

## IMPACT OF THE NEW RETAIL CONCEPTS ON LOGISTICS STRATEGY

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## **Abstract**

Retail has undergone several transformations over the years. The main reason is due to the digital transformation that is occurring in business, changing all processes and, as a consequence, consumer behavior. This new retail model, much more interactive and integrated, is taking over the market. Retail distribution systems are considered multi- or omni- channel systems when consumers can place orders to buy products: online, physically and online in the stores. Nowadays, most companies try to increase their sales using this recent business model called omni-channel retailing. This is changing the way companies sell their products. These changes can be seen both in the internal logistics of retailers and in the structure and processes of the supply chain. It integrates two existing distribution systems: the retail distribution system and the consumer distribution system.

The current study aims to understand this model that integrates the digital and offline and raise its key implications for the strategies applied in logistics.

**Keywords.** Logistics, New Retail, Distribution Systems, Strategy.

## 1. INTRODUCTION

The retail sector, an important element of the global economy, had revenues of US\$ 22.6 trillion in 2015 and accounts for 31% of global gross domestic product (Von Briel 2018). In this age of Internet and communications technology, retail has become a dynamic industry. As organizations continue to increase their IT investments, they are becoming aware of the importance of IT acceptance and how their use is a prerequisite for achieving higher productivity (Priporas et al., 2017).

Society exchanges information through smart phones, tablets and laptops, while retail employs several innovative technologies to enhance the consumer buying experience. Retail chains have invested heavily in adopting self-service technologies, such as ATMs, interactive displays equipped with touch screens, digital signage and applications for mobile phones, which are supported by radio frequency identification (RFID) and quick response codes (QR codes) (Stein and Ramaseshan 2016).

The focus of this study is on how innovations in consumer-computer interactions, which have shown their potential to meet current and future consumer needs, will have an impact on retailer's distribution strategies.

Distribution strategies should meet the demands generated by consumers at all points of contact with this new retail model. Roy et al. (2017), defined smart retailing as "an interactive and connected retail system which supports the seamless management of different customer touchpoints to personalize the customer experience across different touchpoints and optimize performance over these touchpoints". According to Mou, Robb, and DeHoratius (2018), retail stores are evolving into interaction centers spanning online and traditional channels. Multi-channel and omni-channel are terms that marketing professionals and academics generally use in the context of retailers or

suppliers that sell directly to consumers through their own offline and/or online channels (Ailawadi and Farris 2017).

These trends have led to the huge growth of Internet-based retail as well as the challenges and opportunities for the retail industry. The American company Amazon led the way, establishing a powerful competitive advantage over most retailers. In June 2017, Amazon announced it had acquired Whole Foods, a nationwide supermarket chain in the United States, with nearly 500 stores, for \$ 13.7 billion in cash (Cusumano 2017). Retailers are developing their analytical capabilities to better understand and serve customers, providing products and services dynamically, and managing the flow of goods in the supply chain (Grewal, Motyka, and Levy 2018).

## **2. MATERIAL AND METHODS**

Initially, secondary data were obtained with the aim of expanding the necessary knowledge of issues such as: distribution systems, retail, logistics and purchasing processes. Several reference materials were used, such as scientific articles and books, which provided the theoretical basis for this study. Through this documentary survey, consumer purchasing behavior processes, responsible for the distribution strategies of the organizations were briefly described. In parallel, the framework that impacts retailers was designed and its internal sources that generate revenue or decrease of costs, identified.

This study aims on how the online and offline retail channels interacts generating different inputs to the distribution systems. Although there are many scientific researches on single channel and multi-channel retail, studies on omni-channel retailing are coming out, most of which still exploratory in nature (Jin, Li, and Cheng 2018).

Considering the omni-channel retail, and with the advent of new digital technologies that allow alternatives in the delivery of products, some service modes to meet these needs are, for example: buy-online-pick-up-in-store (BOPS), ship-to-store (STS), ship-from-store (SFS), and reserve-online-pay-in-store (ROPS) modes (Mou, Robb, and DeHoratius 2018).

According to Kim and Chun (2018), considering the recent retailers strategies, it is possible to classify the companies into four groups according to the method used by the company in its distribution channels: hybrid channel strategy (or multi-channel strategy), offline concentrated strategy (or passive Internet strategy), omni-channel strategy, and online concentrated strategy (pure online retail strategy).

Figure 1 shows the possibilities regarding the purchase procedures by final consumers, and the forms of products delivery.

Beck and Rygl (2015) state that common features of a well-integrated multi-channel strategy must include at least four points: product availability across all channels; fully integrated promotions; an information system that shares customer, price, and stock data across multiple channels; and processes that allow the consumer to pickup items purchased in an online store or catalog.

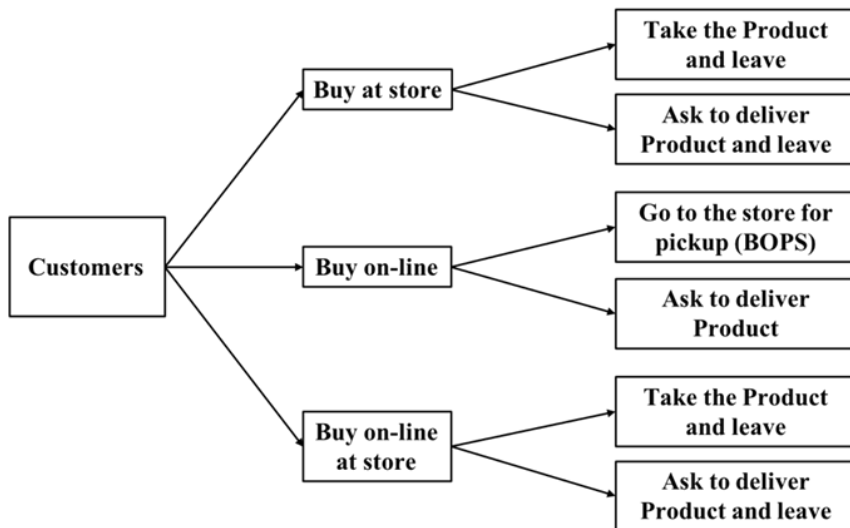


FIGURE 1 – Forms of buying and delivering goods

SOURCE – The authors

### 3. RESULTS AND DISCUSSION

The multi-channel model results in a difficulty in creating a synergy effect between parallel supply chains. It creates fragmented supply chains and a data mismatch, inconsistency in product order information, and low inventory efficiency. On the other hand, the omni-channel retail aims to coordinate processes and technologies across all channels and to supply continuous, consistent and reliable services to retailers and consequently to consumers (Kim and Chun 2018).

Unless omni-channel retailing is classified into conceptual categories, its political, economic, social, and technological boundaries will remain undefined. This, in turn, will interfere with theories construction and the research of issues related to retail and its technologies. However, a transparent multi-channel purchase decision process remains a goal in a distant future. In current reality, retailers face several limitations, for example: channel integration difficulties, or challenges, as decentralized organizational structures (Beck and Rygl 2015).

According to Zhang et al. (2018), the need to understand the multi-channel strategies is not new. Companies should be aware that besides managing their channels, they need to be aware of other strategies that will affect their performance. Regardless of the channels used, technology is critical for retailers, especially in terms of how they sell their goods and deliver them. Therefore, with the increase in the number of channels that retailers are operating, it has become important to study how to operate multiple channels simultaneously to: provide a competitive service, increase profitability and improve the product distribution systems (Beck and Rygl 2015).

In comparison to multi-channel retail, the omni-channel approach performs differently from the retailer's and consumer's perspectives (Verhoef, Kannan, and Inman 2015). The omni-channel approach involves more channels when compared to the multi-channel phase. An important change is that the different channels get mixed and its natural borders, poorly defined, begin to disappear. Therefore, it will be extremely important for retailers and their supply chain partners in other industries to rethink their competitive strategies, and the decision on which distribution channels the retailer will operate may be a reaction to the competitive pressure of the market.

An important issue for multi-channel retailers is that they must balance their distribution channels with regard to their variables and activities. For analysis purpose, a distinction must be made between the supply side and the demand side. The activities on the supply side are usually invisible to customers, such as purchasing, logistics and customer data management (Van Baal 2014). The focus of this paper is on the demand side, which is visible to customers.

Verhoef, Kannan, and Inman (2015), define “omni-channel management as the synergetic management of the numerous available channels and customer touchpoints, in such a way that the customer experience across channels and the performance over channels is optimized”. Although the omni-channel retail has developed from multi-channel retail, there are many differences in several aspects, such as: implementation form, objective, operation mode, and consumer experience (Zhang et al. 2018).

Beck and Rygl (2015) point out five key challenges: data integration across channels; understanding customer shopping behavior in a multi-channel environment; channel evaluation; allocation of resources between channels and coordination of channel strategies. Zhang et al. (2018) summarized the know-how needed to develop integrated multi-channel retail strategies and listed as major challenges: organizational structure; data integration; consumer analysis; and evaluation and performance metrics. According to Jin, Li, and Cheng (2018), it is crucial to use a framework to identify and measure distribution demand in order to optimize the performance of the omni-channel supply chain and use metrics for supply chain efficiency.

When considering the adoption of a new technology aimed to the new type of consumer, more sophisticated calculations regarding retail decision-making include financial factors such as: ROI; payback period; net present value; internal rate of return; and impact on profits (Inman and Nikolova 2017).

With the new retail model, stores now take greater responsibility for order fulfillment. In fact, some stores have evolved essentially into miniature distribution centers for online order fulfillment, providing home delivery and click-and-collect services. These new forms of operation significantly influence conventional store operations, including in-store logistics, inventory management, and product assortment (Mou, Robb, and DeHoratius 2018). Considering manufacturers and the supply chain for retailers, this

new trend opens the opportunity for those who use multiple distribution channels the ability to select the best distribution channels between traditional and online retailers. Therefore, there is no doubt that manufacturers should consider distributing their products through online channels, in addition to conventional physical retail channels (Yu, Cheong, and Sun 2017).

When considering the business to consumer (B2C) context, final delivery is one of the most complicated, expensive and inefficient part along the entire logistics chain. The high cost of the last-mile is due to the inefficiency of home delivery. Generally, the last-mile delivery is estimated to 53% of total logistics costs. Many retail giants (e.g. Amazon.com) believe that last-mile delivery capabilities are their primary assets for competitive advantage, last mile fulfillment is what current e-commerce retailers are currently struggling. Driven by customer demands and main players, retailers and distributors strive to improve final delivery (Xiao et al. 2017).

As shown in Figure 2, revenue growth and cost savings can be derived from several sources.

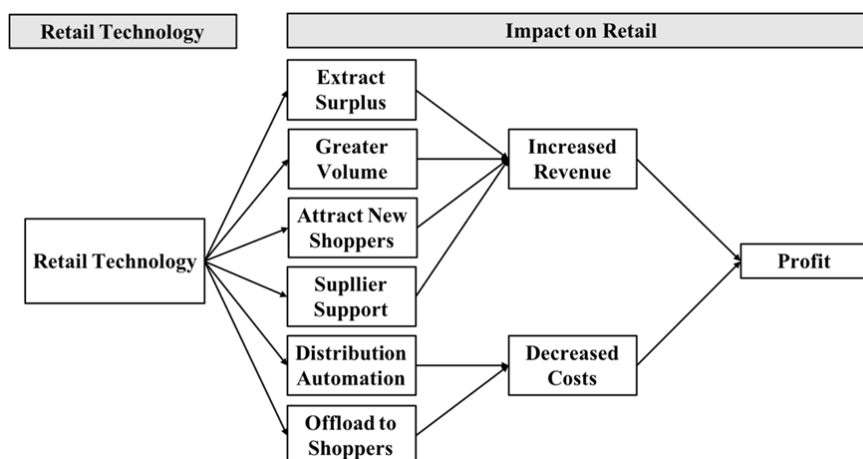


FIGURE 2 – Current sources that impact retail

SOURCE – Adapted from Inman and Nikolova 2017

When considering the adoption of new technologies aimed at consumers, the most sophisticated retailers consider the profit implications. That is, the retailer evaluates whether the benefits of technology outweigh the costs of acquisition, installation and maintenance. These benefits tend to result from technology increasing revenues, reducing costs, or both. According to Inman and Nikolova (2017), revenues can be increased by extracting greater consumer

surplus (for example, charging higher prices for consumers who are willing to pay more), increasing the amount purchased at retail by current customers, attracting new buyers to the retailer, and increasing supplier payments, while costs can be reduced by transferring part of the tasks to buyers (eg self-scanning) or by automating internal and delivery processes.

Retailers should, however, not only keep abreast of new technologies as opportunities to innovate their products and processes, but also to generate innovation in business models. Historically, the companies that have tried to capitalize only on technological trends without an appropriate evolution of the business model has proven to be a great trap (Willems et al. 2017).

According to Van Baal (2014), the minimum requirements for any decision are objectives, alternatives and information on the relationships between these goals and the possible alternatives. It is possible to assume that the fundamental goal of a omni-channel retailer is to maximize long-term profits.

However, companies do not always remain with a single constant strategy but retain the flexibility to change their strategy depending on market conditions or other potentially relevant factors (Kim and Chun 2018).

#### **4. CONCLUSION**

Physical stores still remain the main shopping destination, despite the increase in online sales, but store operations have changed significantly in the omni-channel retail environment. Today, retail stores are not just a place to shop offline, they are evolving into a hub of channel interaction due to the adoption of new technologies and consumer behavior.

When the right technology tools are made available they will allow companies to have access to a fast diagnosis, so it will be possible to bring up all the necessary information to perform strategic decisions quickly and track in real time the organization's reactions. Therefore, future studies on how the synergy effects between distribution systems may vary according to market power, and how this will affect the retail channel strategies of manufacturers and retailers, will be needed.

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