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Point of Inflection: Redefining the Retail Mindset for a Post-COVID World

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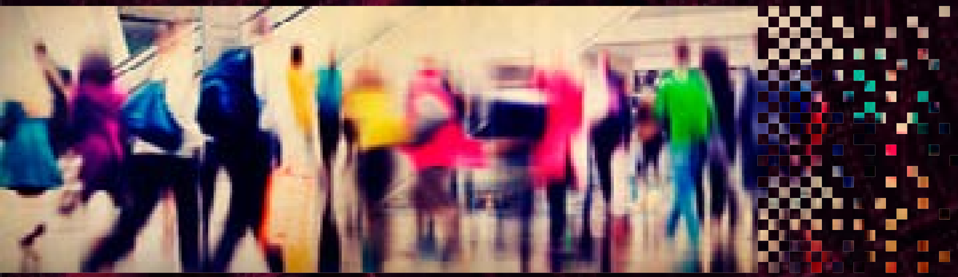

“IT IS NOT THE STRONGEST OF THE SPECIES THAT SURVIVES, NOR THE MOST INTELLIGENT, BUT THE ONE MOST ADAPTIVE TO CHANGE.”

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.

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For dinosaurs, the apocalypse was — so to speak — life changing. While the mass extinction was their death knell, it also created the opportunity from which other fledgling mammal species evolved and thrived.

Today's retailers do an enormous disservice to themselves and their future by remaining rooted in past habits and sclerotic thinking. The failure to embrace change has already doomed many to suffer the same fate as the dinosaurs.

Much like early mammals, online retailers have found a path not only to exist, but to thrive in the same conditions that retail dinosaurs find inhospitable. The impact of the stay-at-home orders is like the meteor that struck earth millions of years ago in both scale and abruptness. But in this case, the writing was already on the wall long before that meteor hit.

New to the industry, online retailers were quick to satisfy consumer needs with widespread availability, ease of access and meaningful service. This created the incentive for consumers to buy online instead of trekking to the mall. These newcomers raised the bar on how retailers provide products and services to the public. The development and deployment of websites and selling platforms created a capability that had never existed. Meanwhile, the hubris of store-native retailers prevented them from imagining their customers would stop shopping at malls as they had long been conditioned to do.

It's easy to look back and see how slow retailers were to recognize change, and more importantly, to react. Retailers were unable or unwilling to understand that for consumers, this was not a novelty. Rather, it was a new method of satisfying long-held frustrations with homogeneous assortments, anemic inventory levels and decidedly unhelpful service.

The meteor has struck: How will retailers react?

For retailers whose existence is already tenuous, extinction is a near certainty. Those who have recognized the magnitude of the challenges facing them have a choice: They can continue to wish that things could stay the same, or they can adapt like the mammals and seize this opportunity for rebirth.

Retailers too frequently confuse familiarity with true comprehension. Step back and consider these fundamental precepts:

- Brand building and preservation
- Growing/protecting market share
- Consumer engagement
- Consumer interaction technology
- Product and consumer data management

At first glance, a retailer may dismiss this as nothing new. However, our paradigm shift demands the rediscovery and redefinition of these precepts — this time, from the consumer's point of view.

Brand building and preservation: Thinking beyond the sales floor for long-term success

Brand building is the process of establishing an identity for a product or company. The brand identity is infused with qualities of intrinsic value. The most successful companies have imbued their products with characteristics like style, quality, consistency, safety, history and lifestyle aspiration, to name a few.

Historically, legacy retailers used brands to define themselves. Brands like "Liz" and "Eileen" coexisted to support the store's assortment, while they were in direct competition with each other on the shop floor.

The individual brand's assortment process was sacrificed to the overarching store merchandising process. Thus, consumers were only offered limited parts of the brand's collection that the merchant thought best reflected the store presentation. As a result, the brand's offerings too often conformed to what the retailers wanted to present on the floor, serving only the store's purposes.

Further complicating matters, retailers' habitual discounting tends to drive overall foot traffic to the store. The unintended consequence of this action is the devaluation of brands, teaching brands that that they cannot rely on the retailer to protect brand value; they must control it themselves.

Some brands have resisted the paradigm adaptations necessary to survive. Consider that at one point, "Liz" and "Eileen" occupied adjacent floor space in big department stores. By not making the paradigm shift, "Liz" tied her fate to the trajectory of the department stores, ultimately being relegated to lower-level department stores and mass discount retailers. "Eileen", however, made the conscious decision to take full control of her brand. Understanding that branding is more than just about the product, she invested in online selling and branded boutiques, thus solidifying her direct relationship with her consumer. This strategy, extending into lifestyle and aspirations, served to strengthen her consumer engagement and fuel subsequent purchases.

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Growing and protecting market share: Taking a cue from Ralph Lauren

For every purchase made, many options exist. If a brand doesn't resonate, consumers will search until they find one that does. Brand momentum propels market share. Momentum is hard won and needs to be protected.

Central to protecting and growing market share is the consistency between the physical products and a consumer's perceptions of the brand expression. Changing perception, once set, is arduous, time-consuming and costly.

Retailers and brands no longer have the luxury of letting consumers "discover" new products over time. Retailing, in every channel, is far too competitive to allow non-productive products to linger on shelves. Brand vitality depends upon consumers' relationships with the brand. It is this loyalty that fuels ongoing purchase activity.

Many store retailers mistakenly believed that the store brand was more important than the value of the product brands they carried. Product brands had to accept this as a condition of doing business in order to have access to the sales floor, sacrificing control over the assortment, presentation and price of their product offering.

Ralph Lauren (RL) is one example of a product brand that understood this and was able to resist the pressure. Ralph's understanding of his consumer and the importance of speaking to them in one voice across channels consistently create demand for his product. It was this consumer demand that put the pressure on retailers to carry RL's product in store. In doing this, RL inverted the relationship with the department stores to the point that the brand is now able to dictate the terms of assortment, presentation and pricing.

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Consumer engagement: Considering the customer point of view to maintain lasting connections

It should be painfully obvious that the consumer must be at the center of all activity in both physical and virtual retailing. However, the landscape is littered with the bones of retail giants that have failed to recognize this and adapt. Retailers must shift their preoccupation with discrete transactions to a model of sustained and meaningful consumer engagement. Only when this is achieved can the retailer fully appreciate and realize the lifetime value of the consumer.

Building relationships with consumers cannot be solved solely by employing technology and putting mobile devices in stores. It requires the organization to commit to the essential principles for establishing the culture and programs necessary to create and maintain personal connections.

Historically, consumer engagement efforts failed because they were grounded only in the retailer's interest in driving overall sales and meeting financial targets. Understanding what drove the individual consumer's behavior was never taken into consideration. The result: retailers operate on the false sense of connection with the consumer.

True consumer engagement is dependent upon taking the consumer's point of view — not imposing the retailer's point of view on the consumer.

While retailers operated only stores, the level of understanding of consumer preference was based on aggregated transaction data at the store-location level. This was, for a time, adequate. But when consumers found options that provided true engagement and individualized service, they abandoned traditional retailers with astonishing speed. This fueled the paradigm shift that continues to devastate store-centric retailing.

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Consumer interaction technology: Building a foundation of trust to realize true value

Retail's approach to deploying technology to enhance consumer engagement has been backward. Long before any consideration is given to tools or tactics, retailers must accept that they need to know more than general characteristics of their consumers. They must find out how to engage with their consumers individually.

It doesn't make sense to invest in technology based solely on what can be pushed out to the consumer. Interaction by definition is a two-way communication. Deploying technology that pushes out voluminous messaging without thought or interest for how it will be received or what action it should inspire in the long term is an empty and futile exercise. Spewing out a steady stream of price reduction messaging may drive sales in the short term; however, it's not a substitute for building long-term relationships.

Requesting consumers' email addresses has become commonplace. Consumers are promised that in return for their personal information, there will be some value that comes to them in the form of a birthday club discount, an announcement of early access to events or secret promotions. Though this appears to be an individualized communication, this is hardly a two-way dialogue. It may appear to hold the promise of a dialogue, but the promise is betrayed as soon as the consumer realizes that the email comes from "DONOTREPLY@companyname.com".

The preoccupation with the collection of a consumer's email may satisfy efficiency for a retailer's marketing department, but this quickly becomes an irritation to the consumer and is seen as an intrusion rather than meaningful dialogue. There are no shortcuts to knowing who the customer is. Mindful and deliberate dialogue must occur at every consumer-facing interaction. It's incumbent upon the retailer to demonstrate that the consumer's trust is valued.

The array of consumer interaction technologies available today is truly exciting. Facial recognition, virtual reality, magic mirrors and enabled mobile devices are just few examples in the new era of retailing. But it's only for retailers who understand that consumer trust is foundational for the full promise of these technologies will be realized.

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Product and consumer data management: Realizing the "why" of customer behavior

For retailers, mastering their data is table stakes; you're not in the game without it. Retailers have utilized aggregate levels of data to provide some insight into issues like supply chain flow, warehouse

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management optimization, transportation and logistics. For decades, store-native retailers depended upon POS data to collect consumer transactions. This has given them a false sense of confidence that they have the necessary data to understand who their customer is and what motivates them to make a purchase. This volume of transaction-level data provides insight into the what, where and when, but provides no insight about the "why" of consumer behavior.

The collection of POS transaction data has been governed by what is needed to carry on daily operations. The information that we have about the consumer has simply been a by-product. The lesson to be learned is that data management must be defined from the customer's point of view. Until this is done, the retailer cannot begin to understand what motivated the consumer to make the purchase — or not.

Both store-native and online retailers have been searching to find what motivates the consumer. For the past several decades, the software industry developed applications with a focus on the collection and aggregation of transaction data. Product detail information is created by the merchant, who is responsible for defining the product's attributes at the time when purchase orders are created. Absent from this process is the consideration of the product characteristics that will provide insight to answer WHY the consumer was motivated to make the purchase.

Missing in today's core merchandising applications are additional fields and extended product attributes necessary to analyze transaction data, from which insight is derived into what motivates consumer activity. Without focusing on consumer motivation, the opportunity to explore and synthesize the why of consumer behavior will never be realized.

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Final thoughts: Survival depends on redefining and representing your brand

Retailers' survival is dependent upon more than sporadic attempts to eke out incremental sales. They must recognize the imperative to redefine and represent themselves in a way that reflects a deepened understanding of consumers' needs and desires for connection. This is a daunting undertaking, as it requires the entire organization to reorient itself so everything is seen from the consumer's point of view. Failure to make this shift in mindset will assure they suffer the fate of the retail dinosaurs.

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