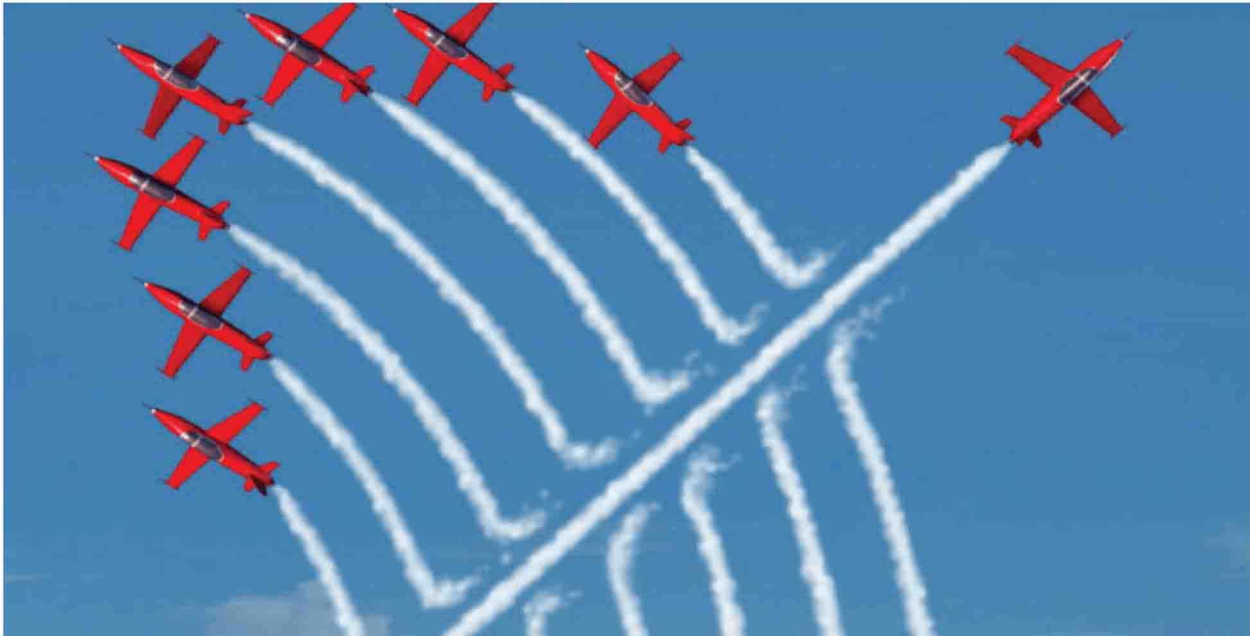
Increasingly, mobile is the gateway. We no longer go online, we live online and smartphones are the main reason. As the penetration of mobile devices—and time spent on them—grows, mobile is becoming the front door to the retail store. Digital-first now often means mobile-first. It may not be the predominant behaviour today, but it won’t be long before it is.

It’s a search driven world. Sometimes consumers turn to the web for rather mundane tasks: confirming store hours or looking up the address of a retailer’s location. Other times they are engaged in a more robust discovery process, seeking to find the best item, the best price, the best overall experience and so forth. Retailers need to position themselves to win these moments that matter (what Google calls ‘micro-moments.’ Full disclosure: Google’s been a client of mine).



Digital-first can be (really) expensive: Part 1. Having a good transactional e-commerce site is table stakes. Becoming great at enabling a digital-first brick and mortar shopping experience is the next frontier. As customers turn to digital channels to help facilitate brick and mortar activity, be it a sale or a return, retailers need to be really good at creating a harmonious shopping experience across all relevant engagement points. This isn’t about being everything to everybody in all channels. It isn’t about integrating everything. It is about understanding the customer journey for key customer segments, rooting out the friction points and discovering points of amplification, i.e. where the experience can be made unique, intensely relevant and remarkable at scale. It’s not easy, and it’s rarely cheap to implement. It turns out, however, it’s a really bad time to be so boring.

Digital-first can be (really) expensive: Part 2. Estimates vary, but it’s clear that search (or engaging on social media) is an intrinsic part of most consumers’ shopping process. And that means that an awful lot of customer journeys intersect with Google, Amazon, Facebook or some other toll-booth operator. I say toll-booth operator because so often a brand’s ultimate success in capturing the consumer’s attention,



► **Retailers who innovate rather than join the discounting race are the ones who will survive in the age of disruption**

driving traffic to a website or store and converting that traffic into sales requires paying one of these companies a fee. And that can add up. Fast. Of course the best brands generate consumer awareness and interest through word-of-mouth, not paying to interrupt the consumer's attention.

The best brands get repeat business through the inherent attractiveness of their offering, not chasing promiscuous consumers through incessant bribes. The best brands don't engage in a race to the bottom because they are afraid they

might win. This shift in who "owns" (or at least can dictate) access to the customer is profound. A strategy of attraction rather than (expensive) promotion is the far better course, but not so easily done.

While e-commerce—and Amazon in particular—is re-shaping the retail industry, having a compelling online business is necessary, not sufficient. In fact, in my humble opinion, many of the retailers that are reeling today got into trouble because they spent too much time and money focused on building their e-commerce capa-

bilities as a stand-alone silo, to the detriment of their physical stores and without understanding the digital-first dynamic that determines overall brand success and the ultimate viability of their brick & mortar footprint.

Blaming struggling retailers' woes on Amazon, or e-commerce more broadly, is only part of the story. Figuring out how to thrive, much less survive, in the age of digital-first disruption requires a lot more than shutting down a bunch of stores and getting better at e-commerce. A whole lot more. 😊



Steve Dennis is a consultant, speaker and writer on retail innovation, omni-channel strategy and marketing personalization. As President of SageBerry Consulting, he leverages over 30 years of experience to help retail and luxury industry clients accelerate their growth and become more customer-centric. Prior to founding SageBerry, he was Senior Vice President of Strategy and Marketing at the Neiman Marcus Group. He has also held leadership positions with Sears. He has also been associated with brands like NatraSweet and Booz & Co. He shares his insights through his blog: stevedennis.com & Twitter feed @stevenpdennis.com.