Aalto-yliopisto
Kauppakorkeakoulu

Lecture slides - Strategic retail marketing

Spring 2024

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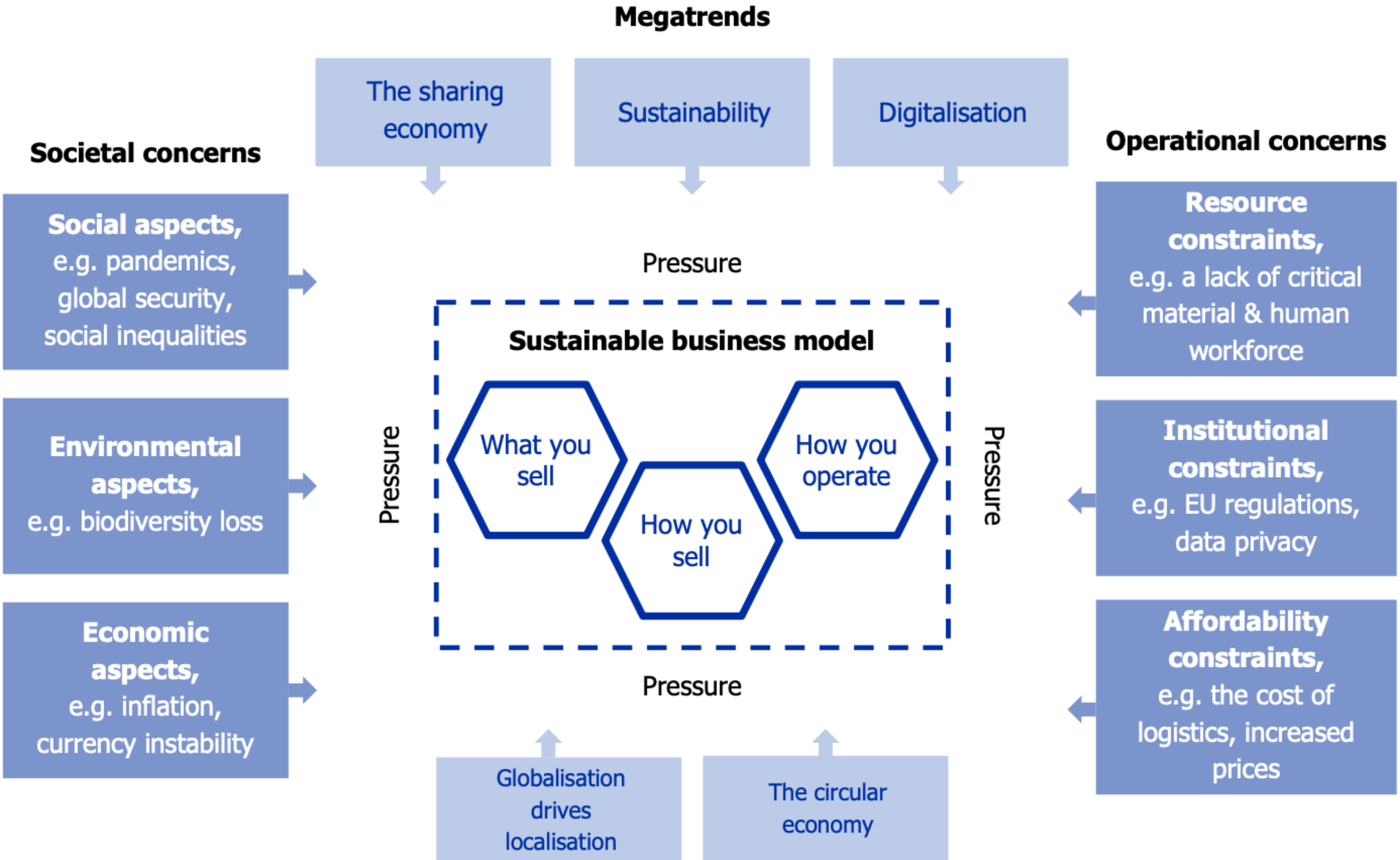
Lectures in spring 2024:

24 April:	Kick-off session: Intro and course guidelines
29 April:	Changing retail landscape and new forms of retailing
8 May:	Retail strategy and strategic planning
15 May:	Retail business models and resource-based view
22 May:	Guest lecture (Nayong Yoon)
29 May:	Retail mix decisions and customer experience

Changing retail landscape and new forms of retailing

The environment for strategic decisions in retailing has become very complex:

- Retail industry has become **concentrated, centralized and sophisticated**
- Retailing has become an **industry of global competition**
- Retail industry has become very **price-sensitive marketplace**
- **Regulation and competition control play important role** in many countries
- **E-commerce and platforms** have become as a standard part of consumers' shopping experience in numerous product categories
- **Customer needs and wants have become more polarized and fragmented.** These changes have made customers hard to define, categories and reach
- **CSR related issues** have become more critical
- **Sharing economy and collaborative consumption** (C2C) have become more popular among many consumers. More products will likely be rented and shared among users.
- In some categories **manufacturers are becoming retailers (D2C)**

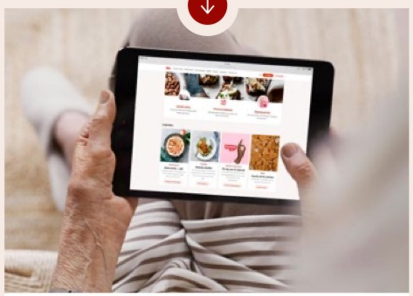


Source: Sustainability Playbook, Experience Commerce Finland, Business Finland

An example how the retailer (ICA) perceives the current market transition

High inflation and rising interest rates

High inflation and rising interest rates continued to put households and businesses under pressure during the year. Over the past two years food prices in Sweden have risen faster than at any time since the early 1980s, with prices changing even more dramatically in the Baltic states. Although the rate of increase slowed somewhat in 2023, practically all types of food products continued to rise in price.

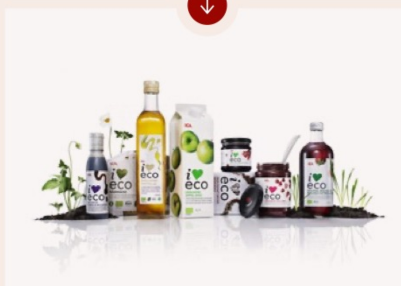


Much greater focus on low prices and discounted items

- Increasing demand for low prices – and more competition from discount actors
- Greater price transparency due to digitalisation and online shopping

New geopolitical situation

Alongside all the human suffering, Russia's war in Ukraine has had an immediate impact on supply and has completely changed the security policy situation, both in Europe and around the world. The war also caused initial price increases and disrupted the global food supply chain, especially as regards cereals and artificial fertilisers. The situation has normalised to some extent, but generally the uncertainty and volatility have increased.

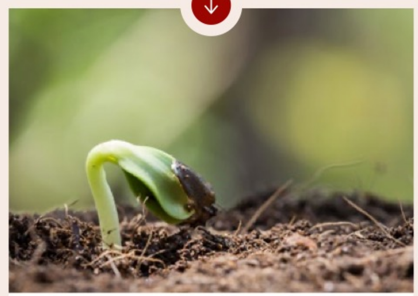


More focus on supply preparedness and local primary production of food

- Need to secure local primary production of food
- Increased need for cooperation between and within different value chains

Ever clearer effects of ongoing climate change

The effects of climate change are becoming increasingly clear. 2023 was the hottest year since records began, and all of the hottest years on record have occurred since 2015. Extreme weather conditions brought both drought and floods, affecting food production in various places around the world.

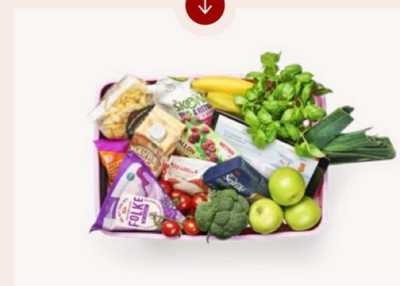


Need to review the entire value chain – from farm to fork

- More and more customers want to reduce their environmental impact
- Transparency and acting responsibly are increasingly important
- Ever more important to identify and manage climate-related risks in the value chain

Demographic changes and increased polarisation

Demographic changes and increased polarisation – with more divergent values, lifestyles and incomes – are resulting in customer segments with very different needs and expectations relating to both purchasing power and preferences.



Need for flexibility in supply, assortment and offering

- Increasingly important to be able to satisfy various types of personal preferences
- Breadth and depth are important for major actors
- Knowledge and insight into customers' preferences increasingly crucial

Although retail environment is changing, Kahn's **fundamental principles of retail success** still hold:

- Customers want to buy something they value from someone they **trust**
- They buy from firms who provide **superior value**

Source: Barbara E Kahn, (2023). The Shopping Revolution. Wharton.

The Kahn Retailing Success Matrix

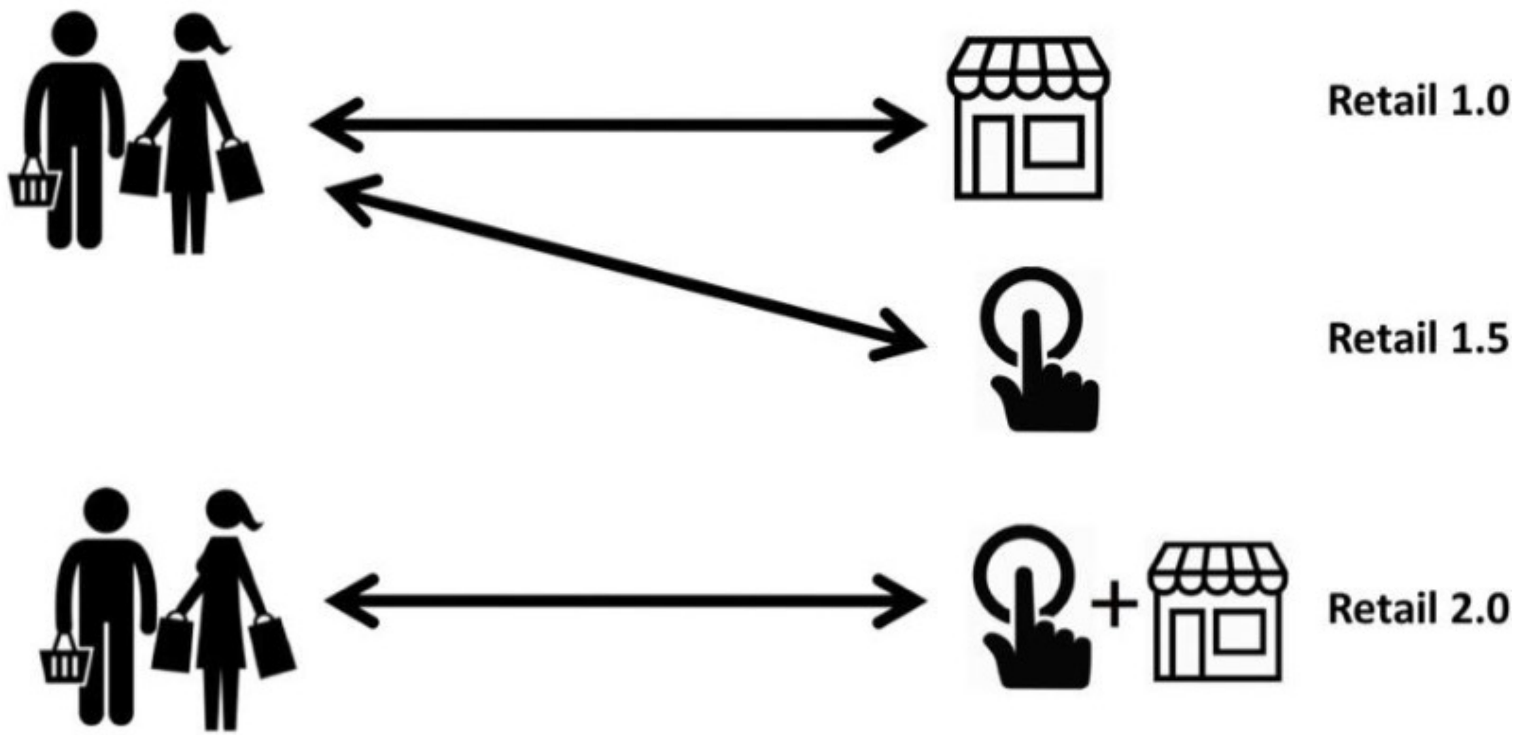
Source: Barbara E Kahn, (2023). The Shopping Revolution. Wharton.

When looking retail organizations more closely, we can see that:

- The development of **centralized managed retail chains** as retailers sought to increase their buying power.
- The development of **large retail formats** such as supermarkets
- The development of **dedicated and efficient distribution systems** by the large integrated retailers.
- The emergence of **retail chains as national retail brands** in their own right.

Source: Jonathan Reynolds, 2004, Introduction to retail strategy

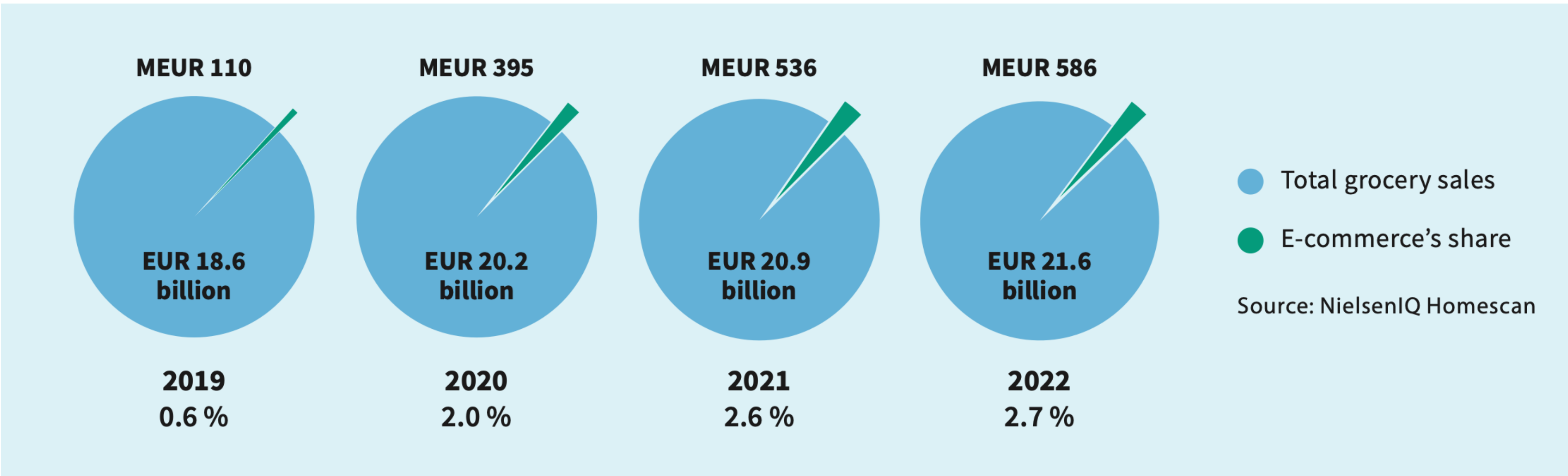
The transformations of retail (Hänninen et al., 2019)



Hänninen et al., 2019

Although online retailing is increasing, offline channels still dominate the markets in many categories

Value of e-commerce of groceries (share of total grocery sales) in Finland



The **integration of offline and online channels** is one of the most significant changes in retailing. Retailers have evolved from being single-channel to omnichannel.

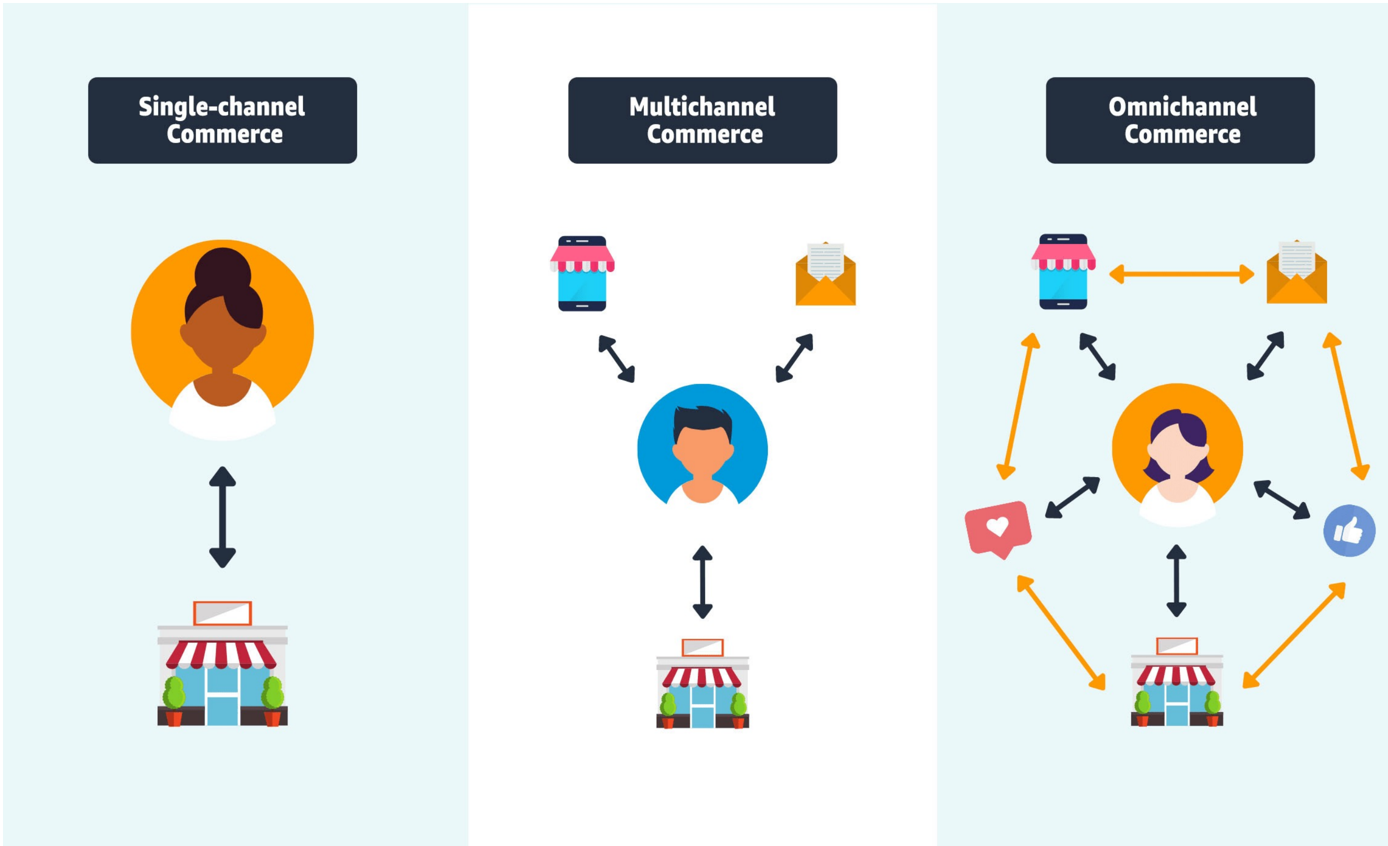


Figure: Understanding Omnichannel Commerce: Comparison to Multichannel Retail, Challenges and Market Trends, Amazon Global Selling

Webrooming vs. showrooming

“Webrooming (searching for information online and then purchasing offline) and showrooming (gathering data and examining products in physical stores and then purchasing online) have become common practices in omnichannel consumer behaviour."

“These behaviours have both negative and positive implications for retailers. On the one hand, **webrooming and showrooming threaten multichannel retailers in the form of free-riding behaviours** […]”

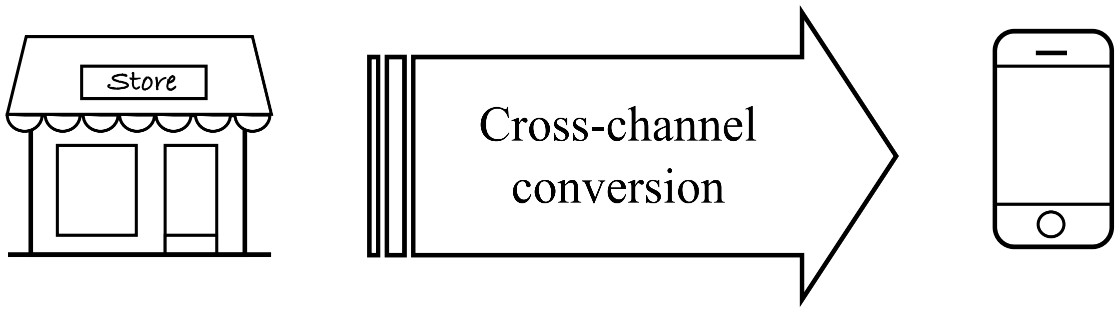
“On the other hand, **webrooming and showrooming can provide multichannel retailers with important benefits**. Consumers who use both online and offline channels in their purchasing processes constitute the most valuable segment for retailers. The combination of online and offline channels positively affects consumer perceptions of service quality and attitudes towards retailers, and leads to favourable purchasing behaviours and customer experiences. **It has been shown that consumers who use multiple channels purchase more products, spend more, and pay higher prices than single-channel consumers**.”

Source: Flavián et al., 2020

Cross-channel conversion in the case of showrooming

Offline

Online



The place to seek information and test products

The place to make the actual purchase

Source: Lindblom (2023)

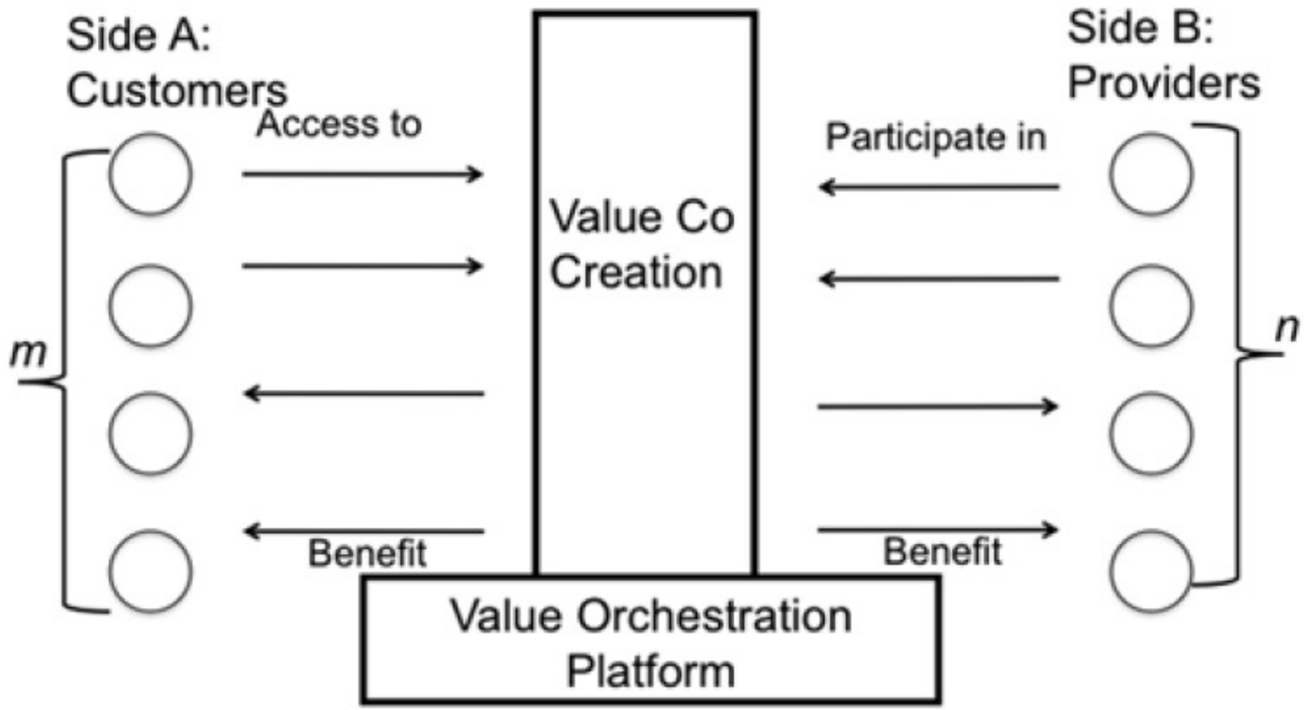
"Retailers today can no longer be accurately characterized as "merchant intermediaries" that buy from suppliers and sell to customers. Rather, **they are best described as orchestrators or conductors of two-sided platforms that serve as ecosystems in which value is created and delivered to customers** and, subsequently, appropriated by the retailer and its business partners."

Sorescu et al. 2011

Platforms have become powerful matchmakers in today's highly complex and digitalized environment.

Hagiu, A. & Wright, J. 2013. Do you really want to be an eBay? Harvard Business Review. March. 103-108.

Platform is like "a board" that facilitates and orchestrates value co-creation between sellers and buyers.



Source: Kijima & Arai (2016)

- While the majority of existing companies and industries are still based on "pipeline models", **platform-based models are now challenging the logic and value of pipelines**.

- **A platform model brings together end-users and producers, and allows them to interact and make transactions with each other without traditional intermediaries or constrains** (see e.g. Kijima and Arai, 2016).

- According to Eisenmann et al. (2006), **platforms embody both** (i) **an infrastructure that enables interaction between end-users and producers**, and (ii) **a set of rules that govern transactions** (see also Van Alstyne et al., 2016).

- Because platforms don't usually have physical retail stores or they don't engage in warehouse management and logistics, they have typically moderate operating costs.

Bonchek and Choudary (2013) specified that the success of a platform strategy is determined by following three factors:

- **Connection** i.e., how easily buyers and sellers can plug into the platform to interact and transact

- **Gravity** i.e., how well the platform attracts buyers and sellers

- **Flow** i.e., how well the platform fosters the exchange and co-creation of value.

Van Alstyne et al. (2016), in turn, argue that platform executives must make smart choices about two issues:

- **Access** (whom to let onto the platform)
- **Governance** (or "control"—what consumers, producers, providers, and even competitors are allowed to do there).

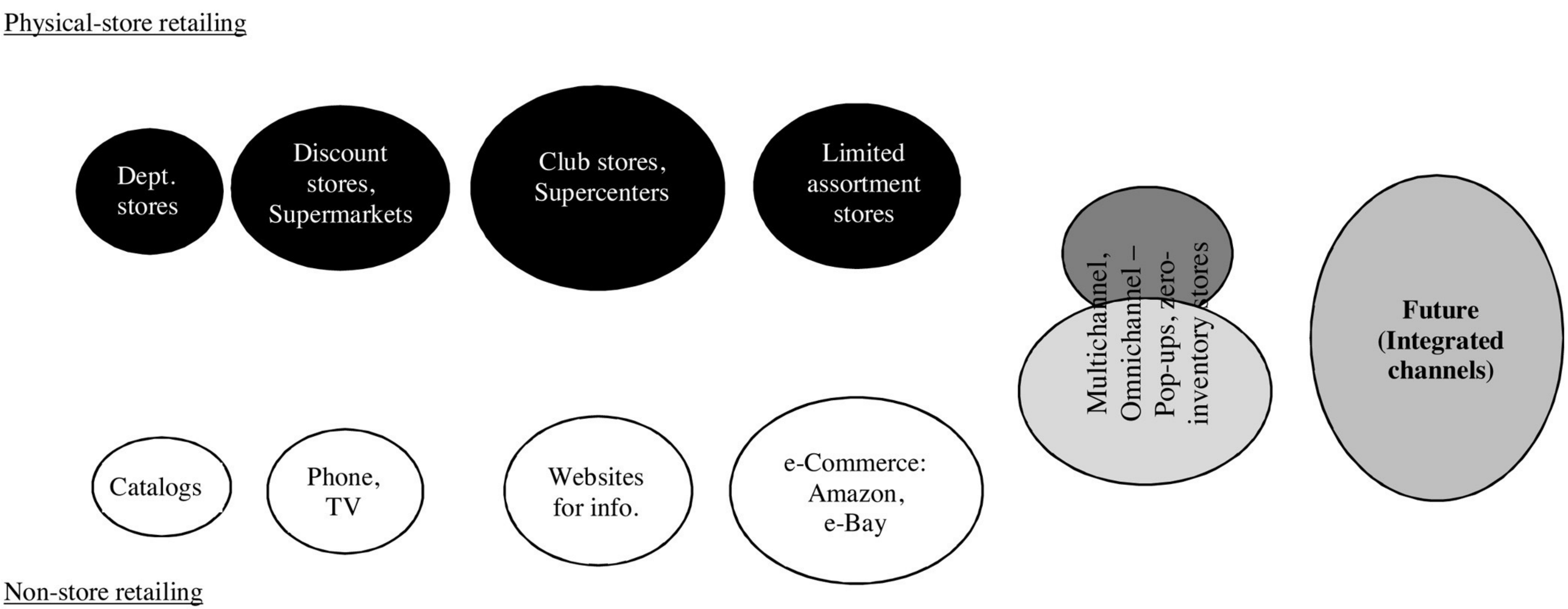
Key issues is **the level of openness of the platform** i.e., how open the platform should be?

Besides different channels, there is a diverse set of store formats:

- **Supermarkets** consist of medium- to large-sized selling space (depending on urban/non-urban location), relatively close proximity to target markets, a mix of mostly food and selected non-food grocery items, basic in-store design, and less focus on service.
- **Hypermarkets** are typically larger than supermarkets, sell more general merchandise, and rely on a higher volume of shoppers based on their less urbanized location.
- **Discounters** are similar to supermarkets in location and size, but with limited customer service levels, assortment depth, and merchandising, stronger focus on private labels, and more consistent low-price strategy.
- **Mass merchandisers** cover multiple retail formats including warehouse clubs (e.g. Costco) and supercenters (e.g. Walmart). They have large selling space and broader assortments of mostly general merchandise, although some are increasingly offering grocery items (e.g. Walmart, Target, and Kmart).
- **Convenience stores** are small-sized, carry a minimal assortment of food as well as essential non-food grocery items, and are proximal to high-density urban and suburban locations.
- **Traditional stores** (an antonym of "modern") typically refers to operators with small-sized selling space (similar to convenience stores), and are often independently owned.

Bonfrer et al. (2022)

Evolution of retail formats



Source: Gauri et al., (2021), Evolution of retail formats: Past, present, and future

Some new retail formats

- **New product demonstration/showroom store:** These stores predominantly showcase and demonstrate new products to build excitement and interest among shoppers.
- **Pop up store:** There will be more pop up stores that will be launched primarily by pure play online retailers or direct to consumer (DTC) marketers or other retailers to sell seasonal items. Pop up stores are temporary and close down after serving their purpose.
- **Renting store:** Another scenario involves consumers sharing or renting almost everything including, housing, clothing, and transportation.
- **Repair/return store:** These stores will be dedicated for repairs. Shoppers can visit the stores and return items needing repair.
- **Large/immersive experience store:** These stores are large concept stores that market the brand. Typically, these stores serve as showrooms for the manufacturer or service brand. Shoppers can visit the stores, immerse themselves in different facets of the brand, and experience all the brand has to offer.
- **Community retailer:** Some malls are being replaced by community centers.
- **Grocerant:** Each of these stores combines a grocery shop and a restaurant. These stores blur the distinction between a grocery store and a restaurant.

Shankar et al., (2021)

Comparision of different store formats

Store format	Aims to. . .	Type of customer	Duration	Assortment	Direct sales?	Location	Atmosphere	Aims for profit?	References
Concept store	Inspire	Task-oriented	Permanent	Limited selection of own-brand	No	Accessible	Ordinary	No	Triki and Hakimi (2017)
Flagship brand store	Entertain	Experiential	Permanent	Extensive selection of own-brand	Yes	Desirable	Extraordinary	No	Sherry (1998), Sherry *et al.* (2001), Kozinets *et al.* (2002), Dolbec and Chebat (2013)
(Themed) Brand store	Entertain	Experiential	Permanent	Extensive selection of own-brand	Yes	Desirable	Extraordinary	Yes	Sherry *et al.* (2001), Borghini *et al.* (2009), Dolbec and Chebat (2013)
Pop-up store	Communicate "buzz" or gather market intelligence (May also be transactional)	Experiential	Temporary	Limited selection	Yes	Variable*	Ephemeral	Yes/ No*	Surchi (2011), de Lassus and Anido Freire (2014), Picot-Coupey (2014), Warnaby *et al.* (2015), Klein *et al.* (2016), Robertson *et al.* (2018), Henkel and Toporowski (2021)
Brand museum	Document and educate	Experiential	Permanent	Limited selection of merchandise entry tickets	Yes	Destination	Exciting	Yes	Hollenbeck *et al.* (2008)

Note(s): *A pop-up store that seeks to test a new market may be located in a high-traffic shopping area while one that tries to create a buzz, especially one that sells luxury goods, is more likely to be found in an prestigious location (e.g. Surchi, 2011; Picot-Coupey, 2014; Robertson *et al.*, 2018). The aim of the pop-up store also affects whether it aims to make a profit or not. In existing markets, pop-up stores might be transactional—e.g. aiming to maximise seasonal or event-related sales or to sell off old stock (Warnaby *et al.*, 2015; Henkel and Toporowski, 2021)—but in new markets, brand awareness and buzz may be more important than profit (Robertson *et al.*, 2018)

Source: Egan-Wyer et al., 2021

Main reasons for investing in new store formats:

- to achieve growth in a challenging retail landscape
- to differentiate from their competitors
- to appeal to an existing target market
- to attract a new target market
- to offer more geographically or emotionally accessible locations
- to increase the chance of more spontaneous shopping trips and purchases

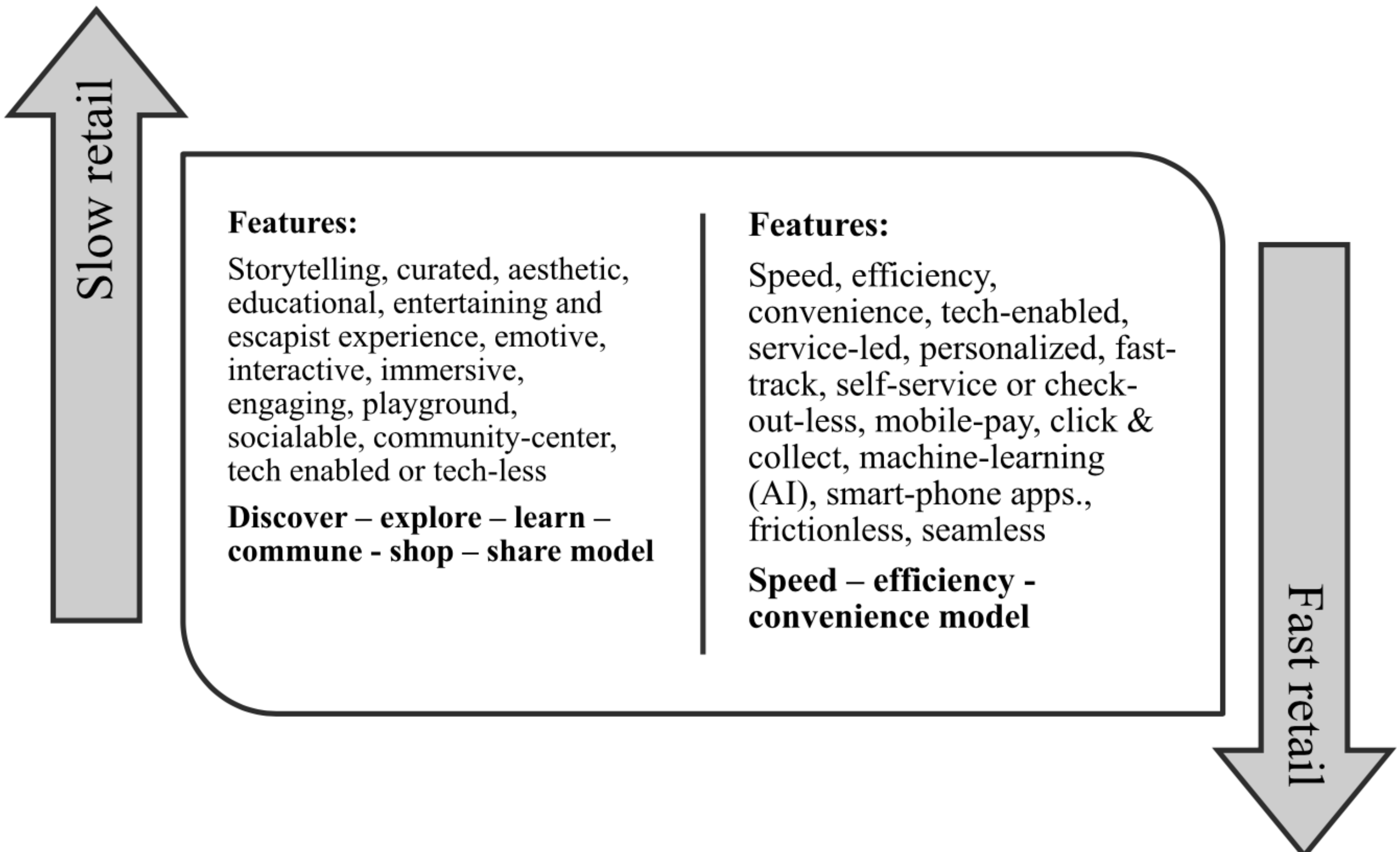
Source: Egan-Wyer et al., 2021

Adding new formats into retail store portfolio is challenging task and contains also risks

*"Our findings also illustrate that **the contributions of new formats should be evaluated in the light of other existing formats in the portfolio and not in isolation**. This is particularly true when considering **format cannibalisation** and the potentially extended customer journey that arises when customers use traditional format stores and new concept format stores simultaneously. **All physical formats have associated cost structures and how these costs relate to revenue generation needs further more nuanced consideration**."*

Source: Egan-Wyer et al., 2021

Slow retail vs. fast retail



Source: Alexander & Cano (2020)

*“[...] **slow retail shares a focus on localization, pursuit of pleasure, convivial experience, diversity, quality and slowing-down** (Jung and Jin, 2016; Stefko and Steffek, 2018; Tencati and Zsolnai, 2012) as opposed to fast food, fast fashion and **fast retail that emphasize standardized and homogenized efficiency, rapid response, convenience and speed** (Fletcher, 2010; Jung and Jin, 2016). It is the idea of slowing down and dwelling longer in pursuit of experiences in retail stores where they converge. Both **slow and fast retail have their place, but significantly, our research findings accentuates slow retail**.”*

Source: Alexander & Cano (2020)

Retail strategy and strategic planning

Strategy as a term:

- According to Oxford Dictionary, strategy is “**a plan of action or policy designed to achieve a major or overall aim**”.
- Hambrick and Fredrickson (2005) define strategy as “**a central, integrated, externally oriented concept of how the business will achieve its objectives**”.
- Andrews (1998) defines strategy as a “**pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals**”.
- In sum, retail strategy is the **overall game plan** that helps retailer to compete and succeed in its chosen markets. It defines the direction of retailer’s business.
- Reynolds (2004) states that the success of a retailer can be seen as a consequence of the effectiveness of its strategy.

Strategy is about prioritizing and deciding what to do and what *not* to do.
The strategic priorities define retailer's most important focus areas.

Strategic planning:

- **The strategic planning (in its traditional sense) is about 1) defining the retailer's objectives, then 2) establishing plans in order to achieve those objectives, and finally, 3) allocating resources**.

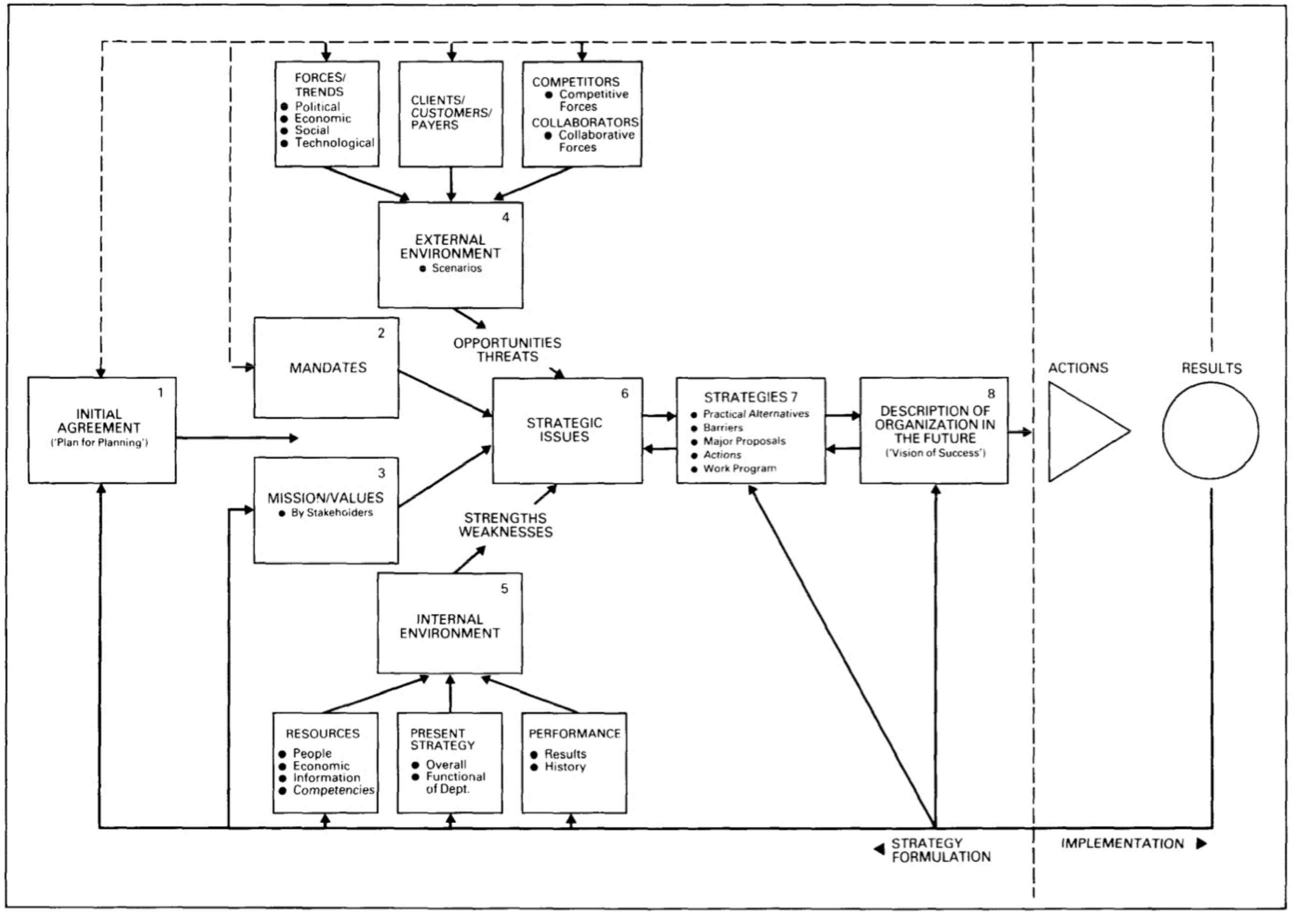
- Strategic planning helps to answer following questions: 1) where are you currently, 2) where do you want to be in the future, and 3) how will you eventually get there?

- When engaging in strategic planning, **retailer assesses external as well as internal factors and makes a plan how to achieve the stated goals.**

- The above highlights strategic planning as a rather rational process where the key is to conduct long-range planning with accurate forecasts as possible.

Source: Burnes, 2004

A classic strategic planning process (Bryson, 1988)



The Benefits of Strategic Planning

Strategic planning can help firms:

- Think strategically
- Clarify future direction
- Make today's decisions in light of their future consequences
- Develop a coherent and defensible basis for decision-making
- Exercise maximum discretion in the areas under organizational control
- Solve major organizational problems
- Improve performance
- Deal effectively with rapidly changing circumstances
- Build teamwork and expertise.

Source: Bryson, 1988

Problems of traditional strategic planning:

- Although strategic planning helps to set goals, define courses of action and allocate resources, it is known that such planning does not necessarily cope with environmental turbulence and thus, formal planning often fails (Burnes, 2004).

- The problem is that the future is uncertain and unpredictable.

- Thus, retailers should understand that the **strategy (or strategic planning) is ultimately an emergent process of learning and adaptation**. In other words, strategy in a real-life is often a pragmatic process of trial and error. (Burnes, 2004.) A key is to ability to adjust the strategy.

- In sum, **for retailers to succeed there must be a strategy**; what that strategy should be or how it should be derived are the most difficult questions.

The main criticisms of the "rational approach" to strategy:

- Data that is available for managers is no more reliable

- Unforeseen events do emerge

- Managers are not rational entities and do not apply a rational approach to their decision-making

- An organisation's strategy is as likely to emerge from unplanned actions and their unintended consequences over a period of time.

Source: Burnes, 2004; see also Mintzberg, 1993

Nowadays it is more common to see that:

- Strategy is much more than detailed strategic plan; it is also about implementation, assessment, and adjustment.
- Strategy is ongoing process (not a one-time project)
- Strategy is not the result of formal pre-planning but rather something that emerges over time through trial and experience
- Strategy is often the outcome of a combination of internal political struggles and external environmental pressures and constraints.

Source: Burnes, 2004

Two perspectives on strategy:

- **Deterministic perspective:** strategy is *environmentally* derived. Accoding to this view, management choice plays a minor role and a management team is only assumed to direct the organization to match the environmental demands.

- **Voluntaristic perspective:** strategy is *managerially* derived. According to this view, management choice plays significant role and a management team has power to set goals and make decisions based on their interests, values and capabilities. Thus, strategic actions do not follow from environmental conditions per se.

Source: Zimmermann, N. (2011). Deterministic and Voluntaristic Theories of Organizational Change.

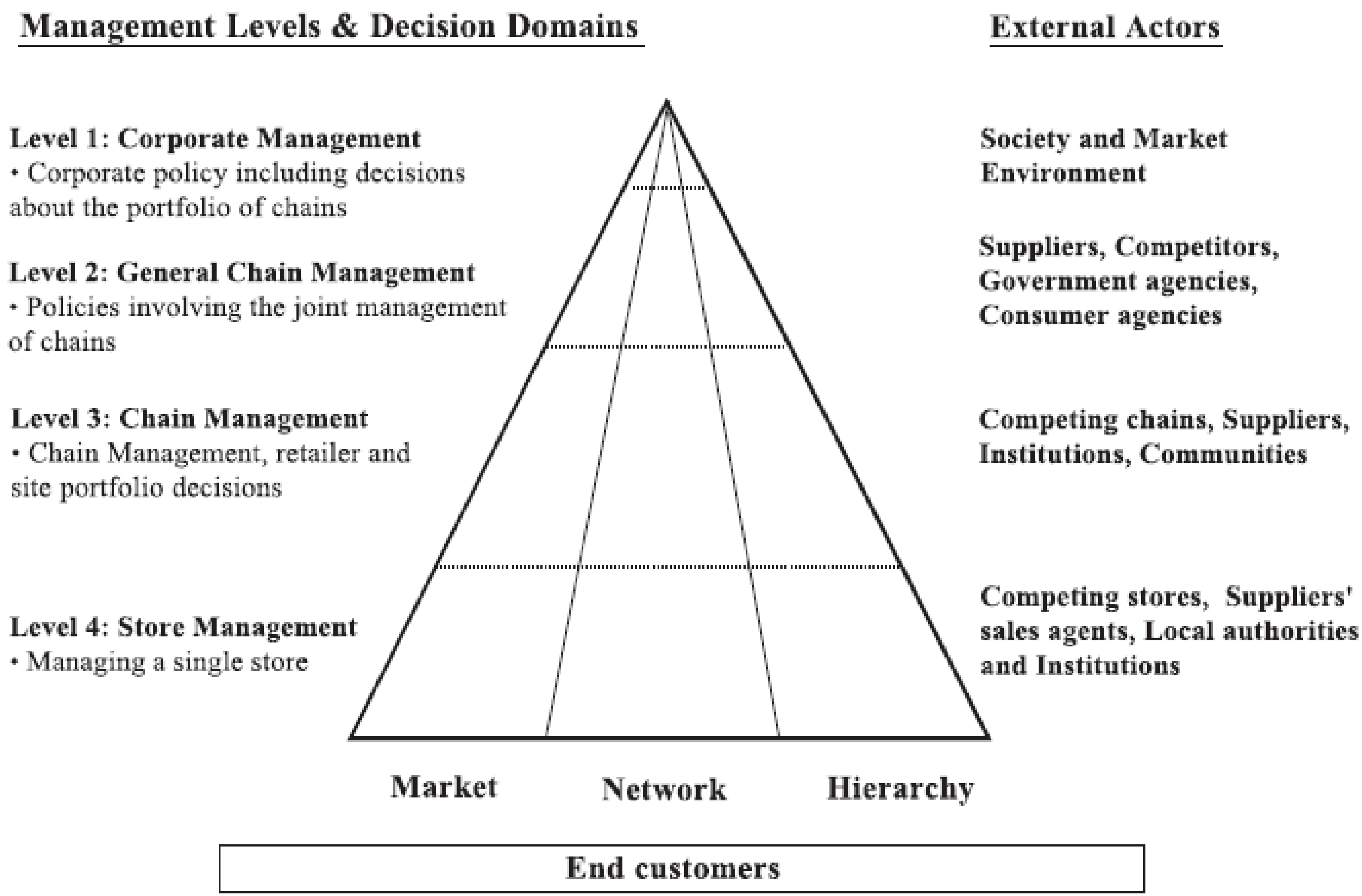
Levels of strategic decision-making according to Burnes (2004):

1. **The corporate level.** Strategy at this level concerns the direction, composition and co-ordination of the various businesses and activities that comprise a large and diversified organisation.

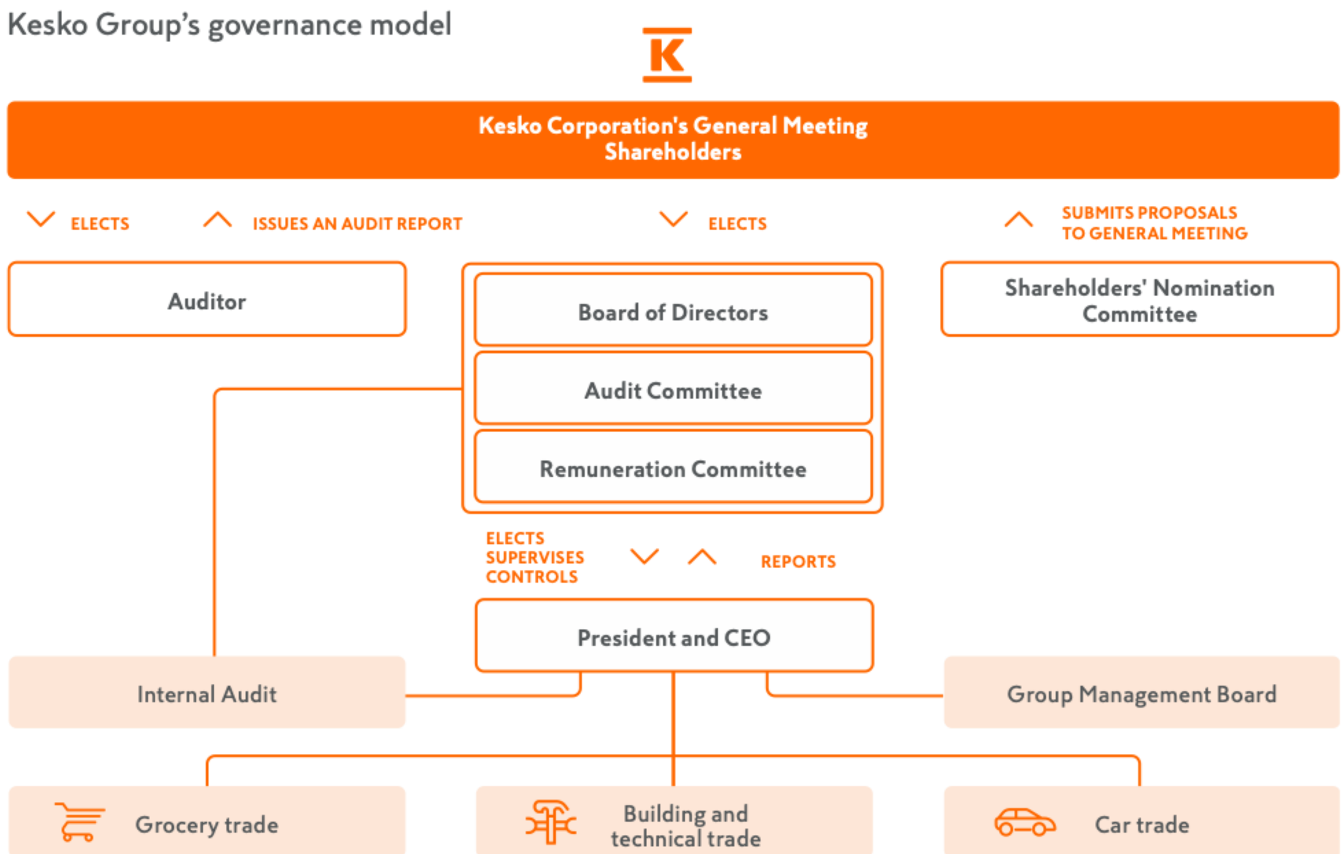
2. **The business level.** Strategy at this level relates to the operation and direction of each of the individual businesses within a group of companies.

3. **The functional level.** Strategy at this level concerns individual business functions and processes such as finance, marketing, manufacturing, technology and human resources.

Source: Burnes, 2004



Source: Mitronen, L. & Möller, K. (2003) Industrial Marketing Management, 32, 419–429.


Kesko Group's governance model
Kesko Corporation's General Meeting
Shareholders
ELECTS
ISSUES AN AUDIT REPORT
ELECTS
SUBMITS PROPOSALS TO GENERAL MEETING
Auditor
Board of Directors
Audit Committee
Remuneration Committee
Shareholders' Nomination Committee
ELECTS
SUPERVISES
CONTROLS
REPORTS
President and CEO
Internal Audit
Group Management Board
Grocery trade
Building and technical trade
Car trade

Kesko's Board of Directors is responsible for following strategic matters:

- Deciding on the Group strategy and confirming the divisions' strategies
- Confirming the Group's budget and forecast update, including a capital expenditure plan
- Reviewing the Group's most significant risks and uncertainties
- Deciding on strategically or financially significant individual investments, acquisitions, divestments or arrangements, and commitments
- Confirming Kesko's values
- Approving Group policies, such as the treasury and investment policy and risk management policy
- Establishing a dividend policy and being responsible for shareholder value performance

Kesko's managing director is referred to as the President and CEO:

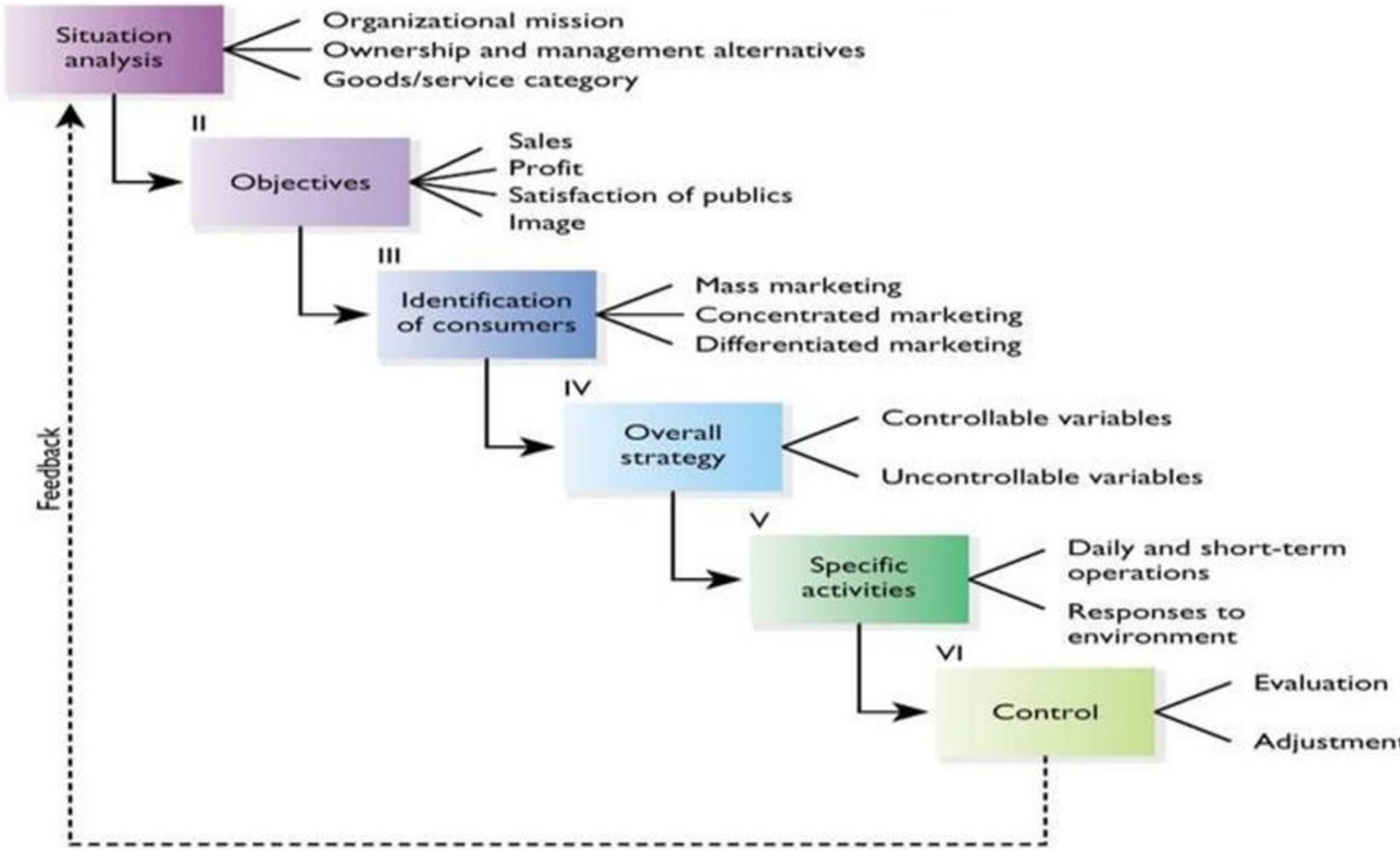
- The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors, and to report to the Board the developments in the Company's business operations and financial situation.
- The President and CEO is also responsible for organising the Company's day-to-day governance, and for the Company's accounting complying with legislation, and financial matters being organised in a reliable manner.
- The President and CEO also chairs the Group Management Board.

Strategic retail planning process

1. Define the business mission
2. Conduct a situation audit:
   Market attractiveness analysis
   Competitor analysis
   Self-analysis
3. Identify strategic opportunities
4. Evaluate strategic alternatives
5. Establish specific objectives and allocate resources
6. Develop a retail mix to implement strategy
7. Evaluate performance and make adjustments

Source: McGraw-Hill/Irwin, Retailing Management

Elements of a Retail Strategy



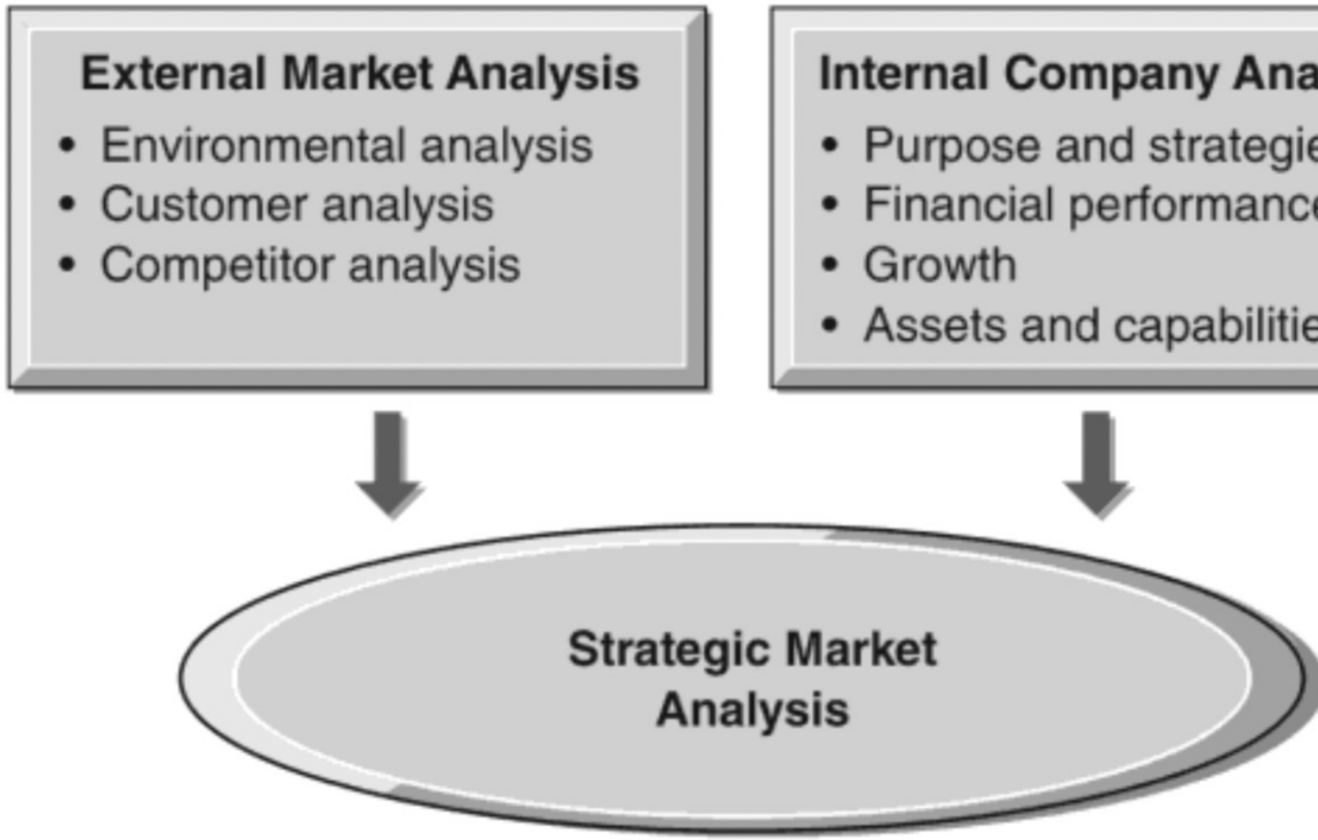
Source: Berman & Evans, Strategic Planning in Retailing

Strategic planning in practice (Kesko)

In sum, the key phases in strategic planning (or, more broadly, strategic management) are:

1. **Strategic Analyses**: e.g., SWOT, resources, assets, competences
2. **Strategic Choices**: e.g., setting goals, competitive advantage, and retail mix decision
3. **Strategic Implementation;** e.g., operating plan and budget, measurement

Strategic analyses



Aaker & Moorman (2023)

SWOT as an example of situational analysis

- The SWOT analysis is a widely used technique for assessing both internal **strengths** (areas where the retailer is superior) and **weaknesses** (areas where the retailer lacks behind) and external **opportunities** (favorable external factors that could give the retailer a competitive advantage) and **threats** (factors that have the potential to harm the retailer) that retailers are likely to face in the environments where they operate.

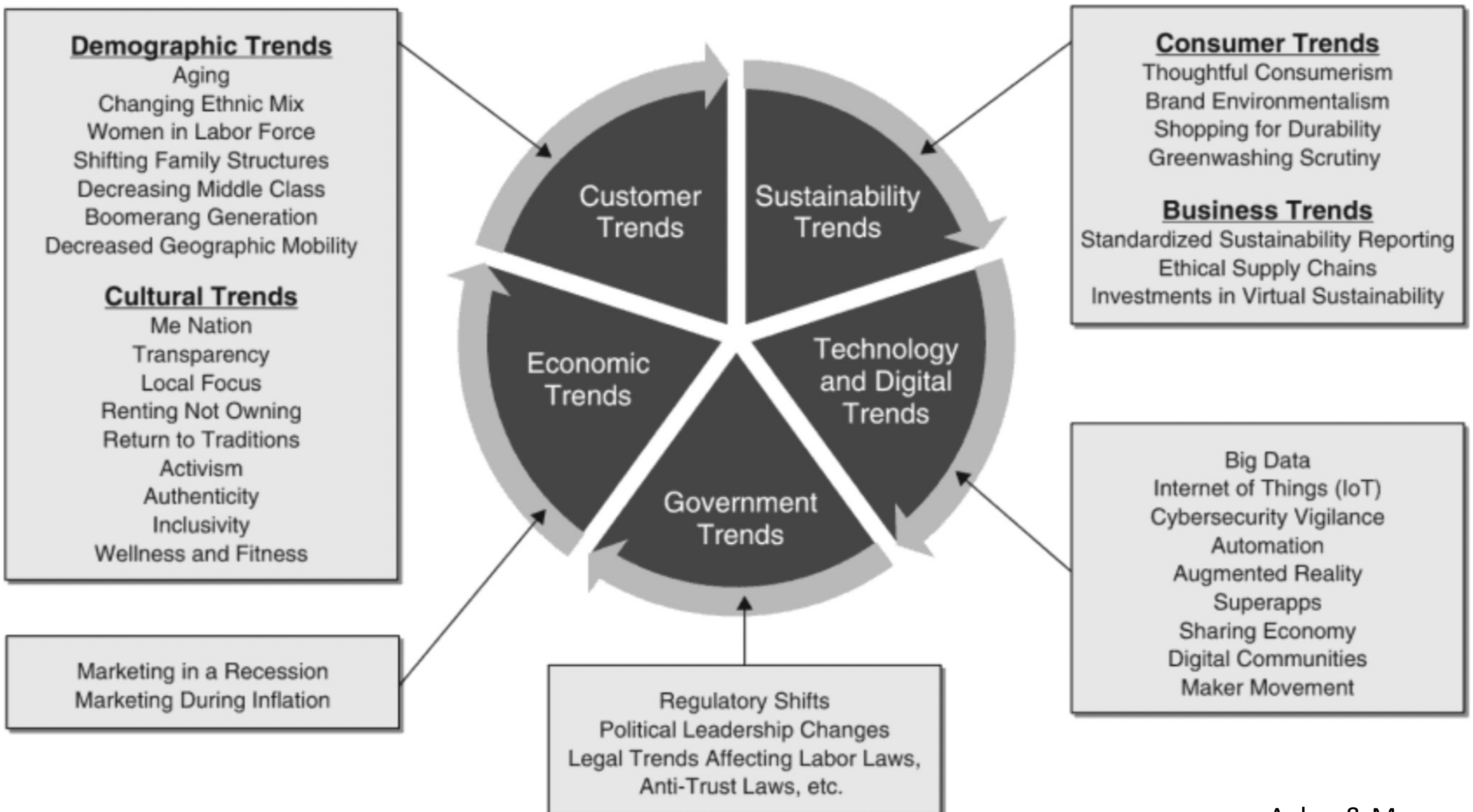
- It is important that SWOT is a realistic, fact-based analysis.

- A SWOT is often used together with other assessment frameworks like PESTEL.

PESTEL as an example of situational analysis

- A PESTEL is a framework to analyze the macro-environmental factors
- PESTEL examines the Political, Economic, Social, Technological, Environmental, and Legal factors in the external environment.
- Political factors include government policies, foreign trade policies; internal political issues and trends; tax policy; regulation etc.
- Economic factors include current and projected economic growth; inflation and interest rates; job growth and unemployment; labor costs etc.
- Social factors include demographics; consumer attitudes, opinions, and buying patterns; population growth rate; socio-cultural changes; living standards etc.
- Technological factors include e.g., technology infrastructure and cyber security
- Environmental factors include e.g., climate change and pollution
- Legal factors include health and safety; equal opportunities; advertising standards; consumer rights and laws; product labeling and product safety.

Important part of strategic analyses are trends analyses



Aaker & Moorman (2023)

An example of megatrends perceived by retailer (Kesko)

MEGATRENDS

Accelerating transformation in the utilisation of digital solutions, data, and new technologies

- Growth in local and international eCommerce
- Automation, robotics and improving operational efficiency
- Data, analytics and AI

Importance of sustainability, climate and environmental impacts

- Carbon neutrality, emissions reductions, renewable energy
- Ensuring biodiversity
- Increased sustainability regulation

Globalisation: importance of supply chain security and risk management

- Heightened geopolitical situation and consequent tensions and crises
- Globalisation trend continues, supply chain security and transparency important
- Importance of and demand for local products growing

Continued population change: urbanisation and population ageing

- People continue to move to more urban areas
- Urbanisation impacts traffic and mobility
- Regional divides, structural changes

An example of consumer trends perceived by retailer (Kesko)

CHANGING CONSUMER TRENDS

Constant adjustment of selections

- The importance of price emphasised as purchasing power diminishes
- Appreciation of Finnish products
- Interest towards sustainable and healthy products

Multichannel sales

- Sales through digital channels growing
- Seamless multichannel customer experience a requirement
- Services that utilise customer data and AI, targeted marketing

Growing customer knowledge and power

- Customers seek information themselves to base their choices on
- Customers want to impact selections
- Sustainable lifestyles: carbon footprint of food, living and mobility, impact on biodiversity
- Importance of peer experiences in consumption

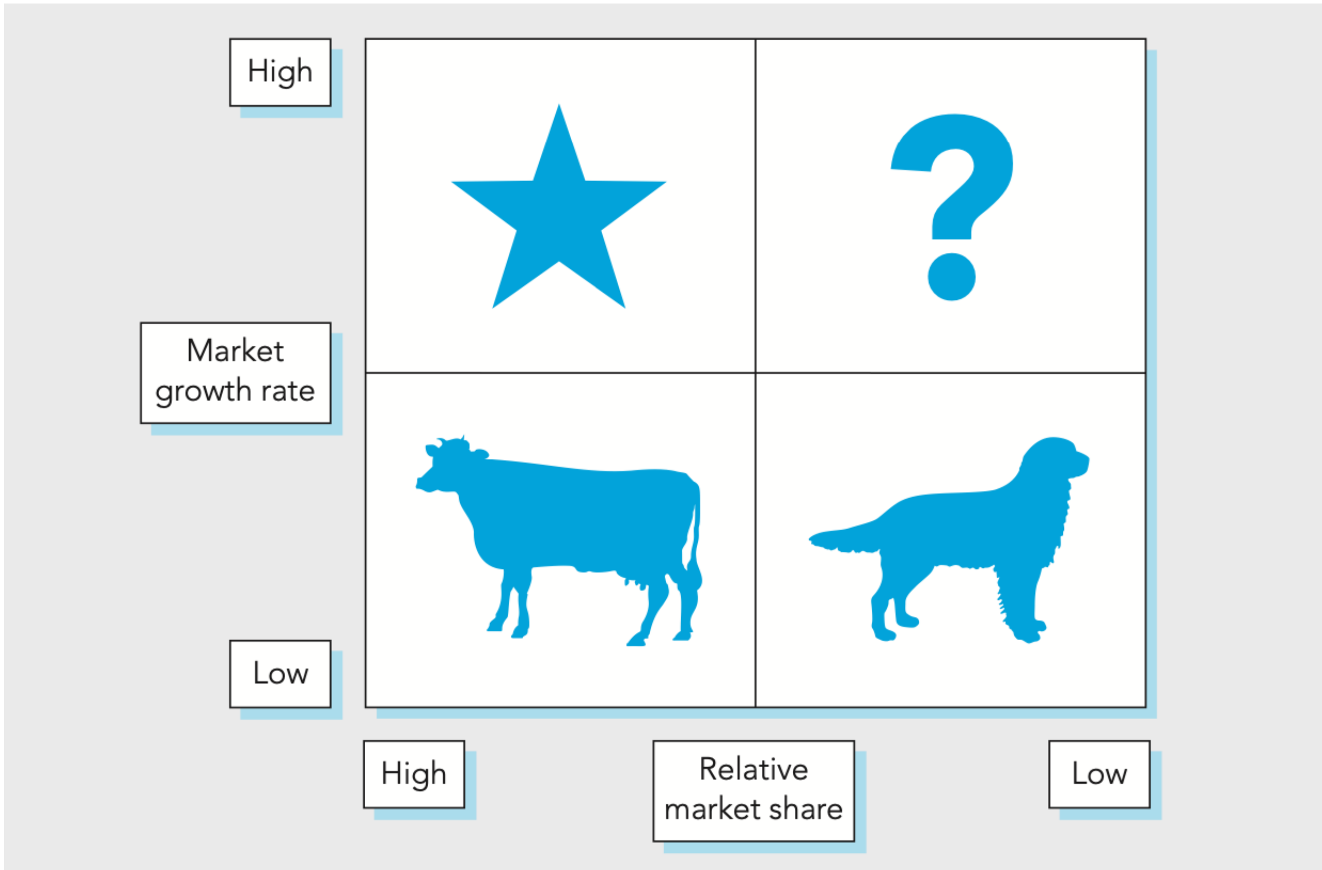
Individuality in customer behaviour

- Rapid changes in purchasing habits, individualisation
- Customers value versatile selections, convenience and safety
- Changing concept of workplace and work hours: impact on eating habits, traffic, equipment and clothing choices

The essence of strategy formulation is to cope with competition. According to Porter, there are five main sources of competition.

Source: Lee et al., 2012

BCG Growth-Share Matrix can be used to forecast the development of a business portfolio over a period of time.



Scenarios: a description of possible events or changes in the future:

- Scenarios enable retailers to identify and anticipate potential market developments and trends. With the help of scenarios, retailers are able to make proper strategic choices and navigate in a chosen market environment in the best possible way.

- Creating reliable scenarios is demanding task and contains also risks of biased forecasts and judgements. Scenarios should not be built in a sloppy manner.

- The Delphi method is a technique that is often used to help construct future scenarios with the help of knowledgeable persons and experts like researchers. At its best, the Delphi method enables retailers to form reliable scenarios based on the experience of various experts. A key is that the panel of experts is versatile and experts have relevant knowledge and expertise on different topics regarding a central subject.

- Ideally, the Delphi method helps to reach consensus about the possible futures.

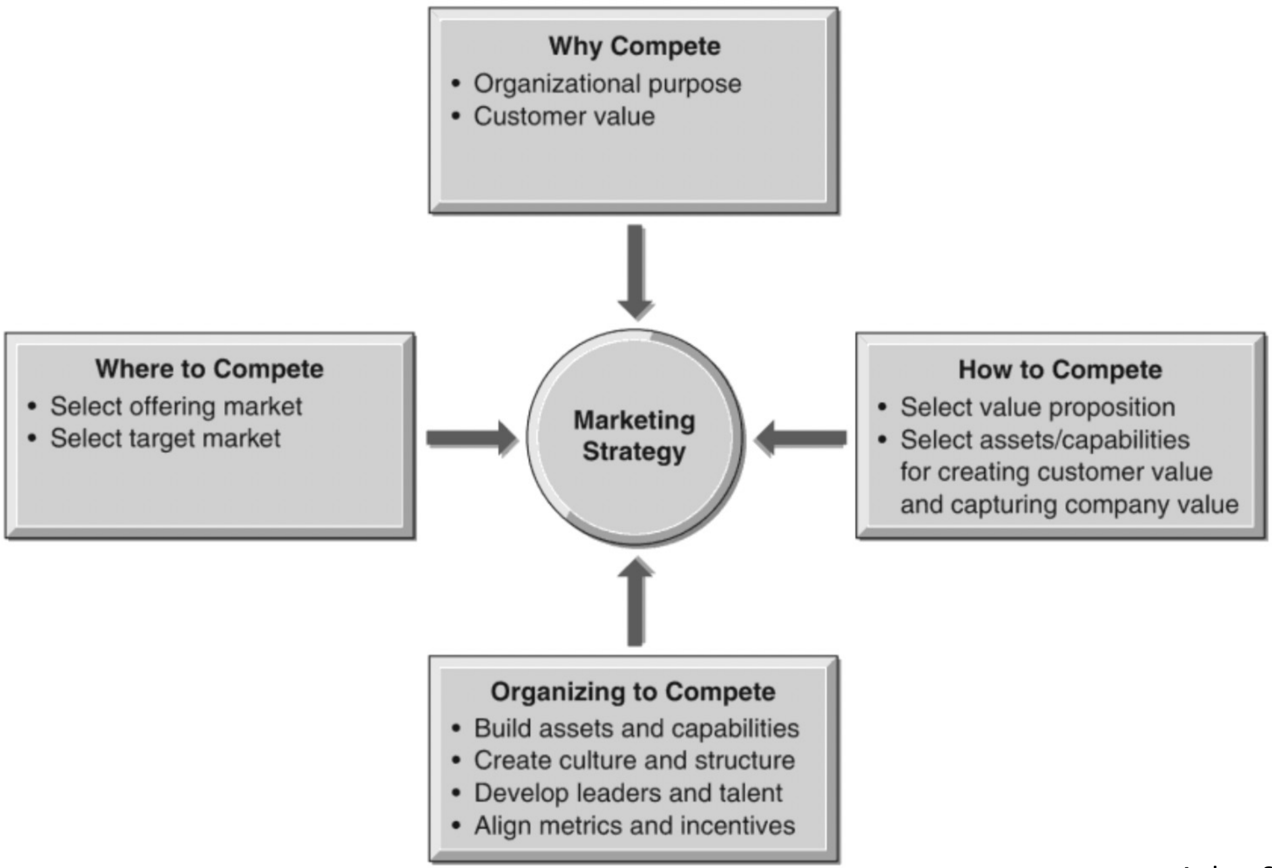
About the strategic choices in the field of retailing

Put very simply, the most fundamental **strategic choices** for the retailer are:

- **What are we selling?**
- **To whom?**
- **How?**
- **Where?**

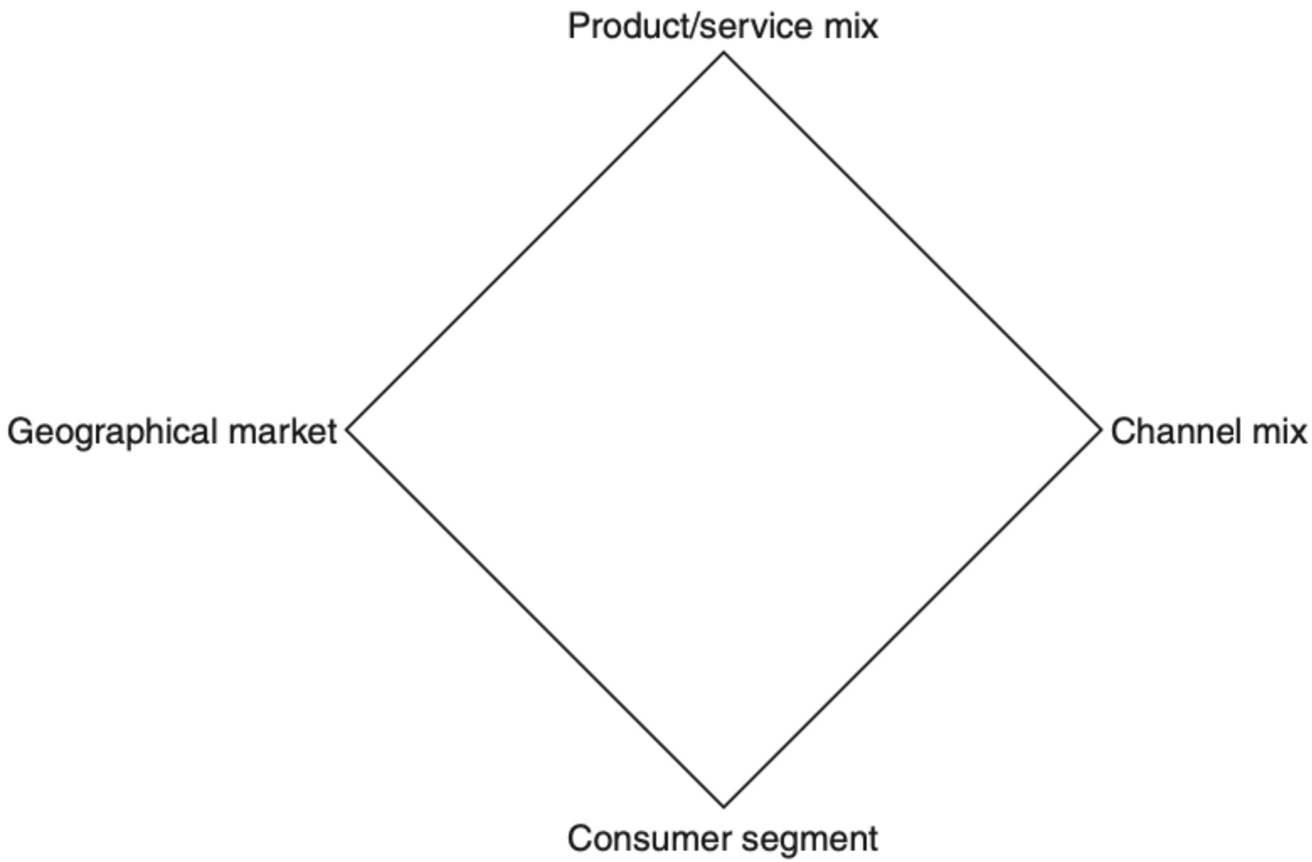
Source: Jonathan Reynolds, 2004, Introduction to retail strategy

Key questions in formulating marketing strategy



Aaker & Moorman (2023)

Strategic routes to growth



Source: Jonathan Reynolds, 2004, Introduction to retail strategy

Key questions for growth-oriented retailers:

- **Product/service mix:** The key choice of an appropriate assortment of products or services that defines what a retailer is in the eyes of its customer base
- **Consumer segment:** To whom is the product/service mix targeted and what are their perceived needs?
- **Channel mix:** How is the product/service mix to be delivered in terms of formats or channels?
- **Geographical market:** Where is the product/service mix to be delivered in terms of site, location and geographical market?

Source: Jonathan Reynolds, 2004, Introduction to retail strategy

Long-term strategic-level choices:

(1) **Market (region, industry) selection (market portfolio):** defines in which markets retailer wants to compete. Based on factors such as size, growth potential, and competition.

(2) **Channel selection (channel portfolio) and optimal channel integration level:** refers to the way retailer aims to reach and engage its customers in selected market areas.

(3) **Store format decisions (format portfolio):** refers to the store formats through which retailer aims to be in contact with its customers and general business idea and value proposition of each retail store format (whether it is physical or digital).

An example of Market Assessment Matrix

Country	Regula-tion	Economy	Society	Culture	Retail Structure	Total	Average
French Hypermarket Retailer							
Bulgaria	4	3	4	2	4	17	3.4
India	1	2	2	1	4	10	2.0
Kenya	2	1	1	1	4	9	1.8
Great Britain	3	4	3	3	1	14	2.8
United States	3	4	3	3	2	15	3.0
French Premium Fashion Retailer							
Bulgaria	4	1	3	2	1	11	2.2
India	3	2	2	1	1	9	1.8
Kenya	2	1	1	1	1	6	1.2
Great Britain	4	4	4	3	4	19	3.8
United States	4	4	4	3	4	19	3.8

Note: 4 = very suitable; 3 = suitable; 2 = unsuitable; 1 = very unsuitable

Source: Alexander/Doherty 2009, p. 236.

Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

Check-list for internationalization

Spending Power	Barriers and Risks
♦ Total GDP ♦ Disposable incomes: – spending patterns, spending improvements, seasonal fluctuations, taxes on income, taxes on spending, saving ratios ♦ Population size: – age profile, cultural/ethnic groupings, expa-triates and tourists, lifestyles, religion ♦ Residential structure: – urban vs. rural, housing density, ownership levels ♦ Adjacent markets: – cornerstone status, market proximities, market similarities, market accessibilities	♦ Entry barriers: – tariffs, quotas, development restrictions, competition laws, barriers to foreign entry, religious/cultural barriers ♦ Political risks: – change of government, nationalisation or controls, war or riot, international embar-goes ♦ Civil risks: – effectiveness of policing, rate of theft, rate of murder/violence, level of organised crime ♦ Economic risks: – inflation, exchange rate fluctuations, em-ployment structure and stability, taxes on business ♦ Other risks: – geological, climatic

McGoldrick/Blair 1995

Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

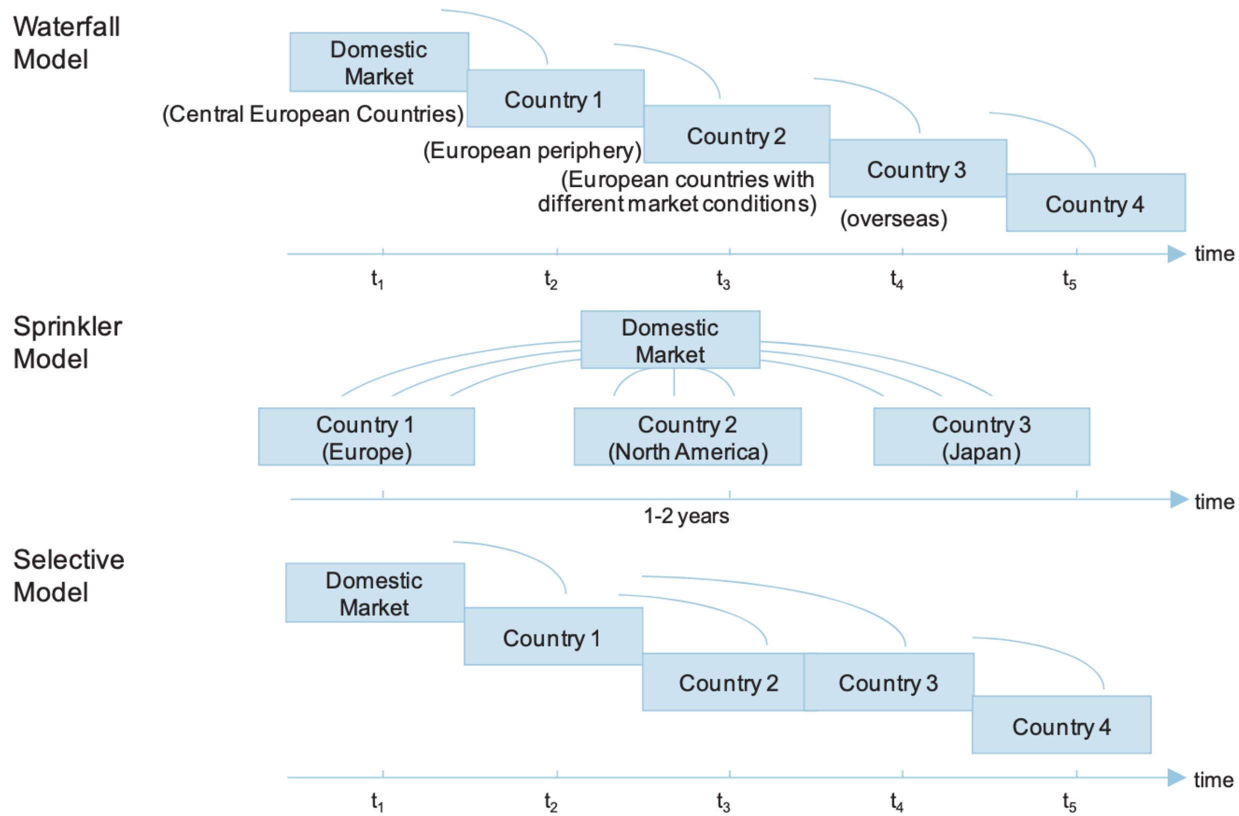
Check-list for internationalization

Costs and Communications	Competition
♦ Factor costs: – land availability and costs, costs of acquisition targets, taxes on business, energy costs, labour availability and costs, training costs, development costs ♦ Logistics and costs: – road networks, rail transport, air freight, sea freight, available carriers, distances between markets, transport safety, transport reliability ♦ Communications and costs: – telephone/fax lines, automatic international dialling, available international lines, costs of calls ♦ Marketing communications: ♦ TV/Radio advertising, direct mail agencies, outdoor advertising, print/magazine advertising, cable TV penetration	♦ Existing retailers: competition – same or similar formats, indirect competition, specialist retailers, other marketing channels, price competitiveness, extent of differentiation ♦ Existing retailers: cooperation – synergies from partnerships, international alliances, franchising activities, cumulative attraction, acceptance of format ♦ Saturation levels: – structure of outlets by sector, concentration levels, primary/secondary markets ♦ Gap analysis: – positioning of competitors, viability/size of gaps, reasons for gaps, age of existing stores ♦ Competitive potential: – site availability, financial strength of home retailers, attractions to international retailers, opportunities to reposition

McGoldrick/Blair 1995

Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

There are several different expansion patterns. Retail companies typically expand their businesses gradually step-by-step, not in a revolutionary manner. Retailers also expand to the countries that are psychologically near.



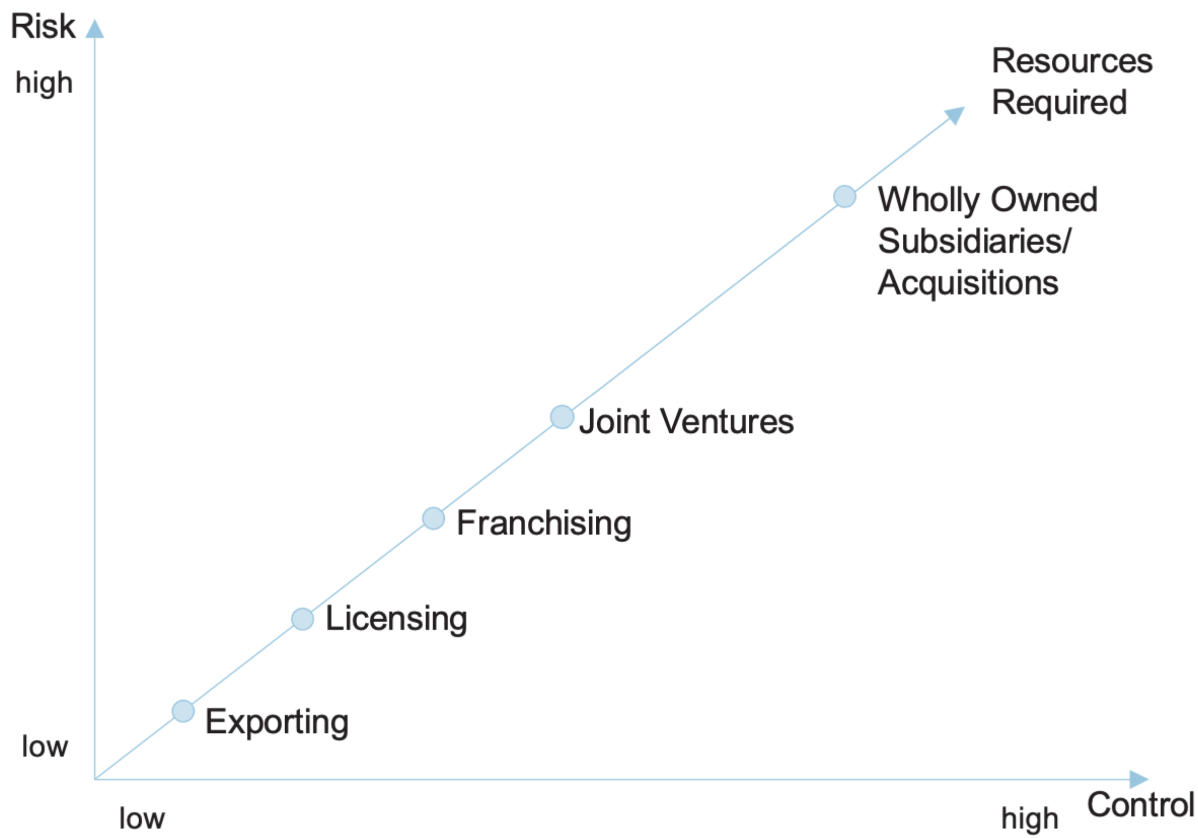
Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

Mode of entry in the field of retailing

Typical strategies for entering new countries:

- Franchising (from strong to weak control agreements)
- Minor share acquisition of existing operation
- Majority or full share acquisition of existing operation
- Establishment of new venture/organic expansion (with a significant partner)
- Establishment of new venture/organic expansion (without a significant partner).

The growth options of retail companies in foreign markets



Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

Franching vs. M&A (source Zentes, Morschett & Schramm-Klein)

- Franchising is a contractual agreement between two legally and financially separate companies - the franchisor and the franchisee.
- The franchisor, who has established a market-tested business concept, enters into a relationship with a number of franchisees, typically small business owners, who are allowed to use the franchisor's brand and must operate their business according to the franchisor's specified format and processes. The franchisor provides ongoing commercial and technical assistance. In return, the franchisees typically pay an initial fee as well as fees (royalties)
- Franchisee enjoys instant goodwill in the market because it can use an established brand name, exploit a tried-and-tested business concept and carry out standard operating procedures.
- Franchising allows for rapid growth of a retailing company. Franchising is a way of multiplying a concept without the usual financial constraints. Franchisees also finance the investment for establishing stores.
- One disadvantage for the franchisor is that it has no direct hierarchical control over the franchisee.

Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

Franching vs. M&A (source Zentes, Morschett & Schramm-Klein)

- M&A have played a major role in structural changes in the retailing sector over recent decades and they constitute a well-established growth mechanism.
- Expansion through mergers & acquisitions (M&A) involves the consolidation or purchasing of existing retail companies or retail outlets. It can, in the case of diversification, also refer to the purchase of companies in other sectors than retailing.
- In a merger, two companies are combined and at least one of them loses its legal independence.
- In an acquisition, one company acquires a majority interest in another or takes over certain assets (stores) of another company.
- M&A allow rapid expansion. However, integration costs following an acquisition can be high. An incompatibility of company strategies, capabilities, resources and cultures often results in an insufficient exploitation of existing potential for synergies.

Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

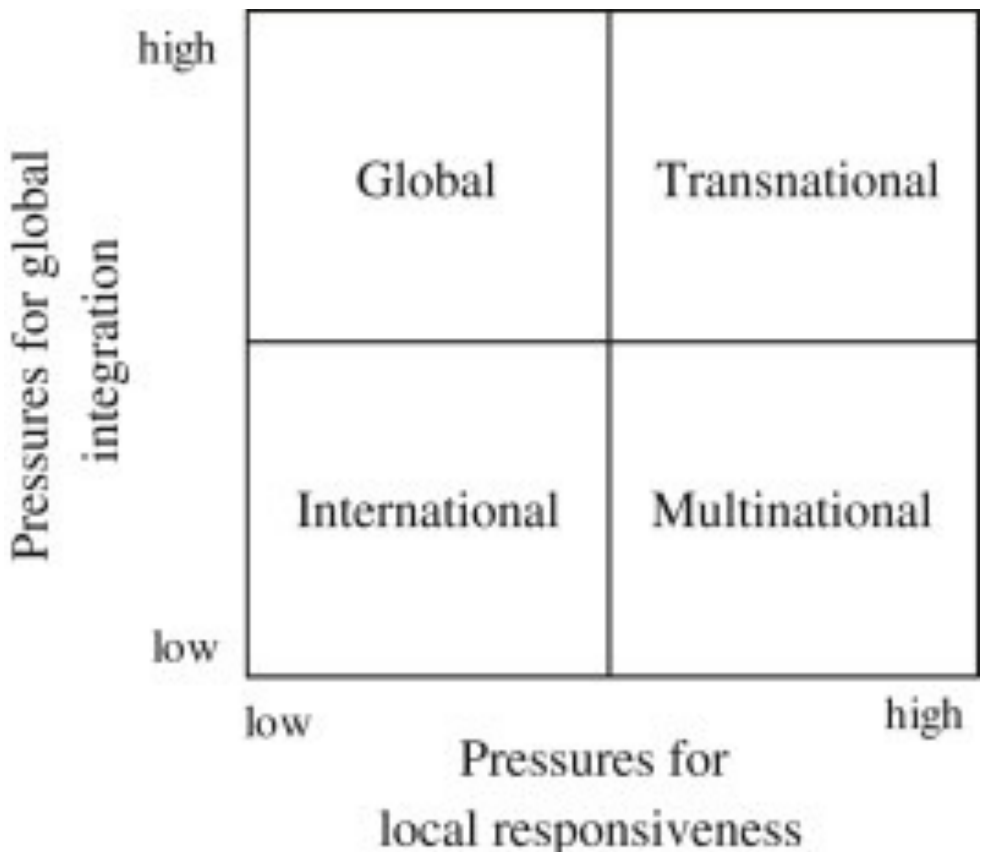
Global integration vs. Local responsiveness

- The major dilemma for international retailing is to what extent business operations can be standardized (global integration) and to what extent there is a need for adaptation (responsiveness). Retailers should find a balance between these two dimensions.

- Global integration refers to the centralised management of geographically widespread activities. Local responsiveness is related to the autonomous decisions made by local units.

- Standardised retail formats (including e.g., instore marketing, and standardised assortments) are typical in fashion retailing whereas food retailing is typically less standardized.

Source: Swoboda et al. (2014)



Source: Swoboda et al. (2014)

	International	Global	Transnational	Multinational
Geographic scope	1 continent	2 or more continents	1 or more continents	1 or more continents
Cultural spread	1 cultural zone	2 or more cultural zones	2 or more cultural zones	2 or more cultural zones
Cultural orientation	Ethnocentric	Mixed	Geocentric	Polycentric
Marketing	Expansion of home format or international alliances	Minimal adaptation, homogeneous markets	Medium adaptation, heterogeneous markets	Major adaptation or diverse formats, heterogeneous markets
Management	Domestic HQ	Centralized control	Integrated network	Independent units

Source: Helfferich *et al.* (1997)

*"**Retail internationalisation is diverse**, and scholars have argued that food retailers, such as Tesco, show a rather **multinational behaviour*** [i.e., goods and services are adapted to meet local needs], *whereas fashion retailers, such as Escada and Esprit, exhibit a rather **global behaviour*** [i.e., offerings are standardized]. *Furthermore, other scholars have argued that non-food retailers, such as Ikea, show adapted and integrated behaviour."*

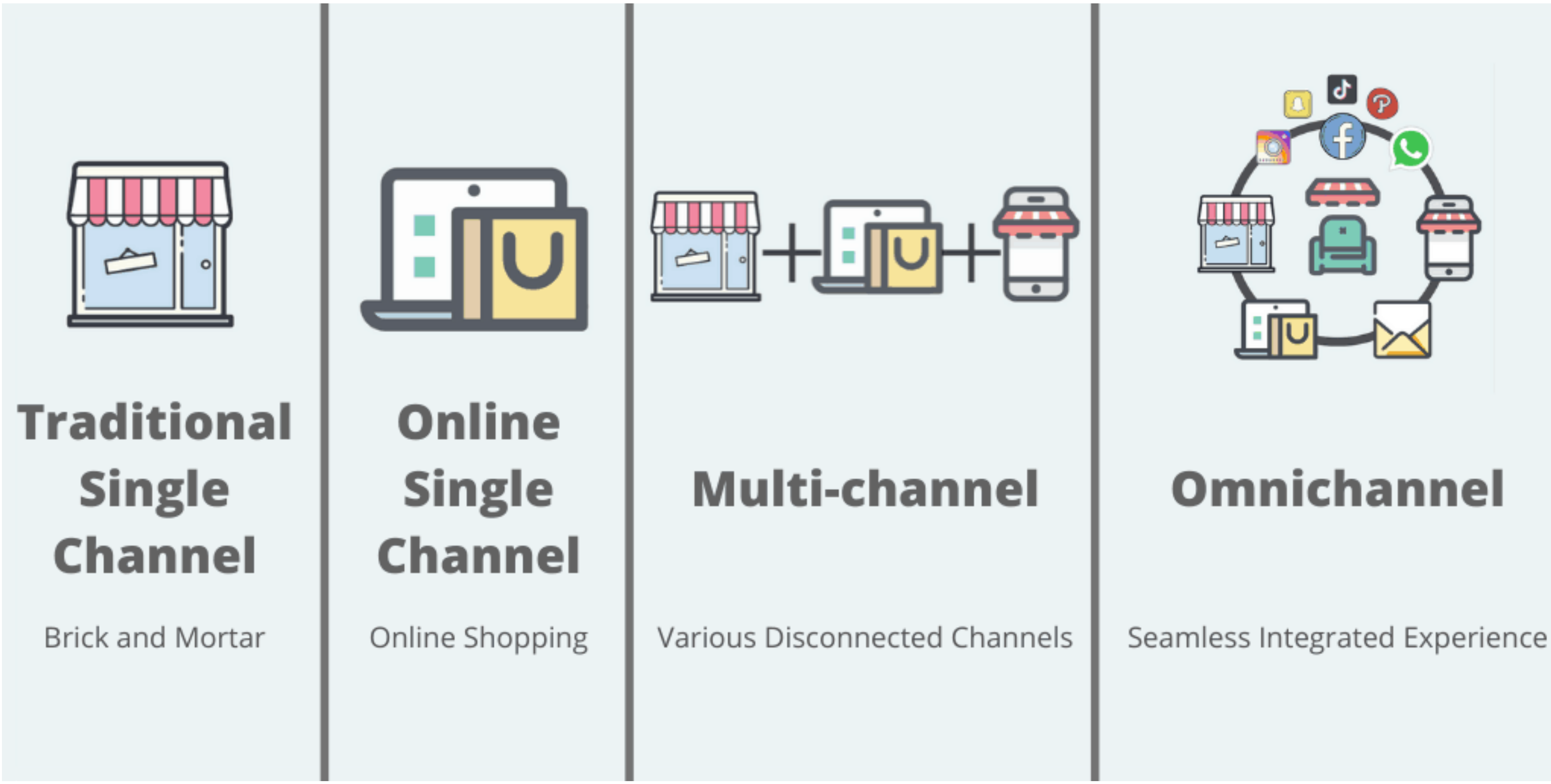
Source: Swoboda et al. (2014)

In some cases, retailers have to do the exit from the market they have entered

Burt et al. (2003) identified four potential triggers of de-internationalization in the field of retailing:

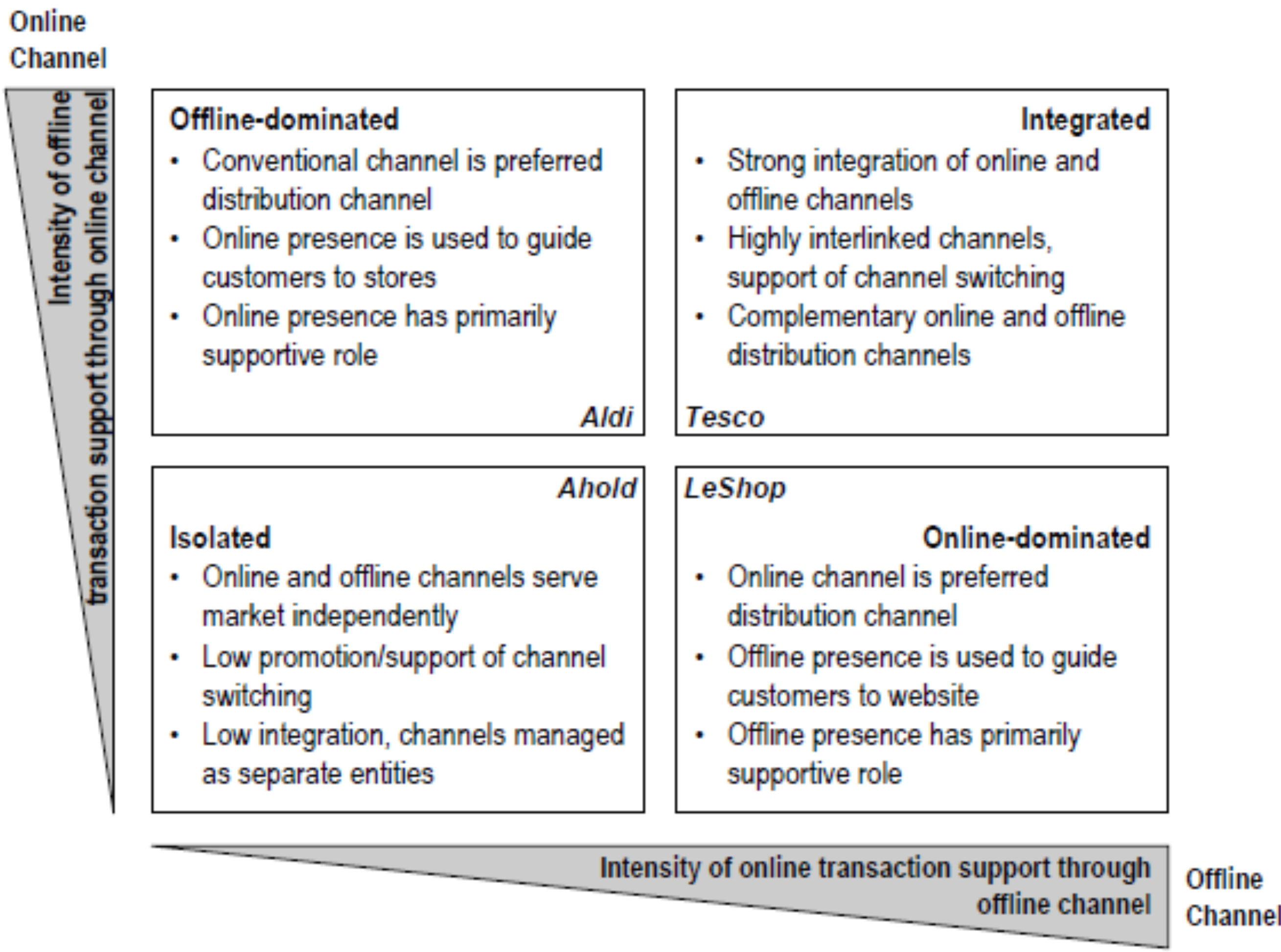
- **Market failure:** Market failure means that the market does not turn out to be as expected and this leads to de-internationalization
- **Competitive failure:** In this case, de-internationalization is caused by under-performance in comparison to competitors
- **Operational failure:** Operational failure is when a retailer finds that it is simply not a good enough international retailer
- **Business failure:** A situation where a retailer operating in the foreign market has to make decisions about the future of the international business, not because of what happens internationally, but because of the situation in the home market.

Channel options for retailers



Source: https://www.intelistyle.com/omnichannel-retail-strategy-simplified/

Framework for multi-channel strategies



Source: Müller-Lankenau et al. 2004

Tesco operates multiple formats based on different sub-brands, including forecourts (Tesco Fuel), convenience stores, supermarkets, hypermarkets, as well as one-stop convenience stores.

Bonfrer et al. (2022)

TRANSFORMATION FROM A TRADITIONAL RETAILER INTO A MORE FOCUSED, UNIFIED K

Source: Kesko

Also manufacturers utilize multichannel approach

An example of Nike's multichannel approach:

- Nike retail accounts (independent retailers)
- Franchising and license agreements
- Niketowns (flagship stores)
- Nike stores (monobrand concept stores)
- Nike factory store (factory outlets, off price stores)
- Nike online store, NIKEiD, Nike women online store (Internet stores)
- NIKEiD apps (m-commerce).

Source: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

"Multi-channel retailers play an increasingly important role in supply chains. **Multi-channels can cover a larger market, which improves the multi-channel retailer′s competitiveness in the market** compared with the traditional retailer and pure electronic retailer. However, multi-channel retailers face the challenge of finding the optimal channel selection and pricing strategies to distribute products. **Poor integration of the online and offline channels will render multi-channel retailers less competitive.**"

Wang et al., 2016

When adapting multi-channel or omnichannel strategies, retailers have faced numerous difficult questions such as:

- How should a retailer adapt product assortment/variety strategy to each channel? How much merchandise overlap should exist across channels?
- Should prices be consistent across channels?
- How can a consistent image be planned, developed and maintained across all channels?
- What are potential synergies arising in a multichannel environment?
- What are operating costs of each channel?
- Is there a risk of channel conflict or cannibalization?

Berman and Thelen (2004)

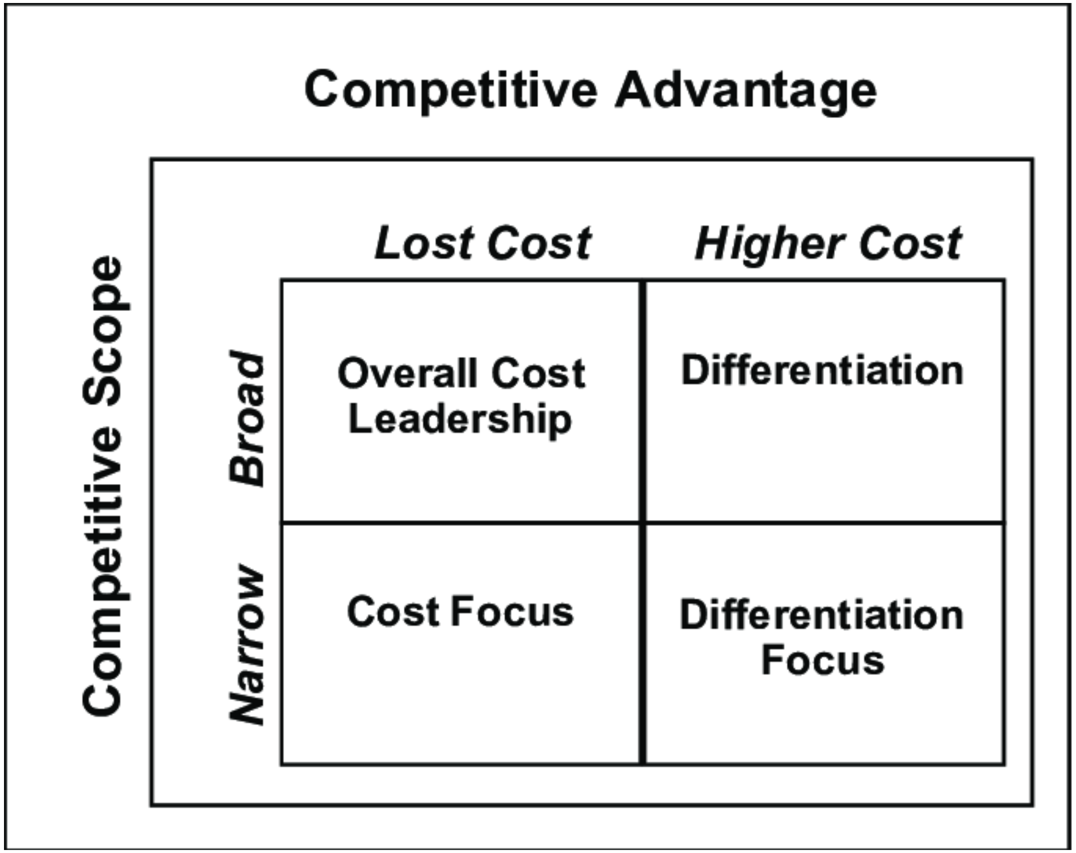
Competitive advantage as a base of value proposition

Key features of sustainable competitive advantage:

- should be relevant to the targeted customer segment.
- should be perceived by the customer.
- should be sustainable, i.e. not easily imitated by competitors
- should be based on retailer's resources, strengths or distinctive competencies relative to competitors.

Morchett et al. (2006)

Porter (1985) assumes that there are essentially three generic types of competitive strategy: cost leadership, differentiation and focus on certain target segments.



"Porter emphasises ***that companies must "make a choice" between the different generic strategies****, since "being 'all things to all people' is a recipe for strategic mediocrity and below-average performance"*

Morchett et al. (2006)

Three basic types of competitive advantage in food retailing:

1. Price
2. Quality (including customer service)
3. Convenience.

Morchett et al. (2006)

Retail business models

On the retail business models:

- One of the most important strategic choices that the retailer must make is the decision concerning its business model.

- There is no commonly accepted definition of business model in the literature. Instead, the literature reveals a wide range of definitions that vary in their emphases and scope.

- In short, **business model describes how a retailer functions and creates value for its stakeholders**. However, business model is not only specified by a revenue model, a cost structure, a set of resources, or a value proposition; it is fundamentally about how these pieces of the business "fit together" to create and appropriate value (Sorescu et al. 2011).

- Strategy and business model are closely related. However, as Casadesus-Masanell and Ricart (2010) states, strategy formulates a long-term goal whereas business model concretizes a logical "path" to it. Business model is the "**logic of the firm**".

Source: Haas, 2019

Core elements of the retail business model (Sorescu et al. 2011):

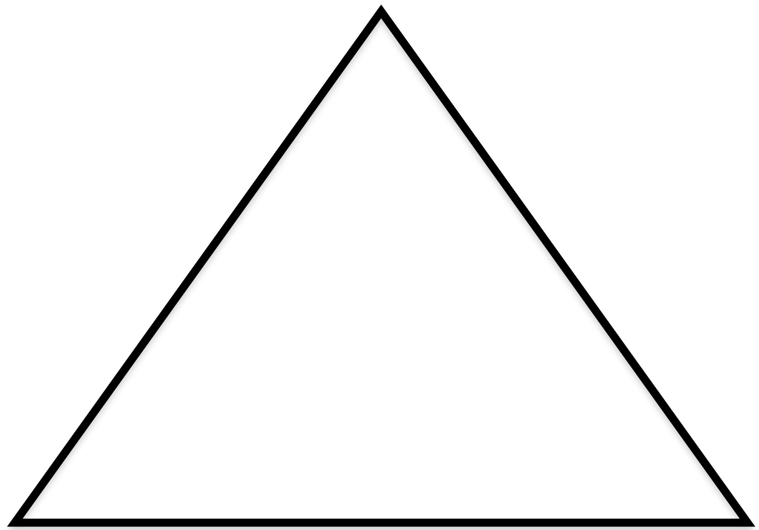
1. **Retail format:** the retailing format refers to the value proposition and the structures for organizing the selected retailing activities into coherent processes that fulfill the customer experience

2. **Activities**: the retailing activities refer to acquiring, stocking, displaying and exchanging goods and services that realize the value proposition and fulfill the customer experience

3. **Governance:** the retailing governance refers to the actors involved in creating and delivering customer experiences, as well as the mechanisms (such as contract and incentive systems) that motivate these actors to carry out their roles in realizing the value proposition and in fulfilling the customer experience.

Core elements of retail business model (Sorescu et al., 2011)

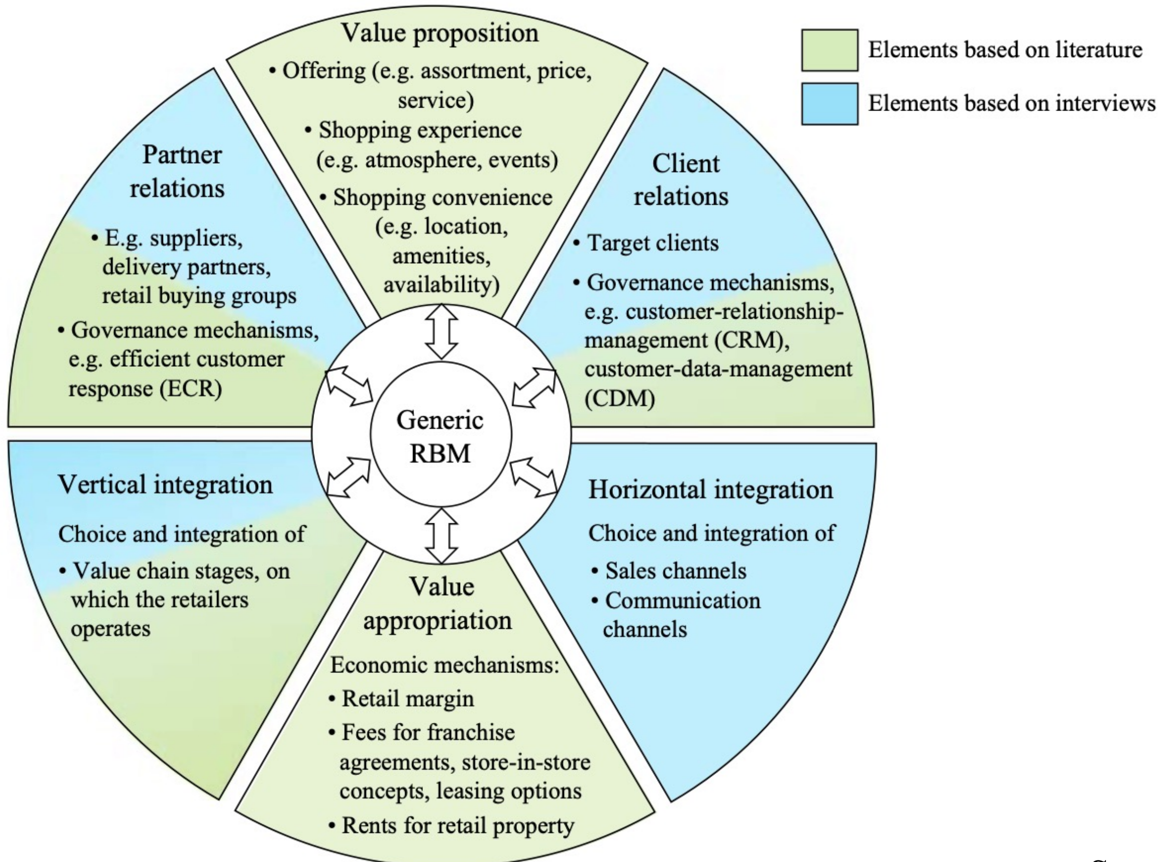
Retail format
- business idea and value proposition
- retail mix elements



Activities
- marketing, purchasing, logistics etc.

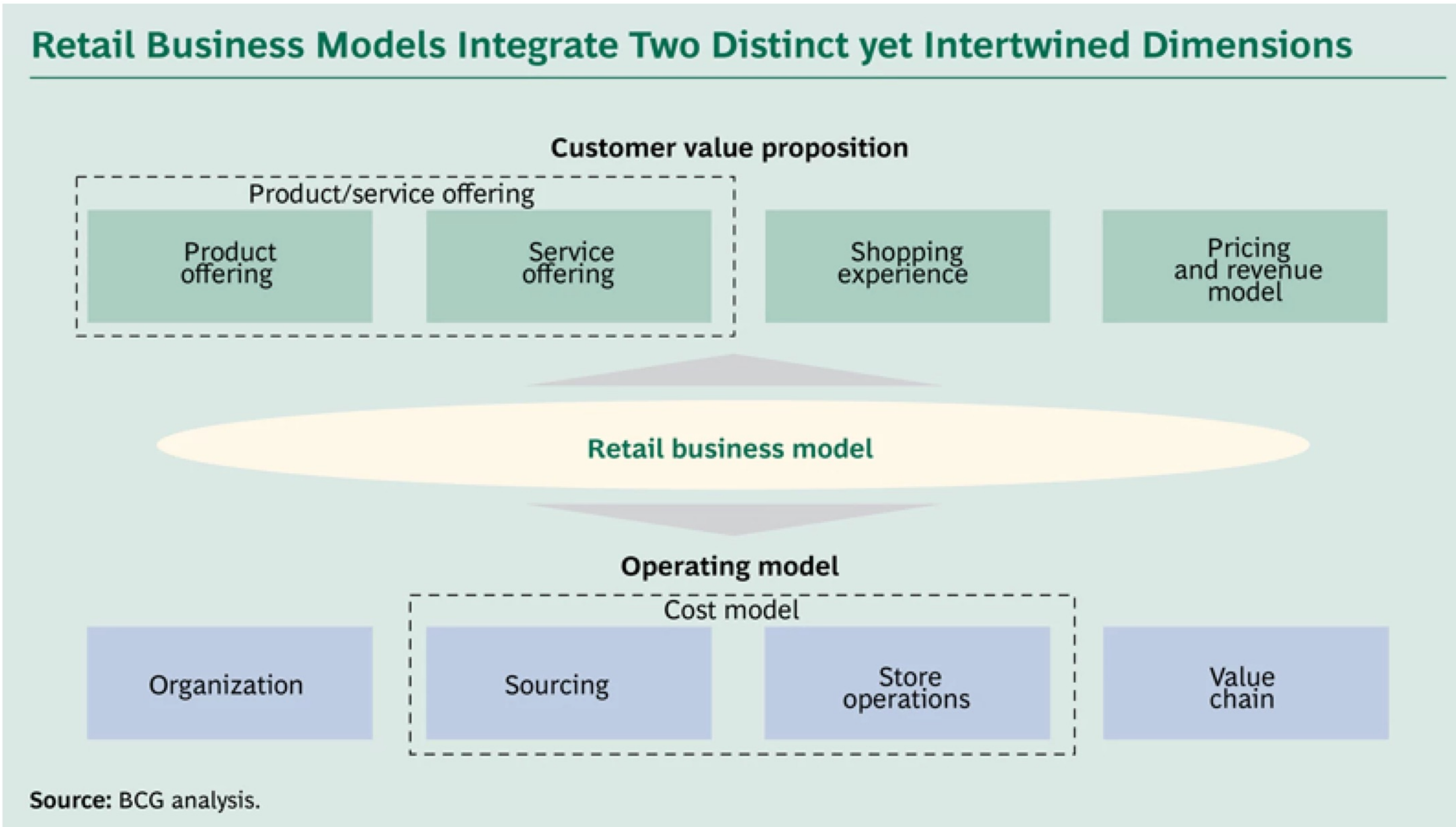
Governance
- division of labor
- contracts, incentives etc.

The generic Retail Business Model consists of six elements (Haas, 2019)



Source: Haas, 2019

The elements of retail business models (Ramos, Souza, and Esquivias, 2010)



The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATEGORIES
Production
Problem Solving
Platform/Network

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Value Propositions

What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

EXAMPLES
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PHASES
1. *Awareness*
   How do we raise awareness about our company's products and services?
2. *Evaluation*
   How do we help customers evaluate our organization's Value Proposition?
3. *Purchase*
   How do we allow customers to purchase specific products and services?
4. *Delivery*
   How do we deliver a Value Proposition to customers?
5. *After sales*
   How do we provide post-purchase customer support?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

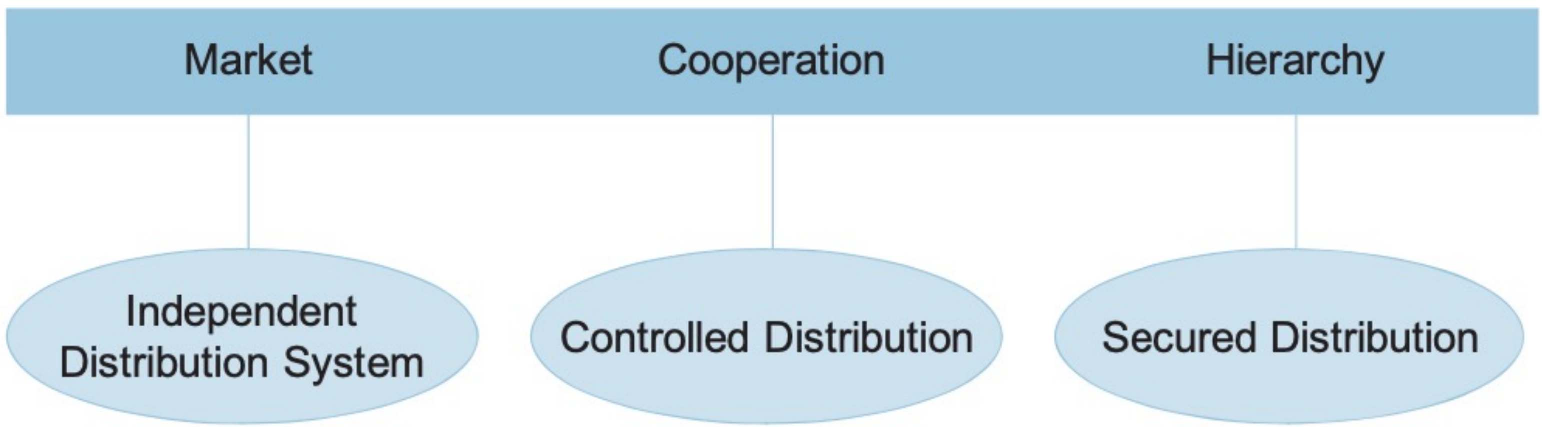
SAMPLE CHARACTERISTICS
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

TYPES	FIXED PRICING	DYNAMIC PRICING
Asset sale	*List Price*	*Negotiation (bargaining)*
Usage fee	*Product feature dependent*	*Yield Management*
Subscription Fees	*Customer segment dependent*	*Real-time-Market*
Lending/Renting/Leasing	*Volume dependent*	
Licensing		
Brokerage fees		
Advertising		

Various opportunities to organize the distribution



E.g., fully independent retailers

E.g., franching

E.g., fully vertically integrated systems

Lähde: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

Advantages and Disadvantages of Secured and Controlled Distribution Concepts

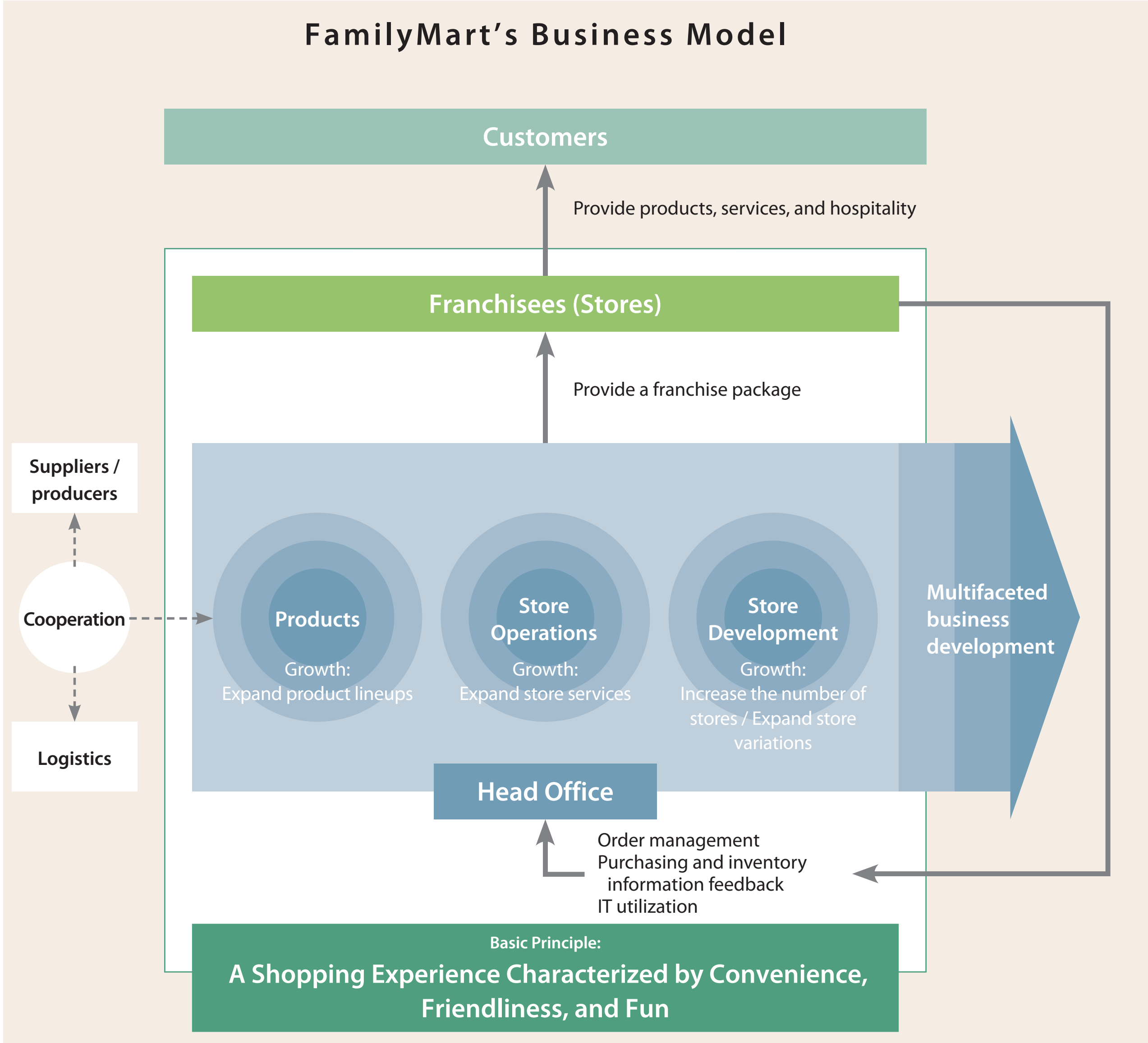
	Strengths	Weaknesses
Equity Stores	♦ high degree of control ♦ organisational control ♦ brand/promotional control ♦ guaranteed distribution	♦ high capital costs ♦ huge operational costs
Franchising	♦ limited capital costs ♦ less ownership risk ♦ guaranteed distribution ♦ low fluctuation	♦ limited control
Commercial/Commission Agent Systems	♦ high degree of control ♦ organisational control ♦ brand/promotional control ♦ guaranteed distribution	♦ low capital costs ♦ limited operational costs
Contractual Dealer Systems	♦ relatively low-cost solution ♦ rapid expansion	♦ little control ♦ high risk of losing partners ♦ less stability

Lähde: Zentes, Morschett & Schramm-Klein, Strategic Retail Management

Two basic business models in the field of retailing:

- **Franchising** refers to the **contractually integrated business model** where the franchisor allows franchisees to use its branding, business model, and other intellectual property. In return, the franchisees agree to pay a franchise fee, plus ongoing royalties to the franchisor. Key feature of this business model is that franchisees are (semi)independent business owners who are expected to adapt themselves to local market competition and customer needs. Franchisees are also responsible for the profitable performance of their own stores.

- **Vertically integrated business** models refers the retailing organizations that operate multiple retail stores **under common ownership and hierarchal (centralized) control**. The **centralized decision-making covers all the key areas** e.g. determination of a common chain product selection, joint marketing, purchases, category management, logistics etc.



FamilyMart, Annual Report

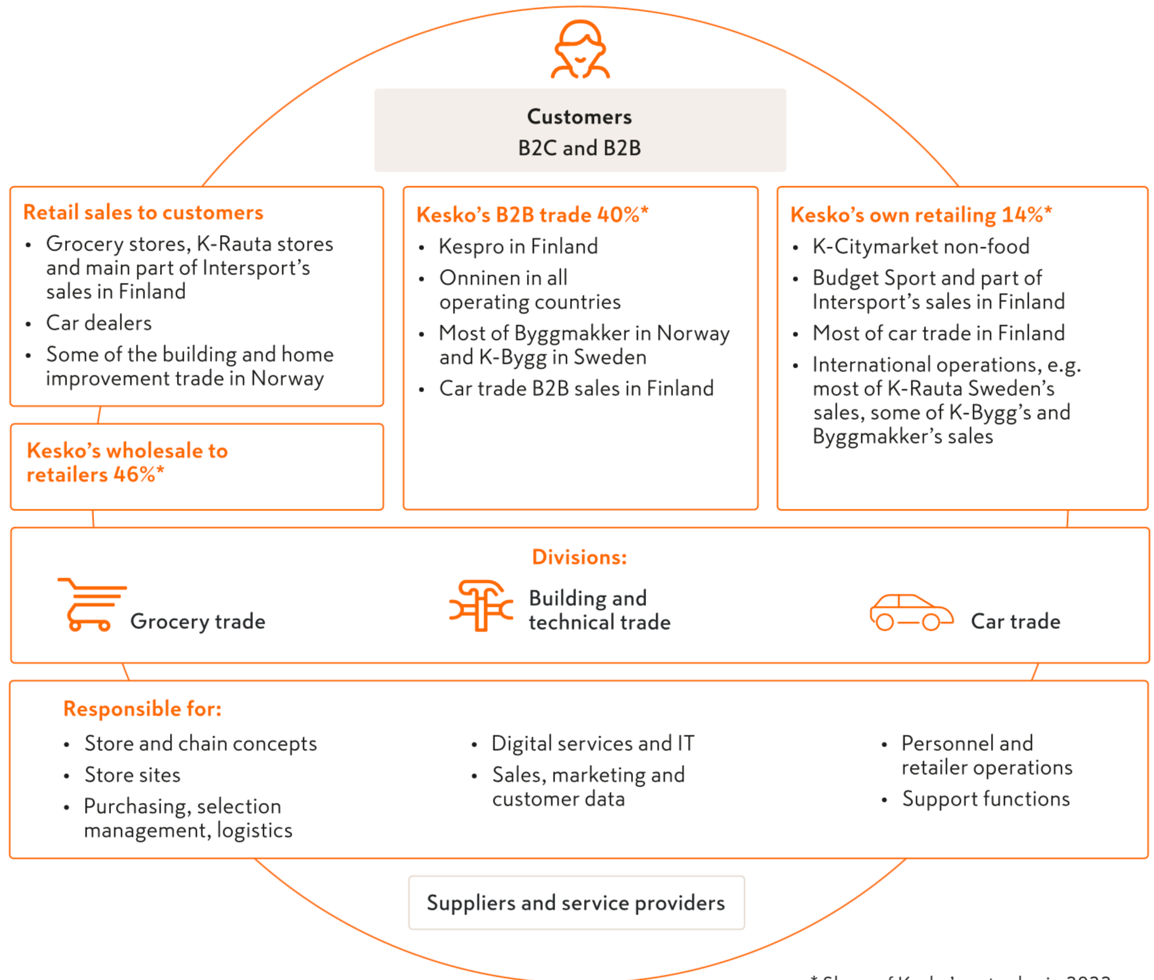
Types of Franchise Contracts

(Contract details differ according to area franchisers)
○ Provided by the franchisee

Contract type		1FC-A	1FC-B	1FC-C	2FC-N
Contract period		10 years from store opening			
Funds	Required at contract date	¥3,000,000 at contract date (excluding consumption tax) Affiliation fee: ¥500,000 (excluding consumption tax) Store preparation commission: ¥1,000,000 (excluding consumption tax) Initial stocking fee: ¥1,500,000 (including cash for making change and a portion of merchandise procurement costs)			
	Land / building	○	○	Provided by FamilyMart	Provided by FamilyMart
	Interior facility construction expense	○	○ FamilyMart funds part of expense	○	Provided by FamilyMart
	Sales fixtures Information devices	○ (In principle, FamilyMart funds necessary expenses.)			
	Staff hiring Application for approval	About ¥500,000 (Franchisees are required to fund their own living expenses for 2 to 3 months.)			
Franchise commission		Percentage of monthly gross margin* Up to ¥2.5 million: 49% From ¥2.5 million: 39% Over ¥3.5 million: 36%	Percentage of monthly gross margin* Up to ¥2.5 million: 52% From ¥2.5 million: 42% Over ¥3.5 million: 39%	Percentage of monthly gross margin* Up to ¥3.0 million: 59% From ¥3.0 million: 52% Over ¥4.5 million: 49%	Percentage of monthly gross margin* Up to ¥3.0 million: 59% From ¥3.0 million: 63% Over ¥5.5 million: 69%
Rent		Note 1		Provided by FamilyMart	Provided by FamilyMart
Minimum operating revenue guaranteed (for stores open 24 hrs/day)		¥20 million per year			
Incentive for opening 24 hrs/day		¥1.2 million per year			
Support for losses from food waste		<Training period (1st-12th month from opening)> Of monthly losses from food waste: 1) 80% between 1st and 4th month from opening 2) 50% between 5th and 12th month from opening		<After training period> Of monthly losses from food waste: 1) 10% for amounts between ¥100,000 and ¥300,000 2) 50% for amounts between ¥300,000 and ¥500,000 3) 15% for amounts exceeding ¥500,000	
Support for utilities		90% for amounts below ¥3.6 million per year			
Store management support		¥1.2 million per year			

FamilyMart, Annual Report

Kesko's business model



* Share of Kesko's net sales in 2022

Kesko and K-retailers: roles

Wholesale, product strategy

Chain agreement, chain steering

Services and business support

KESKO

Store concepts

Chain selections, wholesale

Responsible purchasing channels, purchasing alliances, logistics

Own brands

Data-driven management, customer data

Marketing services

Online stores

Store chains

Store sites

Centralised services (IT, financial administration, other support processes)

Retailer reserves

K-RETAILERS

Ensure customer satisfaction, results and profitability in their stores

Store-specific business ideas based on customer data

Synergies from the multi-store model

Significant employers

Purchases from local businesses

Members of K-Retailers' Association

Wholesale profit for Kesko

Chain fees based on net sales

Store site fees based on sales margin

Other cost-based fees

Retail is the heart of K Group, and we in K Group share a genuine passion for the trading sector and its development. As a K-retailer you manage the business of your own store independently with Kesko's support.

CO-OP MEMBERS

OWN

THE COOPERATIVES	SOK CORPORATION	SOK'S BUSINESS OPERATIONS IN ESTONIA	BONUS PARTNERS
Supermarket trade, department store and speciality store and speciality store trade, service station store and fuel sales, travel and hospitality business, hardware trade, S-Bank		Supermarket trade, travel and hospitality business	Services supporting S Group's operations

Mission:

Together we build a better place to live

Zara is an example of fully vertically integrated business model. Zara controls the entire supply chain from the design, production and logistics to selling to the end-consumer.

The competitiveness of retail business models

The competitiveness of any retail business model can be evaluated by its ability to improve (Mitronen & Möller, 2003):

1. **External effectiveness** (e.g. ability to adapt to local markets, innovativeness, service quality)

2. **Internal efficiency** (e.g. cost efficiency, process efficiency, cost control, ability achieve economic of scale)

External effectiveness and internal efficiency must be improved simultaneously.

Management challenges of large retailing organizations

Major challenge for the complex retailing organizations is that **how to maintain a balance between the centralized corporate control and the local autonomy and initiative of their retailers (or store managers)**.

A key managerial problem for any complex retailing organisation is identifying (Mitronen & Möller, 2003):

1. **what activities should be decided and controlled centrally at the corporate and general chain management level**

2. **what decisions should be left to the discretion of chain and store management**.

Managers must be aware of **potential tension** between the interests of the central chain authority and the autonomous retailers (or store managers):

- Tension occurs if parties understand the basic business logic and the players' roles differently.
- Tensions may exist between individuals and organisations related to responsibility or authority.
- Tensions in activities relate to the division of duties, responsibilities, or authority.

Sources: Mitronen (2002); Mitronen & Möller (2003)

Resource-based view and marketing capabilities

*”... the **resource-based view (RBV) of the firm suggests that competitive advantage stems from the possession and deployment of resources that are in some way superior to those of competitors** (Barney, 1991) and that sustainability of that advantage rests on the resistance of those superior resources to duplication by competitors (Dierickx and Cool, 1989; Reed and DeFillippi, 1990).”*

Hooley *et al*. (2005)

On the competitive advantage and resource-based view

- The fundamental purpose of the field of strategic management is to explain why some firms outperform others.

- It is argued that the key to success is to develop a unique competitive advantage, one that creates value for customers and is difficult for competitors to duplicate.

- Resource-based view (RBV) of the firm suggests that competitive advantage stems from the possession and deployment of resources that are in some way superior to those of competitors.

- But **which resources (or assets) and capabilities create competitive advantage in the field of retailing?**

In order to provide competitive advantage, resources should be:

1. **Valuable**: Resources provide value if it helps retailers in exploiting market opportunities or helps in reducing market threats.
2. **Rare:** Resources must be difficult to find among the existing and potential competitors of the retailer.
3. **Imperfect imitability:** Resources can be basis of sustained competitive advantage only if firms that do not hold these resources cannot acquire them.
4. **Non-Substitutability:** Non-substitutability of resources means that resources can not be substituted by another alternative resource.

Source: Madhani (2010)

Resources that are valuable, rare, inimitable and non-substitutable make it possible for retailer to maintain sustainable competitive advantage.

Source: Kesko

Barney (1991) categorises three types of resources:

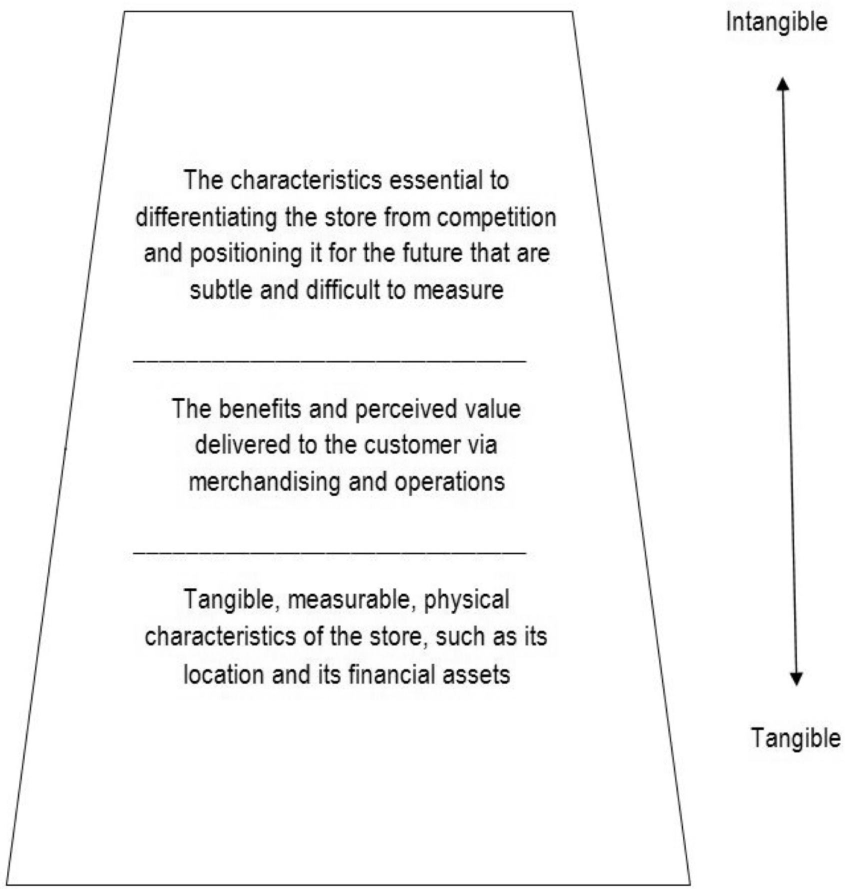
- Physical capital resources (e.g., plant and equipment),
- Human capital resources (e.g., experience, insights)
- Organizational capital resources (e.g., formal structure).

Resources can be categorized also into:

- **Tangible resources** (e.g., financial assets, inventory, distribution system, store network)

- **Intangible resources** (e.g., brands, reputation, culture, knowledge, partnerships)

The retail asset hierarchy (Acito, 2007; from the source: Lukic & Kljenak, 2017)



Critical **market-based assets** can be divided into two related types (see Srivastava et al. 1998; 2001):

1. **Intellectual**: Intellectual market-based assets are **the types of knowledge a firm possesses about the environment**, such as the emerging and potential state of market conditions, including competitors, customers, channels, suppliers, and social and political interest groups.

2. **Relational:** Relational market-based assets **are outcomes of the relationship between a firm and key external stakeholders**, including suppliers, end customers, other strategic partners, community groups, and even governmental agencies.

In the retail environment **there is a need to continuously gather information on customer needs and competitor capabilities** in order to create superior customer value.

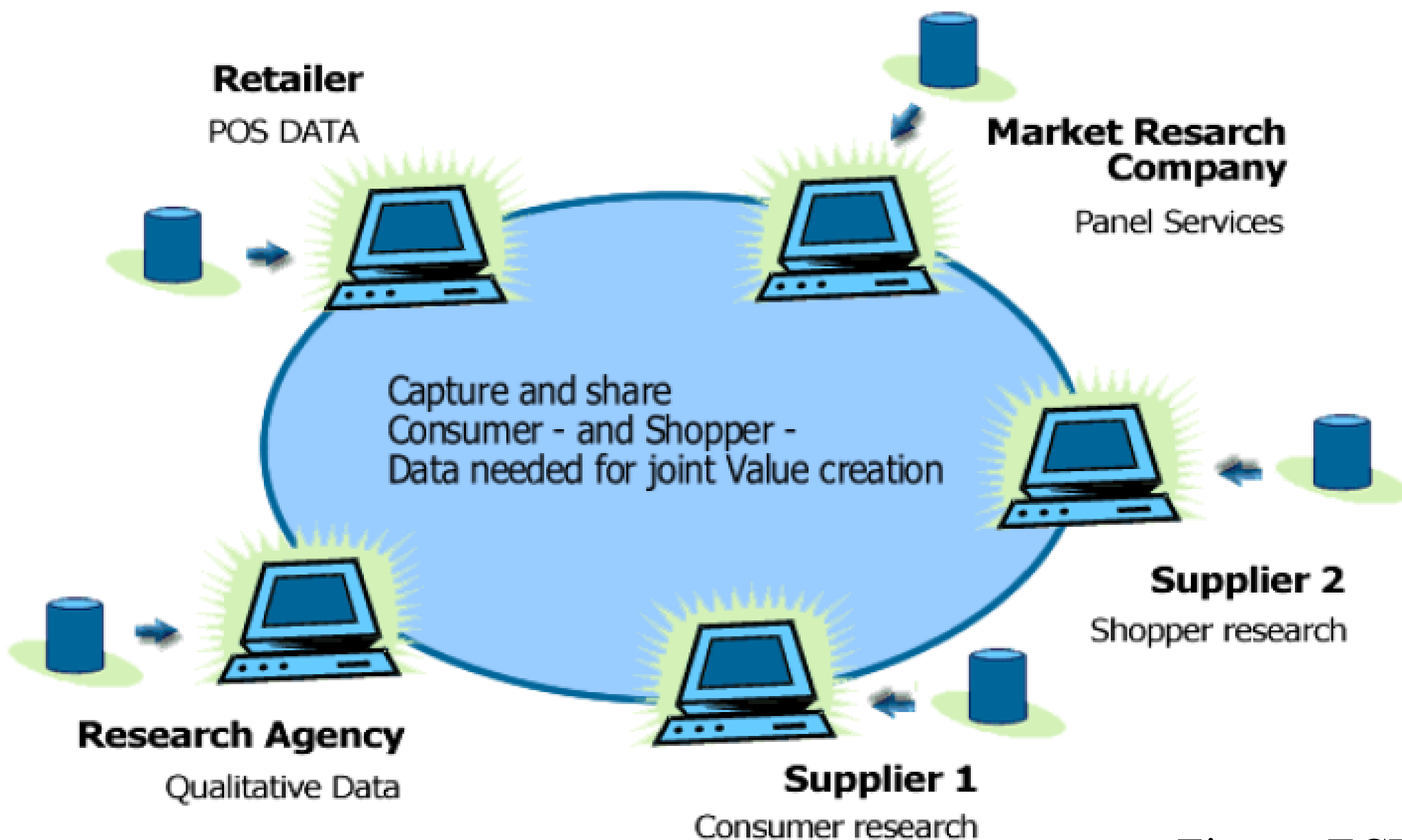
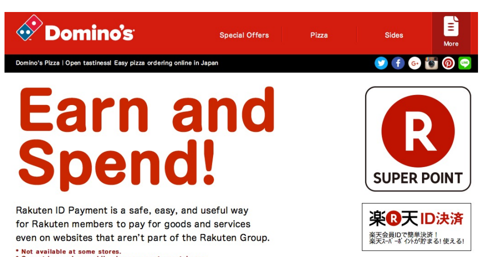


Figure: ECR Europe

Ecosystem Rewarding Members Using Many Services



Market-based assets have only potential value

- Resource-based theory has been criticized for its inability to explain how resources (or assets) are utilized to achieve competitive advantage.

- For example, the challenge that most retailers face is not the lack of access to specific data but rather the inability to transform available data into decision-relevant information and insights.

- **It is the capabilities by which retailer's resources are deployed in ways that match the retailer's market environment that creates competitive advantage** and explains retailer's business performance (see e.g. Morgan et al. 2009).

On the capabilities:

- According to Day (1994), capabilities are: *“complex bundles of skills and accumulated knowledge, exercised through organizational processes, that enable firms to coordinate activities and make use of their assets”*.
- Day (1994) specifies that capabilities differ from resources (assets) in a way that they cannot be given a monetary value, as can tangible plant, building and equipment, and are so deeply embedded in the organizational routines and practices that they cannot be traded or imitated.
- Thus, it is argued that development of key (marketing) capabilities is crucial for achieving a competitive advantage.

Building the competitive advantage

Retailer's intellectual assets
-Knowledge on customers, competitors etc.

Retailer's relational assets
-Relationships and networks

Marketing-specific capabilities

Superior customer value

Competitive advantage

Retail mix decisions and customer experiences in the field of retailing

About the customer experience:

- Verhoef et al. (2009) define customer experience in a retailing context as **a multidimensional construct** and state that the customer experience construct is **holistic in nature** and it involves the customer's cognitive, affective, emotional, social, and physical responses to the retailer.

- Lemon and Verhoef (2016) conceptualize **customer experience as a customer's "journey" with a firm over time** during the purchase cycle across multiple touch points. A customer experience is built up through a collection of touch points in multiple phases of a customer's decision process or purchase journey.

- The ability to create rich **customer experiences** play a crucial role in building customer satisfaction and loyalty in today's retailing environment.

- One could argue that the quality of customer experiences determines (i) **how much time consumers spend in store**, (ii) **how much money they spend there**, (iii) **whether or not they visit a store again**, and (iv) **what kind of "word-of-mouth" behaviour they will conduct**.

- Creating **superior customer experience** is one of the central objectives in today's retailing environments.

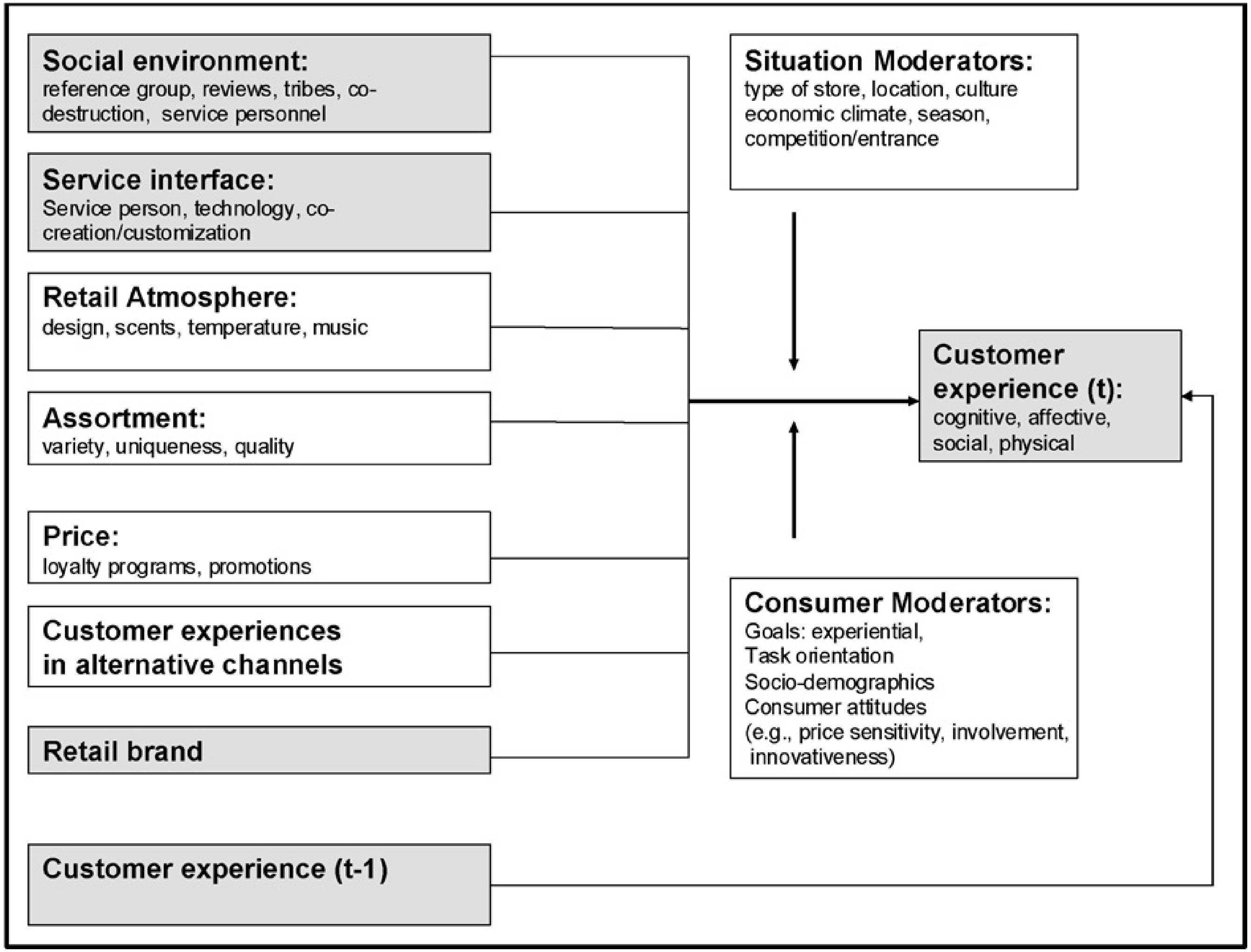
- Yet despite the recognition of the importance of customer experience by practitioners, the academic marketing literature investigating this topic has been limited.

- The customer experience originates from a **set of interactions (touch points) between a customer and a retail environment** and its various elements.

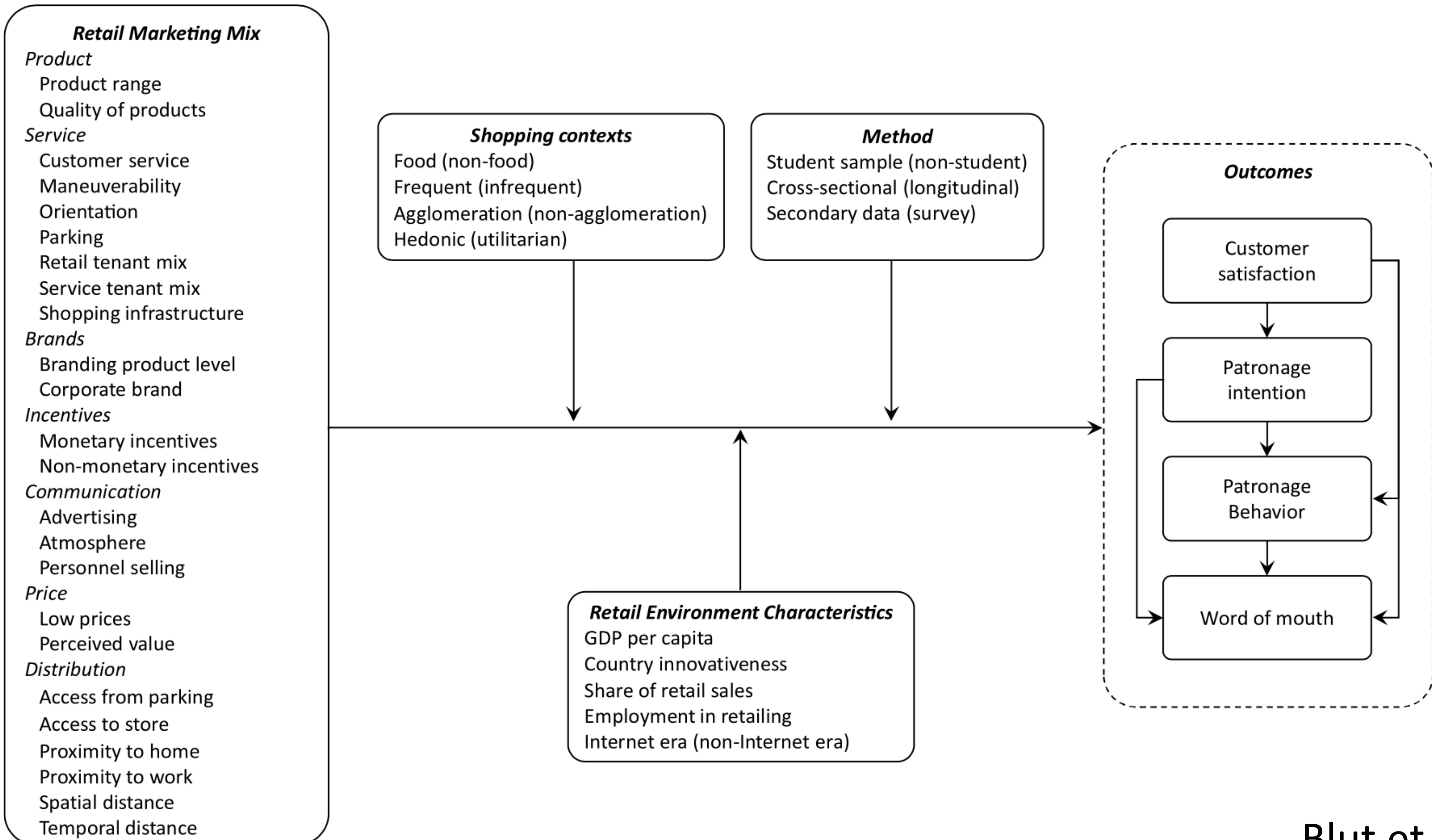
- The **customer experience is created not only by those elements which the retailer can control** (e.g., service interface, retail atmosphere, assortment, price), **but also by elements that are outside of the retailer's control** (e.g., influence of others, purpose of shopping).

Source: Verhoef et al. Journal of Retailing, 2009

Conceptual Model of Customer Experience Creation

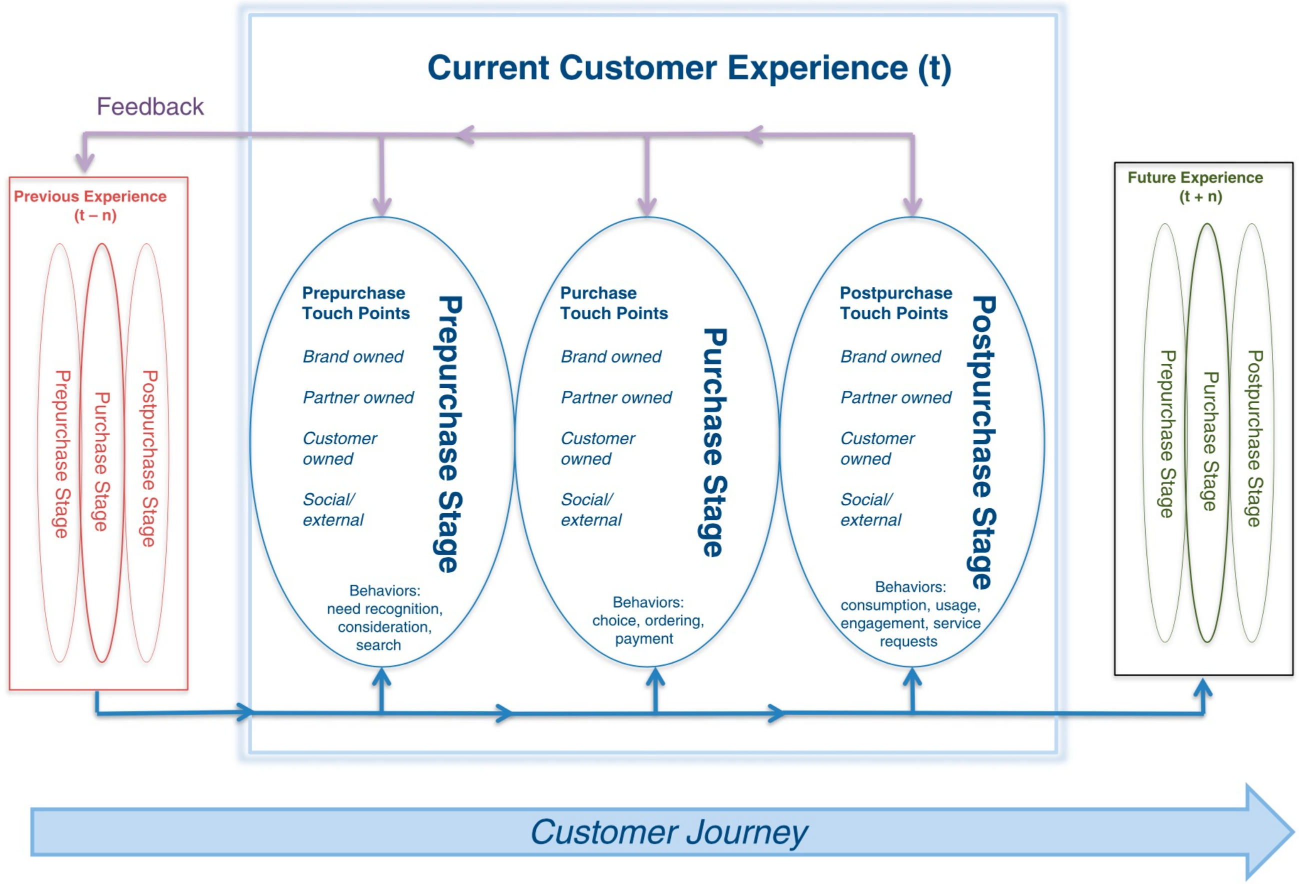


Retail Marketing Mix



Blut et al. (2018)

Managing customer experiences requires that retailer is able to manage all critical touch points through entire shopping journey: prepurchase, purchase, and postpurchase.



Source: Lemon & Verhoef (2016)

"The increasing focus on customer experience arises because customers now interact with firms through myriad touch points in multiple channels and media, resulting in more complex customer journeys. [...] Customer experiences are more social in nature, and peer customers are influencing experiences as well. Firms also have much less control, overall, of the customer experience and the customer journey, resulting in behaviors such as showrooming".

Source: Lemon & Verhoef (2016)

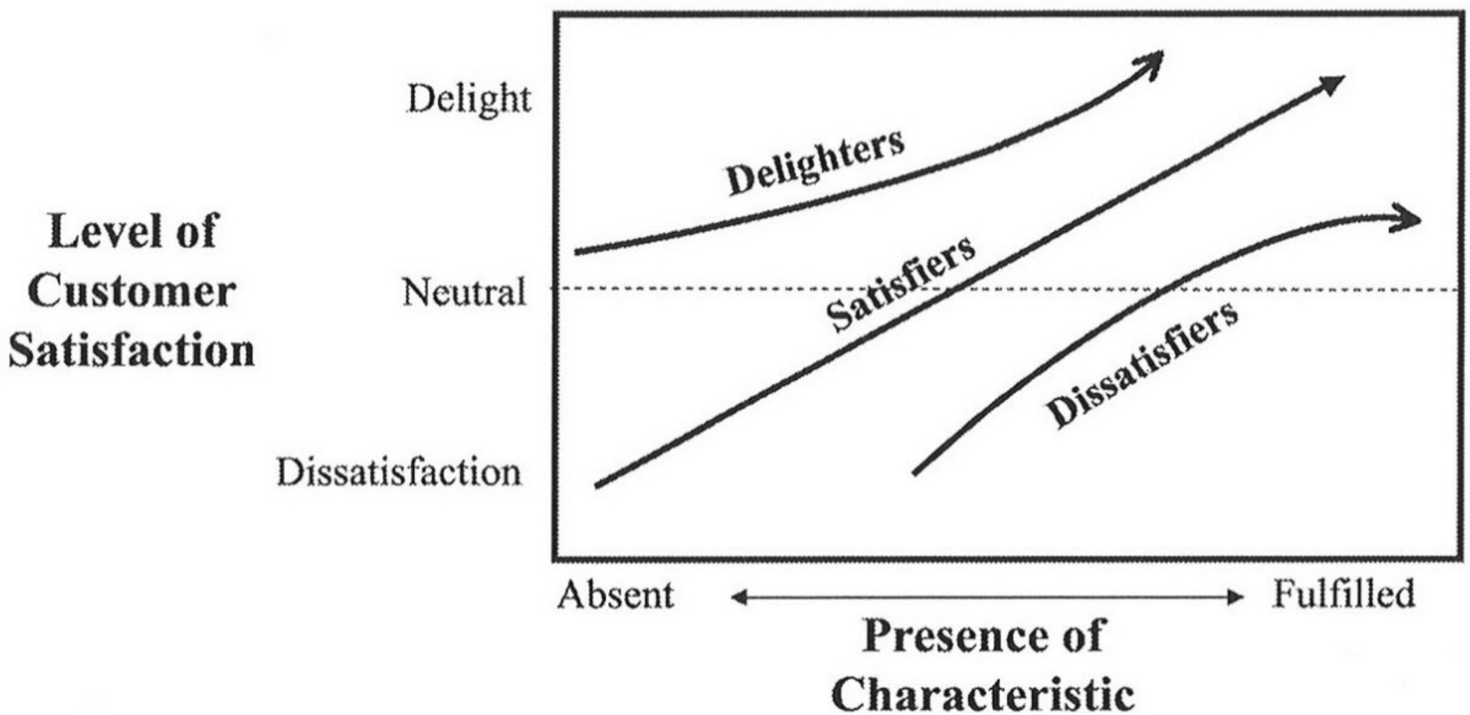
When aiming to enhance customer experience at the store level, retailer should ask:

1. What are our **dissatisfiers**? i.e., factors that are generally taken for granted among our customers.

2. What are our **satisfiers**? i.e., factors that expected and explicilty requested by our customers.

3. What are our **delighters**? i.e., factors that our customers do not expect but something that make them happy.

Kano's model of customer perception of value



Source: Joiner (1994, pp. 68-9)

Source: Khalifa 2004


With the Help of K-AI We Create a More Personalised Customer Experience
K AI PERSONALISED BENEFITS
Henkilökohtaiset EDUT
Massatarjousten personointi
K AI PERSONALISED SUGGESTIONS
K AI OWN RECIPES
Ella ja Julia Korhoselle
Pekka Salmiselle
K AI PERSONALISED SEARCH
K AI RELEVANT CONTENT
Hyvän olon brunssi
Sinua saattaisi kiinnostaa
K AI OWN BUYING HISTORY AND FAVORITES

Some key questions for any retailer in today's market environment:

How to create, maintain and enhance store traffic (both offline and online)?

- How to capture the attention and interest of consumers?
- How to ensure the customers' satisfaction at every point of contact and across every channel?
- How to reward loyal customers and increase their loyalty further?

How to increase the value of customers' shopping basket (in all channels)?

- How to increase the customers' average purchase?
- How to direct customers to select more profitable items (upselling)
- How to inspire the customers to do more impulse (unplanned) buying (cross-selling)?

Summarizing questions for retailers:

- Through what kinds of **strategies** and **business models** can retailing organizations achieve improved business performance?

- Through what kinds of **resources** and **capabilities** can retailing organizations achieve improved business performance?

- Through what kinds of **marketing practices** can retailing organizations achieve improved business performance?

Thank you!

Questions & comments:

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