

## Digital Retail Transformation - The Managers' Widgets

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### **Introduction:**

The last two decades are marked by business transforming technologies such as cloud computing and mobile digital business platforms based on smartphones, notebook computers, and social networks, which aid managers to achieve their business objectives (Laudon & Laudon, 2012). Due to a continuous change in technology, management, and business processes, retailers are faced with a number of challenges such as creating and capturing value from digital technologies, keeping the customer experience seamless with a combination of sales channels, i.e., physical store and a digital store, as well as compliance with the strengthening data privacy regulations, especially within the European Union. We propose managerial steps to navigate into the challenges of digital transformation especially during a crisis such as the COVID-19 pandemic. Changes in business models and the roadmap of the digital transformation of business models are also discussed. This report is based on data from European retailers and excludes sales from gambling, fast food, vehicle sales and repair, casual dining, banks, and insurance.

### **Challenges faced by Retailers:**

The brick and mortar retailers have limitations with assortments, shelf space, and geographical restrictions whereas the online-only retailers have challenges with data privacy and security, as well as lack of tactile feeling for shoppers (Rigby, 2011), quality issues, and challenges with reverse supply chain (product return). By having a physical and digital presence, retailers can combine the benefits of both channels such as efficiency, instant gratification, and service from the physical store and wider selection, the comfort of buying from anywhere, etc. via online stores. This combination and synchronization of physical and digital channels to provide a seamless journey to customers is now known as omnichannel retail. Omnichannel retail is not just the expansion of channels but also the integration of channels (Pauwels & Neslin, 2015) which is still a big challenge to most retailers. When the physical and digital channels operate separately as multichannel then the risk of cannibalization

(Kollmann et al., 2012) and other organizational issues arise but when the channels operate as a single entity they serve the brand and provide both the benefits of physical and digital.

In addition to channel integration in order to achieve a seamless customer experience, retailers during their digitalization journey invest in expensive technology and at the same time, they face organizational challenges (Mirsch et al., 2016). This suggests that the retailers have to revamp their whole existing business model in order to survive and thrive in this fast-changing era. The information technology, business model, and compliance to data protection regulations cannot be seen as different domains of the business, but need to be combined together in the digital transformation of the business. While completely digital is still an aspirational goal for many retailers, the pandemic has certainly made it urgent.

#### **Challenges exacerbated by pandemic:**

COVID-19 has reshaped the business landscape and has rapidly brought to the surface previously existing, underlying consumer trends. As the fear of virus spread persists, customers are forming habits and behaviors that will endure beyond this crisis (Jo & Kim, 2020). But the question remains open: do the retailers have systems and services to adapt to this shift? Today, more customers are looking to engage with businesses through digital channels. Online sales across Europe were boosted by the lockdown of non-essential stores in the six main Western European countries. The estimated turnover from these sales by the end of 2020 is £294.192bn, contrary to the original forecast of £249bn. This represents a growth of +31.1% in a single year. Although a recession was projected in 2020-2021 and was likely to reduce online sales, still, online retailers will have sales higher than two years ago. These estimates are based upon (a) continual reductions in coronavirus, with lockdowns of local importance, (b) a serious recession lasting into 2021-22, balanced by government efforts to stimulate the economy, (c) shoppers' enthusiasm for physical stores tempered by the need for masks and social distancing for some months and (d) spending by households that have lost income during the lockdowns or have become redundant afterward is not balanced by additional spending made by the professional classes which have saved money as a result of the lockdowns (Center for Retail Research, 2020).

When COVID-19 struck in December 2019 when the first cases were confirmed in Wuhan, China (Burki, 2020), followed by almost global lockdowns in the early months of 2020 which lasted for more than 6 weeks in many countries, many retailers were reluctant to embark on a digital transformation while those who did, did not give it as much priority as the physical stores. Disaster Recovery Plans (Burki, 2020) to respond to the disruption caused by the COVID-19 pandemic included the digital transformation of many business processes such as transformation or expansion of online sales channels, remote working on computers outside the normal business premises, etc., to facilitate business continuity as well as control the spread of the pandemic. These initiatives included data

processing activities such as contact tracing for customers and employees, data collection for essential fulfillment of business transactions such as collecting customer's physical addresses to deliver goods purchased online, telephone numbers, and email addresses for verification purposes, to mention but a few. The totals in Table 1 are dominated by the UK, Germany, and France. Table 1 shows that these three countries are expected to make up 82.4% of Western Europe's e-commerce in 2020 (compared to 85.6% in 2018). Britain had the largest online retail sector, whose retail share is expected to grow from 19.2% in 2019 to 25.3% in 2020, and to fall back to 24.3% in 2021 in a more normal year (Table 1).

**Table 1. Total Online Retail Sales 2019-2021 (estimate)** (Currency values are Sterling (£) billions)

	2019	2020	2021	Sales Share 2019	Sales Share 2020 (F)	Sales Share 2021 (F)
<b>UK</b>	£76.036	£99.308	£92.266	19.4%	26.2%	24.3%
<b>France</b>	£46.688	£59.340	£58.088	10.9%	14.3%	13.8%
<b>Germany</b>	£68.484	£83.693	£80.680	15.9%	19.9%	18.7%
<b>Spain</b>	£14.111	£24.684	£23.623	5.4%	9.9%	9.3%
<b>Italy</b>	£10.140	£15.464	£15.031	3.7%	6.0%	5.8%
<b>Netherlands</b>	£8.964	£11.653	£11.443	9.9%	13.1%	12.5%
<b>Totals</b>	£224.425	£294.142	£281.131	12.0%	16.2%	15.3%

[source: estimates by CRR] (F) forecast results.

Businesses were challenged by striking a balance between offering not only an online sales channel but also integrating technologies to offer a seamless experience, handling overcapacity of orders, technical expertise in logistics, marketing, and so on as well as compliance with data privacy regulations. In this paper, we propose digital transformation widgets in form of a roadmap and organizational safety guidelines, especially for small and medium enterprises.

#### **Digitalization of Business Model and Way forward:**

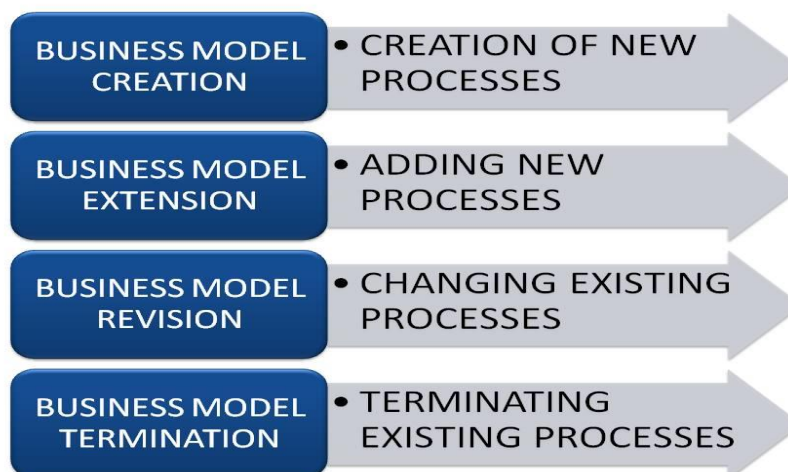
The term business model has been used in the strategy and management literature for a long time but the popularity increased since the late 1990s when the internet technology and information system came into play (Zott et al., 2011). Business models are discussed in various domains such as e-

business, strategy, management, information system, etc. so the definition varies based on the context and usage and there is not much consensus about it. The business model serves various functions such as capturing, visualizing, understanding and sharing the business logic (Osterwalder et al., 2005). It provides a common understanding to all the stakeholders involved. Once there is a common view and understanding of the business logic then it is easier to modify it and adapt to the fast-changing market situation and business environment whether it is due to a new technology trend or situation such as a pandemic.

As retail businesses become more omnichannel with a continuous shift of consumers towards online shopping, there is still a large retail market share that small and medium retailers are yet to exploit. The opportunities in the digital marketplace are not exclusively for large corporations but SMEs as well. People still prefer the convenience of buying goods online in order to reduce exposure to possible contraction of the virus. Brick and mortar retailers may consider a digital transition by listening not only to the needs of their consumers but their employees too as a business continuity strategy.

#### Changes in a firm's business model:

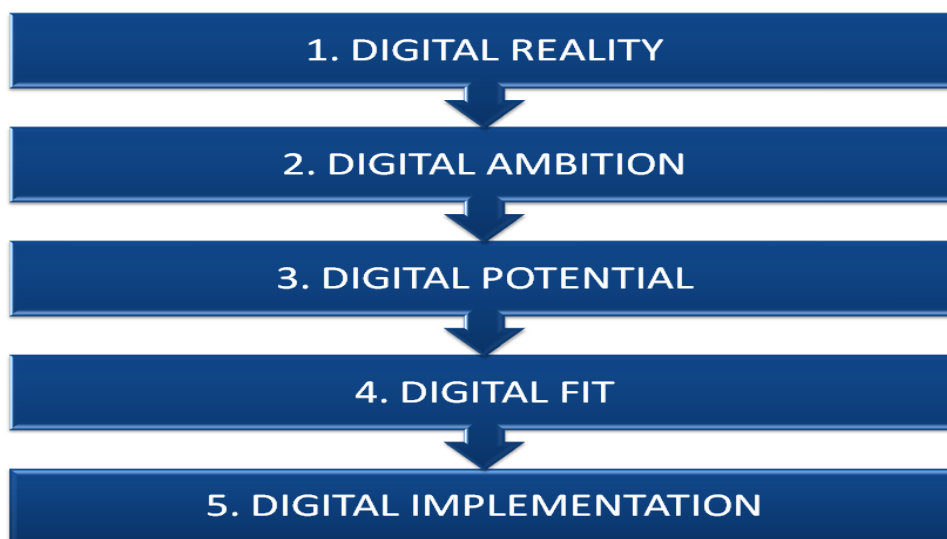
The business model is the most important factor which determines the performance of a company (Afuah & Tucci, 2003). A business model involves the following dimensions: customers, benefits, value-addition, partners, and financials which mutually reinforce each other (Schallmo & Williams, 2018). Furthermore, because of the uniqueness of each company, many changes can be done in a business model and many new business models can be generated, depending on the specific needs that exist in each period. The types of changes that can be performed in a business model are four according to Cavalcante, Kesting, and Ulhøi (2011), as shown in the following figure (Figure 1) :



**Figure 1. Changes in a business model [source: Cavalcante, S., Kesting, P., and Ulhøi, J. 2011]**

The first type of change is the creation of a Business Model, where new processes are created and included in the firm's business model. A second type is the Business model extension where a firm can add new corporate processes, according to the existing needs. Business model revision is performed in cases that a firm wants to change the existing corporate processes to fit the needs that exist at a given time. Finally, business model termination is a decision in which it is needed the termination of existing business processes. According to the type of change, corporate management can take the appropriate decision in order to identify the corporate needs and initiatives that fit the firm's business model (Figure 2).

**Roadmap to the digital transformation of business models:**



**Figure 2. Roadmap to the digital transformation of business models [source: Schallmo, D. and C. Williams, 2018 p.42]**

Schallmo and Williams suggest a roadmap to the digital transformation of business models. This roadmap has five stages and specific actions that a company has to do in order to implement the digital transformation of its business model. We have to consider the fact that every company is unique and needs all of these stages. These stages are translated to their initiatives such as digital reality, digital ambition, digital potential, digital fit, and digital implementation (Schallmo and Williams, 2018).

*1. Digital Reality*

This stage sketches the existing business model, analyzes the value chain (a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product for the market) and all actors included such as employees, customers, and suppliers. In this stage, the current digital corporate

status is designed in every detail. The existing business model dimensions are evaluated and value creation segments are identified, in order to determine the current status. It is of a high importance to understand the digital reality of today's business model because it will provide clear directions for future changes.

## *2. Digital Ambition*

This is where the management has to set the objectives of the business model such as market leadership, customer satisfaction, profit maximization, etc., and also set the priorities of the business model dimensions. The digital ambition stage is the beginning of the new era where the company management lays the foundation of a new digital course within four main pillars such as time, finance, space, and quality (Schallmo and Williams, 2018). Time refers to faster corporate processes, finance refers to cost savings and increase of sales, space refers to corporate automation and networking and quality refers to product and process quality. All the above mentioned elements can be prioritized according to specific corporate needs and goals.

## *3. Digital Potential*

In this stage, a collection of best practices for digital transformation takes place. Digital transformation enablers and the design of the future digital business model options are identified. In this stage, digital transformation enablers such as digital data, business automation, business networking, and digitalization of customer communication are set in a detailed mode. The options for future digital business model design are available for discussion, allowing management to take the appropriate decision for the future applications and services that can be used. Cutting-edge technologies are explored on how they can be utilized.

## *4. Digital Fit*

Suitable options for customer requirements and corporate objectives are evaluated. For example, will the digitalization of all sales activities increase profitability? If so, the company will invest in the digital transformation of all sales activities and vice versa. At this stage, all customer requirements must be analyzed and evaluated. Management needs to take the appropriate decision by combining and prioritizing the current and future customer needs in terms of how digital technology can serve customers better.

## *5. Digital Implementation.*

In the last stage finalization and implementation of the business model is taking place. Corporate management designs digital customer experience. A digital value network is very important for corporate initiatives as well as the integration of all corporate business partners in the business digitalization process, these are parts of digital implementation. Attention should also be given to the

corporate recourses and skills that are required in order to achieve a successful digital transformation of business model.

All of these stages are not easy and must be made very carefully. Management has to be sure that they have followed each step from the beginning, in every detail, in order to proceed to the next one.

### **Data Privacy Compliance:**

It is not unexpected that the topic of data protection is discussed here. Most businesses have significantly addressed this topic by reinforcing it in their business ethical codes of conduct to demonstrate good governance and compliance while others had no option but to embrace the new General Data Protection Regulation in Europe (GDPR). The European Commission officially implemented the General Data Protection Regulation (GDPR) on 25th May 2018. Companies risk paying a potential fine between 2% to 4% of their global revenue upon conviction of GDPR. Administrative fines for violating data privacy regulations have increased from 1 to 340 between July 2018 and August 2020 in amounts of €400,000 to €490,674,282 (GDPR Enforcement Tracker, 2020).

Strategically, it's necessary to think about value creation during the digital transformation as supported by Woodard, and West, (2010). Not only business objectives such as competitiveness to maintain a profitable market share by offering a superior product or service, customer satisfaction, etc. are important but other governance, risk management, and compliance aspects. There are many challenges relating to GDPR such as comprehending the regulation itself, its implementation, and compliance monitoring. While there is no one size fits all when it comes to data privacy compliance, we would like to recommend the official European GDPR Compliance Checklist (2020) which provides substantial definitions for starters. In addition to that, companies need to offer comprehensive training on data protection. Data protection is not the responsibility of the IT department staff only; it should be integrated into all the company's processes and departments.

### **Conclusion:**

All this above mentioned volatile situation in the global economy, along with the people's fear of the pandemic spreading, result in the reaction of the business world. Especially many small and medium enterprises in the retail sector show a shift towards the online market. Brick and mortar retailers find it difficult to maintain profitability while operating under restrictions or have the obligation to keep their physical stores closed. The online market has no restrictions and on the contrary, consumers find a way out in that direction. Digitalization of business probably has many challenges to be considered and addressed, however, if the right path is followed, obstacles are eliminated. Especially the desperation for the future of small and medium enterprises is proposed to be addressed by changing their business model by implementing a digital transformation. A successful digitalization of the business model can

help retailers to increase profits and sales through digital channels. Most of the extant studies focus on the business model and the compliance in separate ways but here we present the compliance checklist as a part of the digital business model, as with digitalization the data privacy is of much more importance and it should be included in digitalization journey.

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