SURVIVAL OF THE FITTEST:
THE EVOLUTION OF THE RETAIL MARKETPLACE

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It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

—Charles Darwin

As true as Darwin’s statement is for animals in their natural habitat, so too is it true for retailers and shopping center owners today. A variety of changes in the retail marketplace are causing some to adapt and flourish, while others suffer and fail. This article will discuss a few of the factors that are changing the retail marketplace and what some retailers and shopping center owners are doing to respond to those changes. While by no means intended to be an exhaustive look at these issues, we hope this article prompts a thoughtful and engaging discussion on the future of retail.

WHAT IS OMNICHANNEL RETAIL?

Before the internet and evolution of online retailers, most retail happened in “brick and mortar” stores. As the World Wide Web advanced to a point where e-commerce was accepted by some consumers, online retailing, like a new predator introduced to the wild, established itself. Some traditional brick and mortar retailers experimented in online retailing, with varying degrees of success. Many successful online retailers did not have a meaningful physical store presence. As traditional retailers focused on their online operations, the term “multi-channel” retailing was born. In a multi-channel retailing environment, the online store buying and operations were often run separate and independent from the retailers’ traditional brick and mortar buying and operations, as if two separate divisions or business lines. However, having separate channels did not permit a retailer to take advantage of its inherent internal efficiencies and its larger, unified buying power. Separate channels also often frustrated customers who wanted the consistency of experience to buy either in a physical store or online with the same standards of price, quality, convenience and service.

More recently, the term “omnichannel” retailing has emerged to distinguish multi-channel retailing with retailers’ efforts to unify and integrate their physical stores and online sites. But omnichannel retailing in its best iteration is about more than that—it is about creating a frictionless, integrated customer experience. Examples of omnichannel retailing include:

- A customer’s ability to buy similar goods online in a physical store;
- A customer’s ability to check inventory of a physical store from an online device;
- A customer’s ability to buy an item online and return it to a physical store;
- A targeted email sent to potential customers showing popular items available for sale;
- A social media site that directs potential customers to a retailer’s online site or physical store;
- An online retail site that directs people to social media to learn more about a product or how people use it;
- Online review of products sold either online or in a physical store;
- “Click and Pick” where a customer can order items from a retailer’s web site and pick up the assembled order in a physical store. Further evolutions
of this concept include pickup locations where a retailer delivers goods to a convenient delivery spot, not the consumer’s home or business, from where the consumer then picks up the order from that intermediate location; and

- Specialized electronic devices that allow you to order products in a unique way from online sites, such as with your voice or through specialized apps.

Omnichannel retailing reflects customer preferences for maximum purchasing flexibility with today’s available technology and recognizes that customers prefer to have a variety of options when it comes to the purchase of goods and services. As retailers develop their unique balance of omnichannel retailing strategies, customers will benefit. And while data is still be collected and analyzed, the early results suggest that omnichannel retailing is producing overall sales increases across venues. Great merchants find exciting ways to serve customers’ needs and desires.

**CHANGES IN THE RETAIL MARKETPLACE**

For reasons well beyond the scope of this article, we are in a period of adaptive change in our world. The internet and social media are major causes of this change, but clearly not the only factor at work. Social issues, geo-political forces, the global movement of goods influence this period of adaptive change as well. Recalling Darwin’s quote, adapting to these changes in our world is the key to success. However, adaptation runs counter to inertia, which suggests that retailers will continue to do what made them successful in the past regardless of how that strategy may work in the future. Some of these forces for change include:

- NGOs: Non-Governmental Organizations attempt to advance their agenda for certain social causes through business channels;
- CSR: Corporate Social Responsibility reflects a company’s desire and efforts to go beyond minimum standards required by law. Examples may include how animals are treated, reducing carbon emissions and working conditions in foreign factories;
- Activist shareholders: Certain activist shareholders may have an agenda that varies from that of the company’s executive and board leadership. For example, they may advocate for short-term profits over long-term value creation;
- Millennials: Millennials seem to place different priorities on how they spend their leisure time than prior generations. Those priorities, as well as their comfort with rapidly changing technology, means that millennials often choose to buy their goods and services in very different ways than their parents have traditionally done. In addition, millennials are often looking for something more than just acquiring a good or service, but instead desire an “experience” as part of the buying process.

**SO HOW DO RETAILERS ADAPT, SURVIVE AND FLOURISH?**

_Don’t predict the future, invent it._ —Peter Drucker

Omnichannel retailing focuses on a business’s interaction with its customers. To be successful in today’s retail environment, a retailer, particularly a large, general merchandise retailer, such as a department store, discount department store, warehouse club or big box specialty retailer, needs to do more.

1. **Think Globally**

Retailers based in the United States may find international competition in their home markets and may try to do business in foreign markets. Products sold by large retailers may be sourced from foreign nations and many large retailers have buying offices outside the United States. These factors make understanding global legal, political and social regimes critical to doing business in the United States and elsewhere.

2. **Cradle-to-Grave Product Responsibility**

Whether for food items or manufactured products, retailers must understand the raw materials, means and methods of production, packaging, distribution, use, re-use, recycling and final disposition for each product that retailers sell. A retailer may have legal or social responsibility for undesirable facts or outcomes at each stage in the lifecycle of a product. Making informed, principled and thoughtful decisions every day is a must. If incorporated into a corporate culture, then employees may know how, and may be empowered, to make good, responsible decisions.

3. **Vertical Integration**

Retail operations include more than just a storefront, physical or virtual. Many successful retailers also have sophisticated farming, processing, testing,
manufacturing, packaging and logistics operations. In the next sections, the growth of private label products and information technology resources will be discussed. By vertically integrating each stage of a product’s life cycle and each of the constituent parts of a retailer into a single retail operation, there may be great opportunities; however, typically each of these new operations, which may be outside of the core competency of a retailer, also brings risk from competition of established market leaders. Retailers must balance the relative pros and cons of bringing some or all of a particular function “in-house.”

One area where many retailers have sophisticated operations is logistics. Logistics include product packaging, import and export, warehousing, distribution and delivery. At each stage retailers may choose to outsource these functions, rely on their own resources, or elect a balance of both. For many retailers, the goal of logistics is to drive costs out of a particular item, while maintaining the quality, reliability and availability of products in the store. Integrating these operations into a retail company allows that company to optimize these functions for its particular needs and, therefore, distinguish itself from its competition.

4. Private Label

Private label goods are branded under labels that are unique to a particular retailer. While almost always sold at a discount to the major brand label, their quality (and relative value proposition) can vary. Some retailers have aggressively pushed their quality to equal or exceed traditional brands. Some retailers sell almost exclusively their own product lines. Over time, consumers seem to have a greater acceptance for quality in-house brands and those items distinguish retailers. As retailers compete amongst each other for limited consumer dollars, a brand or item that can only be purchased at a particular retailer gives that retailer a natural advantage.

5. IT Companies

For many retailers, information technology expenses have outpaced many other traditional overhead costs. These expenses include creating online storefronts and apps and effectuating the transition from server-based technologies to big data and cloud-based technologies. With massive information available in useful formats, retailers can use data, not intuition, to make better decisions. The data available to retailers today may influence every aspect of their businesses, from buying decisions to transportation and logistics, to the efficient use of human resources. Big data is a revolutionary technological advance. And as retailers constantly strive to gain efficiencies, inventory control becomes a critical factor.

However, the implementation, maintenance and operation of these IT resources require significant corporate resources. In some ways, much like early online companies, retailers should think of themselves as technology companies. Retailers who create a noticeably better online shopping experience or who have better operating data, distinguish themselves.

Developing and integrating these IT resources is often challenging. Adding layers of security to protect these resources that are under constant attack adds to the complexity. Retailers often choose a balance between outsourcing some of these technologies and developing in-house. Regardless of how these resources are developed and operated, IT departments are “mission critical” to high functioning retail operations.

Recalling the introductory quote to this section, consider whether a retailer can merely buy “off the shelf” technologies or must aggressively develop IT strategies, resources and technologies to provide a competitive advantage.

WHAT DO CUSTOMERS WANT?

For general merchandise retailers, the mantra of price, quality and service influence how they do business. The intersection of price, quality and service may be viewed by some as “value,” which is an individual consumer’s formulation of the relative importance of each. In today’s world, service includes convenience, which has taken on a new level of importance with the incorporation of e-commerce into our everyday lives.

Price

For general merchandise retailers, price is as important as ever. Mobile phones, internet search engines and specialized apps make it easy for customers to compare price. Price is not just the retail sales price, but also includes direct costs, like sales tax and shipping charges. However, customers also seem to place importance on other indirect costs, like their time and convenience, which may be harder to quantify. For example:

- How much is it worth to a customer to be able to navigate a physical store quickly and efficiently?