Retail Strategy in the Age of Retail Apocalypse – Exploring the Role of Customer Experience Orientation on Retail Performance

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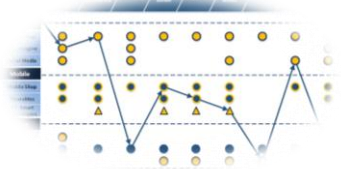5. Conclusion & Limitations

1. Background and Motivation

1. Background – Industry

Big Data

Customer Experience as new leading objective

Channel Hopping Phenomenon [1]

Competitors from the Online World

Digital
Transformation
of Retailing
Industry

Digital Technologies

Evolution of channels [2]

Single Channel | Multi-Channel | Cross-Channel | Omni-Channel
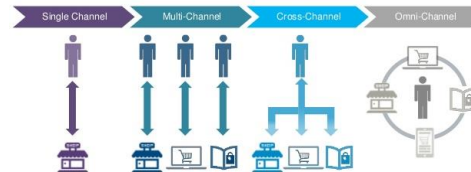
[1] Auinger, Stieninger and Wetzlinger (2016), based on Heinemann (2013).
[2] IBM (2015).

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1. Background – Retail Apocalypse

- "Retail Apocalypse" refers to the increase in closing numbers and bankruptcies of physical store chains in the US such as Macy's, Sears or Toys "R" Us (Biron, 2019; Al-Muslim 2019; Thompson 2017)
- Major underlying reasons are accounted to:
  - shift in consumer behaviour towards e-commerce (Berman 2019)
  - growth of the e-commerce segment (Euromonitor, 2019)
  - demographic and structural changes (mall anchor-effect, shrinking middle class, excessive retail space, LBOs) (Berman, 2019; Peterson, 2017; Richter 2017; Evans 2011)

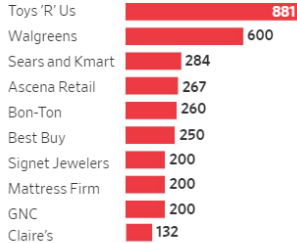Image: Korangy Publishing Inc. (2017)

1. Background – Retail Apocalypse?

Still Shrinking
U.S. store closures are outpacing openings by nearly two to one so far this year.
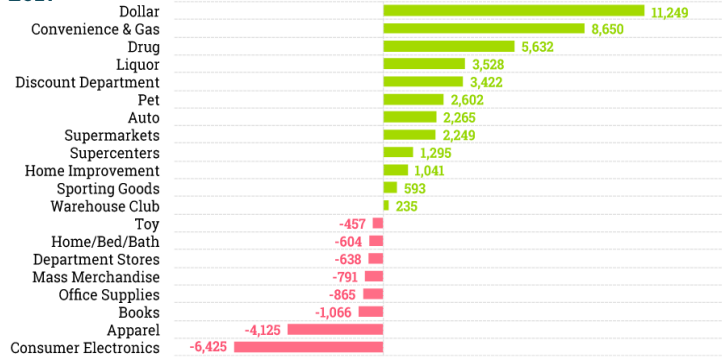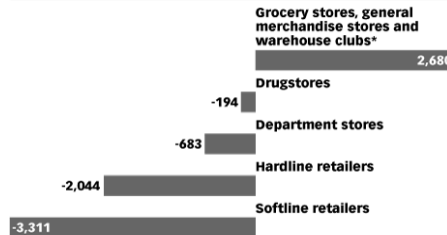
Announced closures	Openings
4,379	2,239

Major store closures

Toys 'R' Us	881
Walgreens	600
Sears and Kmart	284
Ascena Retail	267
Bon-Ton	260
Best Buy	250
Signet Jewelers	200
Mattress Firm	200
GNC	200
Claire's	132

Major store openings

Dollar General	900
Aldi	200
Five Below	125
O Bag	100
Ross Stores	100
Gap	90
Walmart	90
Tractor Supply Co.	80
Fabletics	75
Gander Outdoors	69

Source: Coresight Research (2018)

Changes in US Retail Open Store Counts, by Category 2007-2017 — marketing charts

Category	Change
Dollar	11,249
Convenience & Gas	8,650
Drug	5,632
Liquor	3,528
Discount Department	3,422
Pet	2,602
Auto	2,265
Supermarkets	2,249
Supercenters	1,295
Home Improvement	1,041
Sporting Goods	593
Warehouse Club	235
Toy	-457
Home/Bed/Bath	-604
Department Stores	-638
Mass Merchandise	-791
Office Supplies	-865
Books	-1,066
Apparel	-4,125
Consumer Electronics	-6,425

Source: MarketingCharts.com (2018).

US Retailers' 2017 Net Announced Store Openings vs. Closures, by Store Type

Store Type	Value
Grocery stores, general merchandise stores and warehouse clubs*	2,680
Drugstores	-194
Department stores	-683
Hardline retailers	-2,044
Softline retailers	-3,311

Source: : eMarketer.com (2018)

- Retail Apocalypse?
- However, there is also increase in store openings
- Study: 1:2 closing / opening ratio (Holman and Buzek, 2018)
- Data shows a potential relation between closures and openings and retail format
- What role does the retailer's customer experience orientation play?

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1. Background – Motivation

Motivation
- Literature investigated opening and closure decisions regarding retail strategy and/or retail performance but neglected a potential relation to a retailer's customer experience orientation so far.
- Customer Experience is developing to the most significant objective in retailing (Kranzbühler et al., 2018; Brynjolfsson et al., 2013; Piotrowicz & Cuthbertson, 2014; Verhoef et al., 2015) and represents the leading management objective in the retail industry today (Lemon & Verhoef, 2016)
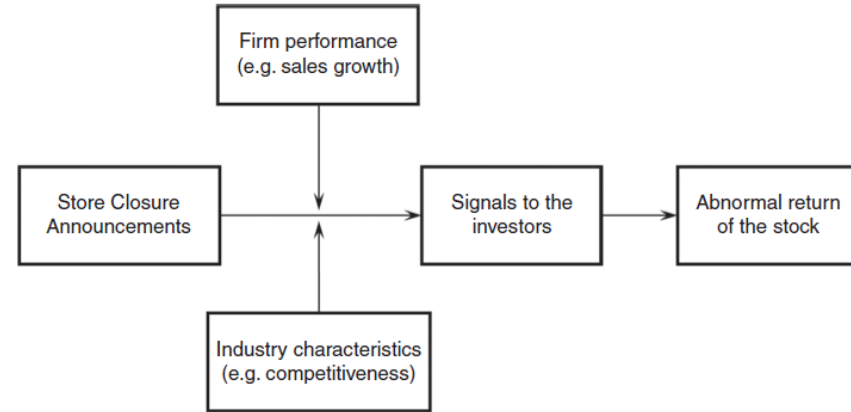
Research Objective
- Exploring a relation between opening and closure phenomenon and the retailer's customer experience orientation

2. Related Work

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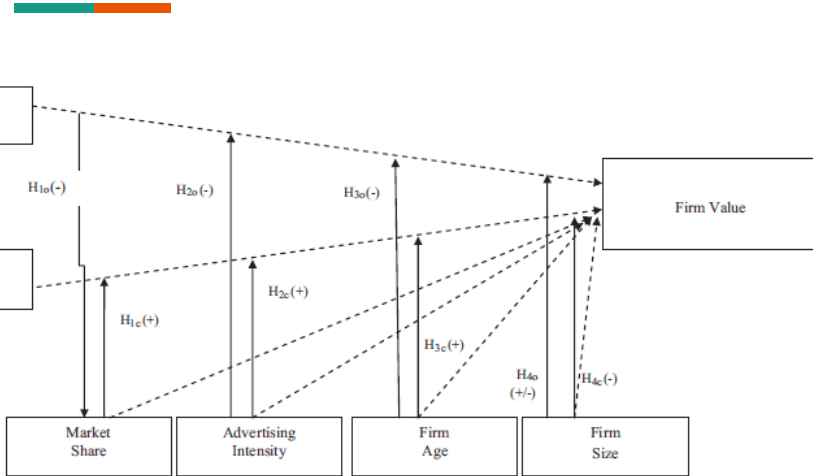
Srinivasan et al. (2013)

Chowdury & Sarkar (2017)

- Studies discussing consequences of the current transformation on physical stores are scarce but appear to be more frequent since 2018
- Most of the identified works relate the opening/closure effect on retail performance and/or retail strategy but neglect the rising importance of the notion of customer experience generation.

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3. Conceptual Framework

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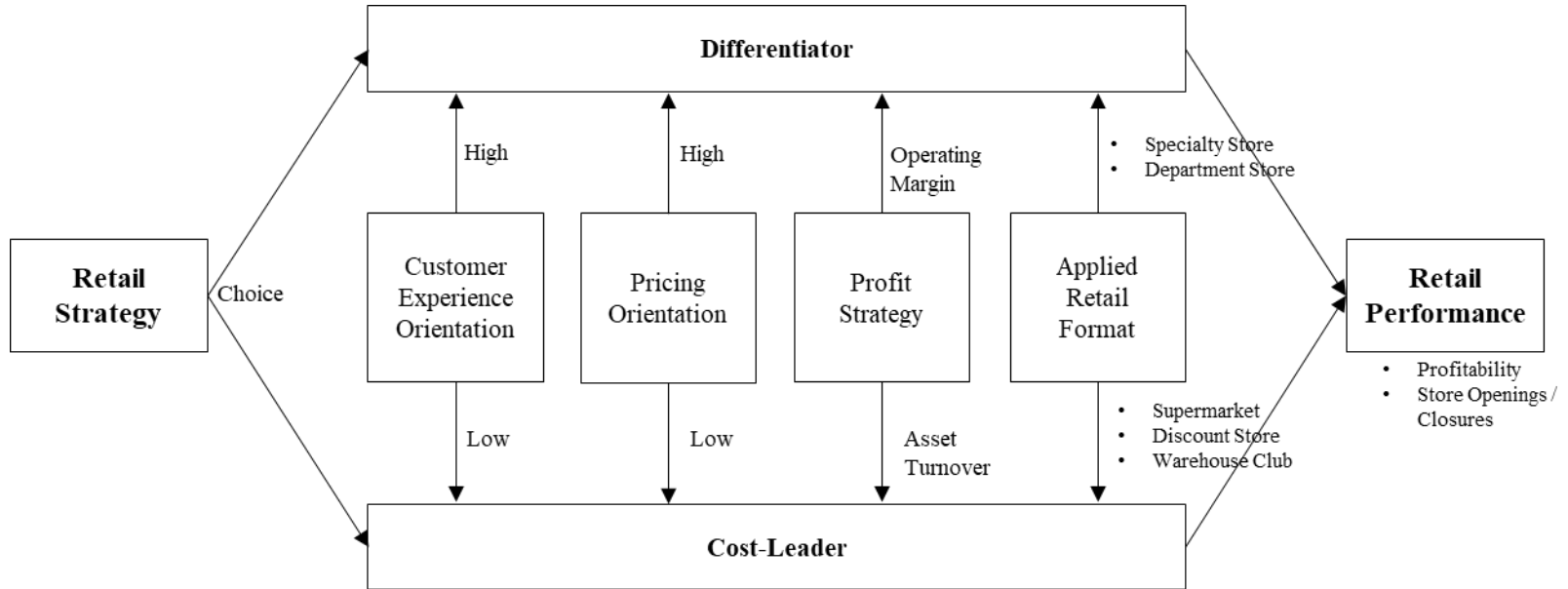
3. Conceptual Framework – Constructs

Retail Strategy
- can be understood as a concept defining how to achieve retail business objectives (Berman et al., 2018)
- MBV (Porter, 1998): Differentiation vs. cost-leadership strategy (Megicks, 2001; Megicks, 2007).

Customer Experience
- "*a multidimensional construct focusing on a customer's cognitive, emotional, behavioral, sensorial, and social responses to a firm's offerings during the customer's entire purchase journey*." (Lemon & Verhoef, 2016, p. 71).
- High orientation: retail format with high experiential / multisensory shopping (Babin et al., 1994; Blazquez 2014), e.g., through atmospherics (deliberate space design to achieve certain effects in shoppers (Kotler, 1972)
- Low orientation: "cognitive and non-emotional outcome of shopping" (Blázquez, 2014, p. 101; Batra & Ahtola, 1990; Hirschman & Holbrook, 1982)
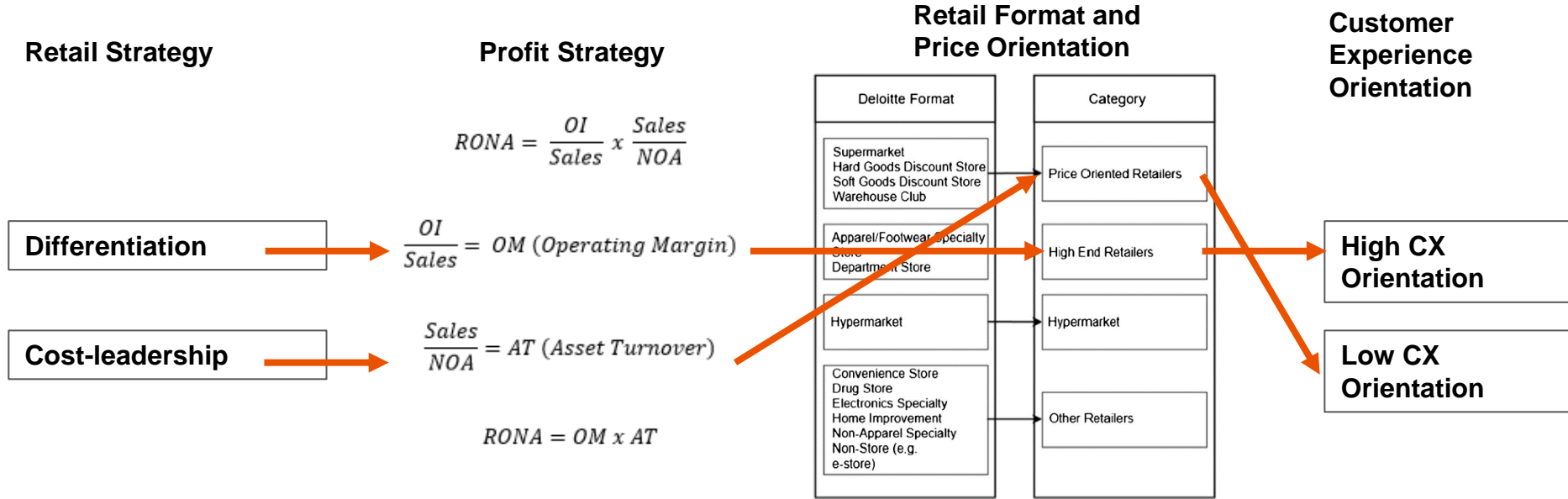
3. Conceptual Framework – Constructs

Retail Format
- combination of decision variables retailers use to implement their business strategy (Messinger et al., 1997). For example, "discounter", "hypermarket" or "apparel specialty" represent different retail formats with different configurational character (e.g., high/low pricing, small/large assortment variety etc.)

Profit Strategy and Retail Performance
- Retail performance can be indicated by opening and closure of stores, reflecting the fitness in their respective market (Pancras et al., 2012; Hanner et al., 2011).
- Performance can be leveraged not only by profitability but efficiency measures (Dehning and Stratopoulos, 2002).
- DuPont-model: allows a simultaneous analysis of efficiency and profitability (Dehning and Stratopoulos, 2002).
- Two major drivers for profitability generation: leveraging through margin (Operating Margin) and/or leveraging through Asset Turnover. Both drivers can be linked to either Cost-Leadership or Differentiation Strategy (Little *et al.*, 2013; Palepu and Healy, 2013)

3. Conceptual Framework – Major Links

Retail Strategy

Profit Strategy

Retail Format and Price Orientation

Customer Experience Orientation

| Differentiation |

| Cost-leadership |

$$RONA = \frac{OI}{Sales} \times \frac{Sales}{NOA}$$

$$\frac{OI}{Sales} = OM \ (Operating \ Margin)$$

$$\frac{Sales}{NOA} = AT \ (Asset \ Turnover)$$

$$RONA = OM \times AT$$

Deloitte Format	Category
Supermarket Hard Goods Discount Store Soft Goods Discount Store Warehouse Club	Price Oriented Retailers
Apparel/Footwear Specialty Store Department Store	High End Retailers
Hypermarket	Hypermarket
Convenience Store Drug Store Electronics Specialty Home Improvement Non-Apparel Specialty Non-Store (e.g. e-store)	Other Retailers

High CX Orientation

Low CX Orientation

Retail Format Classification (Shi et al., 2018).

4. Initial Findings

4. Initial Findings – Measures

Study variable	Dimensions	Measure	Data source
Competitive Strategy	Differentiation	- (qual.)	Company reports & press article
	Cost-Leadership	- (qual.)	Company reports & press article
Customer Experience Orientation	High	- (qual.)	Company reports & press article
	Low	- (qual.)	Company reports & press article
Price Orientation	High	- (qual.)	Shi *et al.*, (2018) & Reports
	Low	- (qual.)	Shi *et al.*, (2018) & Reports
Profit Strategy	Leverage thr. OM	Relative OM	Thomson Reuters
	Leverage thr. AT	Relative AT	Thomson Reuters
Retail Format	High End	High Price O.	Shi *et al.*, (2018) & Deloitte 2018
	Price Oriented	Low Price O.	Shi *et al.*, (2018) & Deloitte 2018
Retail Performance	Positive	Openings	Thomson Reuters & Public Press
	Negative	Closures	Thomson Reuters & Public Press
	Profitability	RONA	Thomson Reuters

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4. Initial Findings

#	Retailer	Retail Strategy					Retail Performance				
		Competitive Strategy	Price Orientation	CX Orientation	Profit Strategy	Store Format	Opn./ Closrs.	Revenue (US$ M)	RONA	OM	AT
1	LVMH Moët Hennessy Louis Vuitton SE	Differentiation	High	High	OM	Specialty	increase	33.3	13.7%	21.1%	0.65
2	Industria De Diseno Textil SA (Inditex)	Differentiation	High	High	OM	Specialty	decrease	28.9	20.8%	16.7%	1.25
3	Home Depot Inc	Hybrid	-	-	OM & AT	Home Improvement	stable	100.9	35.1%	14.4%	2.44
4	Gap Inc	Differentiation	High	High	OM	Specialty	decrease	15.6	17.0%	8.2%	2.07
5	H&M Hennes & Mauritz AB	Differentiation	High	High	OM	Specialty	decrease	23.2	13.8%	7.4%	1.87
6	BJs Wholesale	Cost-Leadership	Low	Low	AT	Warehouse	increase	12.8	9.3%	2.3%	3.99
7	TJX Companies Inc	Hybrid	-	-	OM & AT	Specialty	increase	35.9	30.0%	10.9%	2.75
8	Walmart Inc	Cost-Leadership	Low	Low	AT	Hypermarket	stable	500.3	8.1%	3.3%	2.43
9	Costco Wholesale Corp	Cost-Leadership	Low	Low	AT	Warehouse	increase	129.0	11.6%	3.2%	3.67
10	Dollar General Corp	Cost-Leadership	Low	Low	AT	Discount	increase	23.5	16.5%	8.3%	1.99
							Sample Average	**90.34**	**17.6%**	**9.6%**	**2.3**

5. Conclusion & Future Research

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Conclusion

- First exploration led to a conceptual basis worth to be used for further investigation of the role of customer experience in the context of retail opening / closure conduct.
- Initial insight into test-data shows a potential relation between opening / closure phenomenon and retailer's customer experience orientation.

Limitations / Future Work

- Work represents an initial idea and is subject to be further developed
- Data from Thomson Reuters Eikon or from Deloitte's Global Powers of Retailing Report 2019 are company or group data and do not distinguish between subsidiaries / brands (e.g., Sephora of LVMH or Zara of Inditex not listed). This makes the differentiation of retail strategies within a whole company group difficult (for instance, Inditex makes use of high price-oriented retail brands such as Zara or Massimo Dutti as well as low price-oriented brands such as "Bershka").
- Comprehensive quantitative study for testing the proposed framework.
- Case studies could enrich the foundations and provide insights into the deliberate retail strategy development of retailers related to their customer experience orientation.

Contact

Thank you for your attention!

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