Retail Marketplace Transformation: Making Strategic Choices for Rapid Change

by Steve Riordan, Kelly Kornet and Lisa Geraci

Despite years of sensational industry headlines about a retail Armageddon, overall retail sales have been strong, showing solid growth for the past decade. In fact, NRF said that 2019 holiday sales were up 4.1 percent to $730.2 billion.

What we’re seeing right now is not an overall decline in the industry – it’s a decline in sales of certain (often more established and traditional) retailers, as evidenced by the most recent announcements of downsizing from several prominent players.

Three Forces of Change

How can we reconcile negative perceptions and downsizing with the data that says retail sales are healthy? We can do so by understanding there are three big forces at work, causing the industry to rapidly transform.

- **Rapidly evolving consumer expectations**: Consumers expect a steady flow of fresh products and more opportunities to personalize what they buy. They even want or expect a voice in design, and they want transparency into retailers’ commitments to sustainability. They are strongly guided by social media, blogs and other influencers, and they shop when, where and how they want to shop.

- **Accelerating industry structural redefinition**: Manufacturers are growing direct-to-consumer (DTC) businesses, and retailers are aggressively growing and maturing private brand programs while simultaneously feeling the pressure to adopt closed-loop production models. At the same time, digitally native brands are opening physical stores. As a result, traditional undifferentiated players are losing share – especially those with high debt.

- **Innovation driven by emerging new business**: With low barriers to entry and low barriers to access end consumers, more and more startups are launching and validating highly effective new business models, often targeting just one category at a time. These companies are unencumbered by legacy business models, processes and technology, making them extremely nimble.

These forces help explain why we see certain companies winning and losing, and they affect how retailers and brands should function today, tomorrow and for the next decade. Companies with undifferentiated formats and products are in trouble.

Implications for Product Leaders

As the industry transforms, product leaders must do two things well.

First, they must be great at **product** - continuously investing to bring fresh, differentiated, innovative and personalized products to consumers.

Second, and just as importantly, they must invest in building better **capabilities**, enabling themselves to discover, create, make and sell better products faster and with more value. This requires a comprehensive approach to leveraging digital technology, foundational technology and new business models.

The Role of Technology

As retailers seek to transform their end-to-end product capabilities, it’s no longer sufficient to drive improvements only in foundational technology and processes like product lifecycle management (PLM), product information management (PIM) and digital asset management (DAM).

In addition, retailers should leverage a mosaic of technologies in three areas.

- **Digital Product Creation (DPC)**: Leveraging digital assets and tools to discover, create, make and sell products – better, faster and with higher value. This includes technologies like 3D design tools, body scanning and avatars, augmented and virtual reality, generative design and additive manufacturing.

- **Smart Connected Supply Chain**: Putting products on the grid to optimize and track their flow from source to consumer. This includes technologies like IoT or beacon-enabled stores, facilities and transportation, as well as IoT-enabled products and blockchain.

- **Advanced Analytics**: Harvesting insights to make better innovation, design, development and sourcing decisions. This includes technologies like machine learning, predictive analytics, voice of the customer analytics and advanced visualization.

The problem is that much of this technology evolves rapidly, making long-term planning to improve product innovation and development capabilities seem overwhelming.
Driving Digital Transformation for Product Development

Despite rapid industry changes, the goals associated with new product development transformation have remained (and will remain) consistent. Companies must increase revenue and gross margins, lower first cost, improve development rations, drive more productivity, and decrease operating expenses. And they must do this while maintaining the alignment of offerings to the company’s strategy and values.

Today’s leaders (and winners) plan in three-year cycles with a clear transformation agenda. They build a vision, strategy, roadmap and business case with a deep understanding of how all the available technologies come into play as an integrated ecosystem.

When undertaking a multi-year digital transformation program for their product development lifecycles, these leaders avoid prioritizing near-term challenges as the most critical focus areas, and they don’t neglect the long-term concerns that will become tomorrow’s highest priority problems.

They seek to develop and incorporate multiple and varied visions of the future into their thinking, and constantly monitor the external environment for emerging risks and opportunities. They ask potential vendors and business partners how they are preparing for trends like responsible sourcing and mass personalization.

When thinking about digital transformation, leaders leverage this future view to build strategic, long-term programs that leverage all four sets of technology to make better products and improve product development capabilities.

Originally published on February 25th, 2020

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