4th Wave Retail In-Store Activities

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AGENDA

› Lewis/Dart 4 retail waves
› 4th wave of retail
  – Technology driven in-store activities
  – Consumer driven in-store activities
› Criticism of Lewis/Dart
  – Service consumption
  – Service payment expectations
  – Business models that compete with the omni-brand model
› Conclusions
LEWIS/DART 4 RETAIL WAVES

› Wave 1: City center department stores
  - Production/retail driven
  - Production chasing demand
  - Fragmented markets/marketing

› Wave 2: Department store chains
  - Marketing driven – lifestyle branding
  - Demand creation
  - Mass markets/mass marketing

› Wave 3: Mass-merchants
  - Consumer driven
  - Supply starts outpacing demand
  - Cheap money / Brand proliferation

› Wave 4: Omni brand
  - Neurological connectivity
  - Pre-emptive distribution
  - Value-chain control
The collapse of the traditional retail/wholesale business model
- Difficulties in controlling the value chain
- In turn, this severely challenges the ability of either one to execute preemptive distribution or achieve neurological connectivity.

The omni-brand becomes the retailer
- The brand’s primary challenge is being able to control, influence or create the selling environment.
WAVE 4 DRIVING FORCES

› Technology
  – Retailers are using this wave of technology to adopt new strategies and business models. And those who do not, or cannot do so, will eventually disappear
  – “An explosion of technology”

› Consumers
  – Consumers are still controlling and driving every aspect of commerce and its transformation
  – Consumers are increasingly apt to spend more of their wealth on experiences/services rather than on things
TECHNOLOGY DRIVES E-COMMERCE TO PHYSICAL STORES

› The “Jobsian and Bezosian Era”: Retail using the power of the Internet in the new high-tech, high-touch world of retailing
› E-commerce retailers open physical stores and physical stores open e-commerce retail
› The physical store becomes the high-touch point where an omni-brand creates “neurological connections” with customers – through experiences
TECHNOLOGY DRIVEN IN-STORE ACTIVITIES

› Data collection
  – To enable creation of an easier and more intimate shopping experience
  – To create completely integrated and interchangeable omni-channel

› Dialogue
  – To do real-time research to augment aggregated customer data
    › To create more focused, knowledgeable and effective associates

› Cross-selling
  – To employ analytics in order to offer additional products/services the customer actually wants
CONSUMERS SPEND MORE ON EXPERIENCES/SERVICES

› While products can be evaluated on the basis of physical and common criteria, co-created, unique experiences cannot, making the pursuit of them more anticipatory and exciting.

› Besides being more enjoyable, experiences are co-created by provider and consumer, making their perceived value much higher than their price.

› Consumers will pay more for an experience than they will for a material thing.

› The share of spending on services keeps growing.
CONSUMER DRIVEN IN-STORE ACTIVITIES

› In-store activities to increase
  - Help/service
    › To become part of customer’s communities (communication no longer controlled by the brand)
  - Experiences
    › To keep customers coming back to store
    › To co-create new ideas
    › To drive revenue: markups, entrance fees
      - “the “A” malls will need to be converted into entertainment destinations to survive”

› In-store activities to reduce
  - Payment / transaction focus
    › Should be available across all channels, with near-instant delivery
CRITICISM OF LEWIS/DART

› Is service consumption increasing?
  – Actual spend vs inflation adjusted spend

› Do consumers expect to pay more for services?
  – Free services and the cost of free

› Can any brand become an omni-brand?
  – Competing business models based on internet technology
IS SERVICE CONSUMPTION INCREASING?

› This graph confirms Lewis/Dart
  - Service consumption is getting close to 70% of total spend
  - Selling more services and charging more for them seems possible

› Consumer spending per category (USA)
IS SERVICE CONSUMPTION INCREASING?

› This graph complicates things
  – Share of services is relatively constant
  – Volume of services has not increased, only prices
  – What happens if price competition on services increases?

› Consumer spending adjusted by inflation index per category (USA)
DO CONSUMERS EXPECT TO PAY MORE FOR SERVICES?

Phillips’ value equation indicates that experiences/services primarily increase value, not price.

\[
\text{Value (of a brand)} = \frac{\text{The quality of the product}}{\text{The cost of acquisition}}
\]

- **The quality of the product**
  - Product delivery
  - Shopping experience
  - Convenience
  - Service (personal/non-personal)

- **The cost of acquisition**
  - Price
  - Time
  - Hassle
  - Other
DO CONSUMERS EXPECT TO PAY MORE FOR SERVICES?

› Chris Anderson - Free: The future of a radical price (2009)
  – The key to making money is finding the adjacent scarcity (to what’s “Free”)
  – Two business models
    › Freemium: A few paying customers subsidize the 95% who don’t pay
    › Advertising

› “Free” is hard to accommodate from an in-store perspective
  – High cost of free riders in the freemium model
  – Advertising difficult business model for many brands

› Anderson states that “digital Free de-monetizes industries”
  – We have seen that with everything from video/music to messaging and telephony
  – “Free” shrinks the market – consumers do not expect to pay more
CAN ANY BRAND BECOME AN OMNI-BRAND?

› Nick Snircek – Platform Capitalism (2017)
  – Platforms create large monopolistic firms due to “network effects”
  – A platform positions itself (1) between users, and (2) as the ground upon which their activities occur, which thus gives it privileged access to record them
  – Five types of platforms: advertising, cloud, industrial, product, lean
    › Amazon is present in all; Google and Facebook dominate the advertising platform

› ConsumerLab survey finding: More than 40% of advanced internet users would like to get all of their products from the biggest five IT companies

› Platforms challenge the omni-brand business model
  – Neurological connectivity difficult across media platforms controlled by advertising platforms
  – Preemptive distribution difficult on monopolistic cloud platforms
  – Value-chain control might be a challenge on any platform controlled by others
CONCLUSIONS

› Lewis/Dart’s 4th Wave of Retail model poses some challenges when examined from the perspective of in-store activities

› In-store activities are mainly focused on increasing the experience/service component
  - However, it is questionable that service volume has increased (Fed Reserve Bank)
  - Services primarily increase brand value, not price (Phillips)
  - “Free” shrinks the market – consumers do not expect to pay more (Anderson)

› Platforms challenge the omni-brand business model (Snircek)
  - Reducing payment/transaction focus in store and relying on other channels may pose challenges