

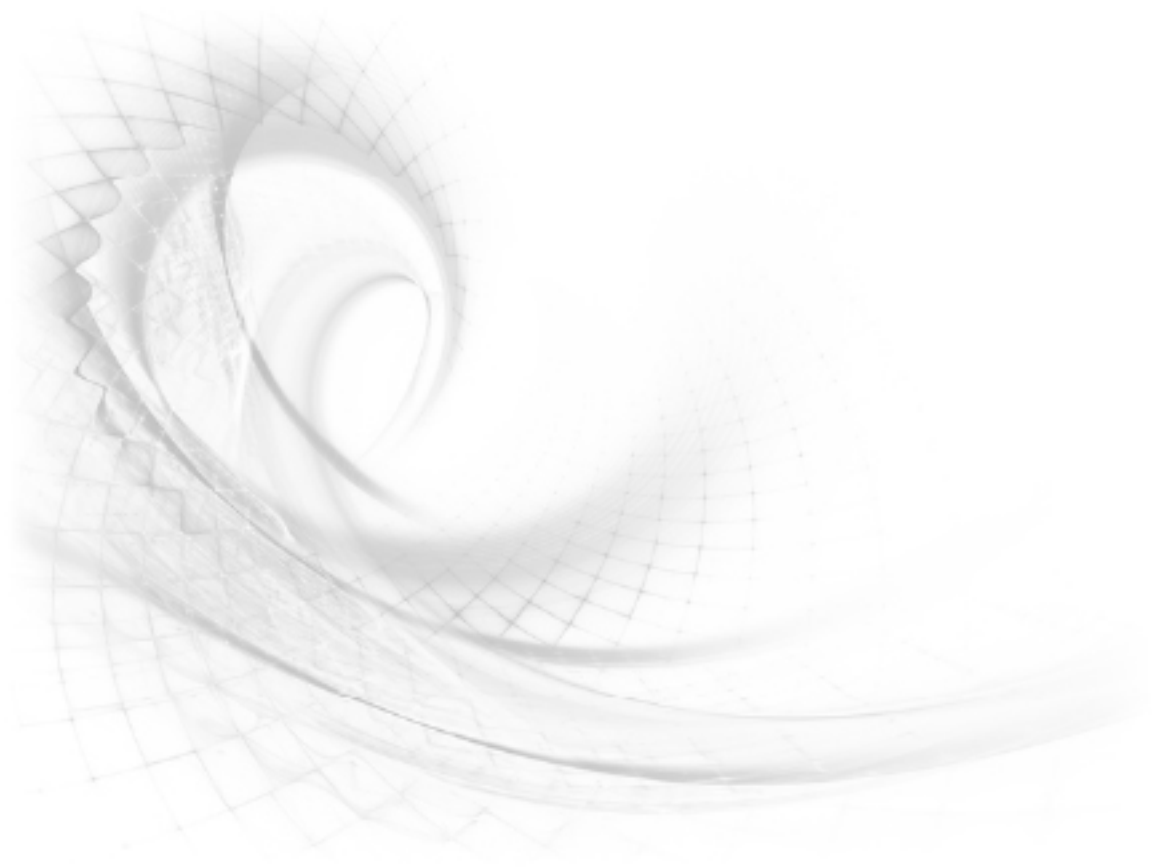
COVID-19: The Death Knell for Store-based Retailing?

By Theo Rose & Linda Mason



“IT IS NOT THE STRONGEST OF THE SPECIES THAT SURVIVES, NOR
THE MOST INTELLIGENT, BUT THE ONE MOST ADAPTIVE TO CHANGE.”

Charles Darwin's observation about the animal kingdom
back in 1868 is a pitch-perfect assessment of today's
business environment. We must adapt or die.



COVID-19: The Death Knell for Store-based Retailing?

The retail industry is awash in articles and advice on weathering COVID-19 until we can return to normal. The scale and abruptness of the pandemic's impact has pulled attention away from the larger foundational changes that have been roiling the industry for years. Those who are reacting to the immediate COVID-19 dislocations with patchwork solutions need to recognize the meteor has already struck. The hasty shuttering of malls and stores attributed to the pandemic has created shockwaves. But conflating these shockwaves with chronic dislocations has led retailers once again to misdiagnose their problems, applying only short-term fixes as if everything will return to normal.

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There will be no returning to normal as we have known it. Those who believe we are simply weathering a short-term disruption are missing the obvious. The disruption is foundational and will persist long after the pandemic has subsided. How customers shop has changed forever. This is not a temporary wobble in the retail continuum, but rather a shattering event. We are at the dawning of a new age of commerce. It is no longer sufficient to ask the time-honored question, "How do we get customers to come into the store?" but instead challenge ourselves by asking, "How do we make it as convenient as possible for customers to make a purchase?" The answers and approaches to these two questions are very different.



Planning for an uncharted future

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The disruptive-adjacent event most similar to recent industry experience is the emergence of buying online. Retailers struggled mightily to adapt to the changes

brought about by the addition of just one shopping channel. This single change upended the entire industry. Now, the industry is faced with a more complex predicament: How to survive in the short-term while planning for a future that is uncharted. Those who fail to see the distinction between the two will be lost to it. New survival skills must be developed. Looking backward and leveraging past practices to extrapolate a new future will assure retailers are no

more successful than the dinosaurs who wandered futilely looking for their new normal after the meteor strike. The road to survival does not start with a one-day sale.

Starting in the late 1980s, advances in technology fostered a globalization of manufacturing and supply chain. However, the retail store remained largely untouched, looking much as it had since the 1930s. The prevalent philosophy of retailing in the 1980s was dominated by a bias for growth in store count which would, the thinking went, allow retailers to do more of the same but hopefully more profitably. The unintended consequence of this approach was a mindless replication of the same. Retailers literally "bet the store"

that things would not change. This precluded retailers from imagining a new future. Moreover, when Amazon introduced the concept of buying online, retailers dismissed it initially as a novelty. Belatedly recognizing its potential, retailers further compounded their error by misidentifying its truly radical elements. No individual feature or set of features was truly radical to the basic elements of making a purchase. What was truly radical was Amazon CEO Jeff Bezos' commitment to long-term strategies built around customer satisfaction.

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Missing the profound commitment to customer satisfaction being central to all, retailers (like lemmings) rushed to cash in on what they thought was the next quick win. Many retailers simply

added “webstore” to the list of existing store locations as if it were just another piece of real estate. Store-based retailers begrudgingly opened a webstore, only to discover that they would have no more success with the same tired products and poor customer experience online than was offered in person.

In their haste to capitalize on the trend, they failed to understand why customers embraced purchasing through digital retailers and why they were so quick to abandon the stores. Consumers are driving a paradigm shift to which retailers have been resistant, if not oblivious. Legacy retailers have been unable to imagine themselves outside the way their history has molded them.

This constraint hobbles their ability to adapt, much less innovate. Digitally native retailers unburdened with this legacy enjoy a clean slate on which to connect with consumers. With no more strategy or imagination than their store-bound competitors, many newcomers with no understanding of retailing deservedly perished in the “dotcom” bust of the early 2000s while the true innovators flourished.

A world turned upside down

As we have argued, store native retailers struggle to change their stripes, remaining stuck in their belief that consumers would rather go to a store to make a purchase. For these retailers, it is inconceivable to consider this would ever change. COVID-19 has made retailers' worst nightmare a vivid reality. In the blink of an eye, consumers have been forced to make uncomfortable changes in behavior that were unprecedented. The purchase of even the most mundane necessities like toilet paper became a cause for celebration once accomplished.

Retailers of all sizes have struggled to even keep their doors open, forcing them to face the reality that their world has been turned upside down. Many have tried to figure out how to subsist when consumers are prevented from accessing stores in the traditional way. Some retailers, particularly in the grocery sector, responded by rushing the roll-out of system-supported options to Buy Online Pickup In-Store (BOPIS), and various improvised methods of buying with curbside pickup.



An inescapable fact is the expense of picking and shipping previously done for free by the customer that now must be done by store personnel.

Larger retailers like Walmart and Target were quick to capitalize on their initial investments in these convenience programs — like Buy Online Pickup by Appointment, and pilot programs for home delivery — as a lifeline mid-pandemic. Many analysts champion these programs as the next silver bullet for preserving store sales volume in the face of superior convenience offered by digital competitors. Consumers have embraced the convenience of not spending time going to the store, in favor of simply having products delivered to their home with subsidized or free shipping.

However, it is imperative to question whether these programs, in their present form, are sustainable. Though they are lauded by industry pundits, this thought leadership is biased around the existing store real estate and operations mindset.

The difficulty that must be faced: The legacy store operations model was constructed on the assumption that the final assembly of an order would be done using free labor provided by the customer as they shop. Similarly, the shipment of a customer's order to its final destination would be done by the consumer as they return home, this also at no cost to the retailer.

An inescapable fact is the expense of picking and shipping previously done for free by the customer that now must be done by store personnel. This ultimately causes a huge drain on profitability. Even a modest increase in usage of these convenience programs is enough to devastate long-term viability. Complicating matters is that once these convenience programs are offered, retailers will be punished by consumers if they try to take them away.

If retailers are unable to change their reactive thinking and reluctance to alter their business model to one based on true convenience to the consumer, their resistance will be the death knell to store-based retailing.



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