Contemporary issues in retail industry

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A B S T R A C T	A R T I C L E I N F O
With regard to both the consumer behavior and the overall competition structure, the retail industry is constantly changing. Each industry has its peculiarities, retail is no exception. The customer loyalty levels are decreasing, therefore, the retail management at large has to decide which effective measures to take, in order to simultaneously gain new customers and retain the existing ones. At present, the average buyer is educated, experienced, and keenly self-aware of his/her importance, as well as of the entire purchasing process. Consequently, it is essential to obtain access and keep the buyer satisfied. The changes required, with regard to the management of retail chains, should thus cover all the stages of the process, ranging from the procurement to sales. In this particular paper, we examine the corporate governance process and its' requirements of competing on the retail market. The overview of the entire organizational structure and the processes required to operate under current retail management conditions will be analyzed. The findings will prove to be quite beneficial to Croatian retail companies and aid in overcoming the major threat of EU competitors, laying out the changes necessary for survival within this particular industry branch.

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1. INTRODUCTION

The business world has reached a point at which environmental issues can no longer be ignored. Business results are nowadays achieved not just by increasing the volume overturn. Numerous new factors enter the consideration, namely, the demographic impact of the aging population, increased urbanization and digitalization levels. The present World is changing at an ever-increasing pace, with the differences between socioeconomic groups on the rise, changing daily. In such circumstances, the management is having serious difficulties when choosing the most optimal strategy. Numerous parameters have to be taken into account. The retail strategies that have previously been successful are no longer valid. Throughout history, consumption was the combined result of the population increase and the opening of the new stores. Today's consumer is a rational player, one considering numerous differing factors. Thus, this change in consumer behavior leads to a shift in business paradigm, creating the need for companies to adapt to new trends, or face extinction. In this paper, various factors impacting strategies and managerial responses will be examined, with case studies of successful companies within the retail industry. This paper will serve as a guide to the Croatian retail companies, advising them on ways feasible in responding to the modern consumers' demands.

2. Factors affecting the modern retail industry

Three main trends are affecting the retail industry [1]: urbanization, aging population and digitalization. Nowadays, companies need to seek out profitable markets and consumer segments, their geographic location and the manner in which they prefer to spend money. Today's market, represents the most diverse consumer market throughout history.

2.1. Urbanization

According to the Business dictionary definition, the urbanization is the increase of the population dwelling in cities and towns, which stands in contrast to the rural areas. The increase in urbanization began during the industrial revolution, as workers migrated to the urban manufacturing hubs, in order to obtain jobs in factories; as agricultural jobs became less common. Urbanization is a process that, historically, parallels the increase in migration, economic development, aging of the populace and a decrease in fertility. This process was influenced by both social and economic factors. Urban life contributes to higher education levels, better overall healthcare and quality of life. However, because of it not being a controllable process, it also has several side effects, namely, a faster life pace, increased pollution and traffic, especially when the effects of unplanned urbanization are considered. Also, when compared to rural existence, the urban life has larger income discrepancies and socioeconomic mobility. Although the urban lifestyle offers many advantages, numerous urban residents live in poverty. In 2007, for the first time in history, the overall global urban population exceeded the rural one. Thereafter, the World populace remained predominantly urban. Over the past six decades, the planet has gone through a process of rapid urbanization. In the 1950, 70% of people worldwide resided in rural settlements. In the 2014, 54% of the global population was urban. The projection for 2050 is that the urbanization will continue unabated, with 34% of the people being rural and 66% being urban. In essence, this will reverse the mid-twentieth century rural-urban population distribution. [2]

Table 1. Contribution to global consumption growth (%)

	1970-1985	1985-2000	2000-2015	2015-2030
Per capita consumption growth	45	47	58	75
Population growth	55	53	42	25

Source: World Bank; McKinsey Global Institute Cityscope; McKinsey Global Institute analysis, 2016

As is shown in Table 1, the consumption growth has been determined by the population growth. Nowadays, the trend is changing, as the year 2000 consumption per capita growth levels are overtaking the consumption growth. By the year 2030, the impact will be quite substantial, with the 75% per capita consumption growth [3]. Consumer growth is thus not based on solely the expanding populace. Nowadays, customers' needs, service and mind-set are paramount. Therefore, the companies need to respect the individualism of each customer. Global population growth rates are expected to decrease, however, the overall increase in consumption has to be taken into account when creating the business strategies and tactics.

By the year 2030, the consumers in large cities will account for 81% of the entire global consumption. However, they will still make about 50% of the overall populace, generating 91% of the World consumption growth during the 2015-2030 period. Global urban consumption is extraordinarily concentrated - just 32 cities are likely to generate 25% of the overall 23 trillion USD of urban consumption, with 100 cities responsible for 45% of the 2015-2030 growth rate [4].

Increased urbanization is influencing the shifting of retail companies' strategies. The market has never been more diverse, there no longer exists a standard customer in the standard market. Urbanization has led to significant differences in the financial status, cultures and behaviors of inhabitants dwelling within the same city. The services provided to the consumers have become quite important, making it perhaps even a decisive factor. All of the factors considered demonstrate the difficulty companies face when choosing the right retail strategy and the existing need for more alternatives, due to the large variability of customers.

2.2. The aging populace

According to the survey of the United Nations, "World Population Prospects: The 2015 Revision, Key Findings and Advance Table", there are 901 million people of or over 60 years of age, making up 12% of total populace. The population aged 60 or above is growing at a rate of 3.26% each year. Currently, Europe has the highest percentage of population aged 60 or over (24%). However, the rapid population ageing will occur in other parts of the World as well. In fact, by the year 2050, all the major areas of the World, excluding Africa, will have nearly 25% or more of their population aged 60 or over. The number of elderly people in the World is projected to reach 1.4 billion by the year 2030 and 2.1 billion by the year 2050, with a possibility of rising to 3.2 billion people in the year 2100. In the short-to-medium term, a higher percentage of elderly population is inevitable, with those people already amongst the living [5].

There are several World countries that are expected to decrease in population, 48 of them, during the 2015-2050 period [6]. Several countries are bound to experience a population decline by more than 15% by the year 2050, including Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Japan, Latvia, Lithuania, Republic of Moldova, Romania, Serbia, and Ukraine. The fertility rate in all the European countries is, at present, below the level required for a long-term full population replacement (around 2.1 children per woman, on average). Additionally, in the majority of cases, the fertility rate has been below the replacement level for several decades. Fertility for Europe, as a whole, is projected to increase from 1.6 children per women during the 2010-2015 period, to 1.8 during the 2045-2050, however, such an increase will not prevent a likely contraction of the total population size [7].

Both the European market and the companies are facing an aging population. Consumers aged between 60 and 75 years will thus grow more than 30%, contributing to more than a half of the urban consumption growth, during the next 15 years, for the developed markets. The retail companies, at present, do not provide them with proper attention. However, in the future, they should aim to transform the elderly into loyal customers. For every dollar spent shopping, they also spend 25% more time, when compared to the prime-age people. This is just another reason for the companies to focus on this particular, powerful demographic path. [8].

The age factor in consumption behavior provides an additional indication of the level of welfare among the elderly. In the high-income countries, the consumption of the elderly people does not plummet following retirement, as a matter of fact, they spend a third more than other groups of people. In contrast, the elderly in low or middle-income countries, unfortunately, no longer possess the sufficient income, simultaneously failing to save enough funds for medical services and other various expenses [9].

2.3. Digitalization

The digitalization process is one involving the integration of digital technologies into everyday life, by digitizing everything that can be digitized [10]. The impact of digitalization is omnipresent, with the retail industry affected as well. The digital commerce is continuing to grow, and consumers are becoming increasingly methodical in their purchasing behavior. This is shown by the fact that more and more Europeans regularly shop online, spend a higher average amount than ever before. In the survey „Online Retailing in Europe, the U.S. and Canada 2015-2016" by the Centre for retail research, the total online sales in Europe were at 214.11 billion USD in 2014, an 18.4% increase when compared to the previous year. The online retail market share, when compared to the brick-and-mortar option has a sales-weighted average of 6.3% in 2013, growing by 7.2% in 2014 and 8.4% in 2015. In the year 2014, there were 178,882 million online shoppers in Europe, which represents 46.7% of the entire populace, infants included. The mobile online market is the fastest growing facet of the online retail, with more than 50% of the views on some sites coming from mobile devices. The mobile online retailing, comprised of both smartphones and tablets, provided an average of 12.5% (32.57 billion USD) of total online spending in 2014 [11]. The digitization process thoroughly changed the business paradigm, with the ultimate outcome still being uncertain. Applying the digitization process to a company should be accepted by all the employees and not taken easily. The employees' efforts and involvement is essential, with the

departmental integration being inevitable. Although the customers accustomed to digitalization and indeed, demand it, the human contact never ceased to be an influential factor.

3. RESPONDING TO THE TRENDS

Retail companies are observing their business environment on both daily and long-term basis. In accordance with the trends, companies change or adjust their overall sustainable strategy. Three main trends shaping the future of retail business have been determined: the urbanization process, the aging population and the digitalization effect. What follows are the strategies aimed at responding to the trends, with the emphasis on their success. These strategies can be adapted in any part of the World, including Croatia.

All of these represent the factors influencing the decline of brick-and-mortar stores. Nowadays, people don't want to spend their entire weekend on a trip to a faraway hypermarket, wasting it on the buying process and a subsequent return. The modern customer craves access, discounts, convenience stores and e-commerce [12]. The big-box stores are also facing negative margins in non-food category and the lower sales per square meter. Due to these circumstances, most retailers cut the variable costs, decrease the number of personnel, with the results being quite detrimental: poorer service, replenished shelves and stock outs. These decisions, made by retail management, only serve to further deepen the existing crisis, pushing the customers toward the competition and new retail formats.

The dominant EU retail model was price-orientated. The lofty discounters gained the share market of 35% in Germany [13]. They focused on private labels at unbeatable prices. The retail development is based towards the soft-discounting, providing branded goods, interesting store layouts and peculiar buying experience. Nowadays, the customers prefer to obtain value for money. The lowest price, as a buying factor, is reduced in influence and increasingly substituted with "value" and "trust". The price is no longer a primary purchasing factor, with the customers seeking a fair price, coupled with high quality.

Hypermarkets and supercenters are reducing their market share constantly. The big-box stores are large, usually larger than 5,000 square meters and situated outside of the large cities. They provide food and non-food items, usually at low prices, made possible by scale purchasing.

Their market share is declining in both the Western and Southern Europe, with both at 27% in 2007. In 2008, their market share was 26% and in 2014, it dropped to 22%, according to the retail analyst firm Planet retail. These stores have lost their competitive advantage of low prices and huge selections, because the trends are shifting. Clearly, the management has to take modern consumer behavior into consideration. This section may be divided into subheadings. It should provide a concise and precise description of experimental results, their interpretation as well as the experimental conclusions that can be drawn.
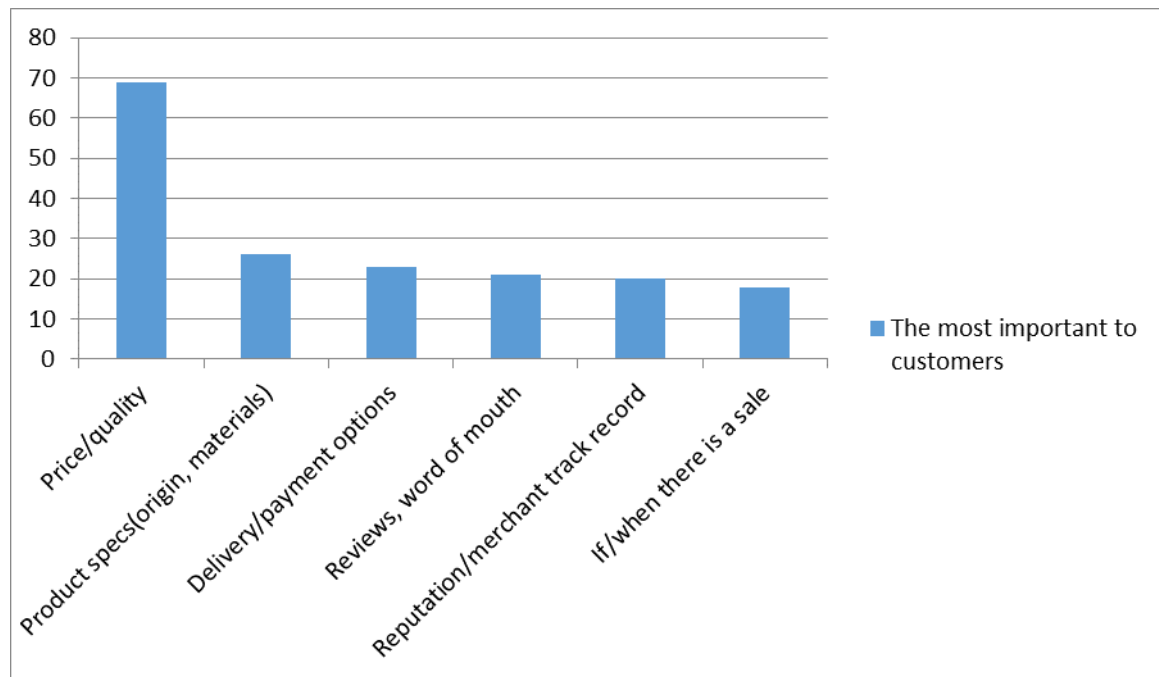
Figure 1. The most important factors influencing purchasing behaviour

In the survey "Retail CMO's guide to the Omnishopper", conducted in 2015, represented in Figure 1, it is noticeable that the discounts and promotions came up sixth (18%), after price/quality (69%), product specifications (29%), payment options (26%), user reviews (21%) and reputation (20%). The modern consumers want a shopping experience, demanding convenience and value. The strategies of supermarkets has, thus far, been based primarily on low prices and low wages. However, this particular trend has changed irrevocably. Currently, the hypermarkets and supermarkets have a market share of 70%. The projection, impacted by all the mentioned factors, predicts a share of 59% in 2025, according to the Planet retail and the Bain analysis. This is a more favourable projection for hypermarkets and supermarkets, with some estimates going as low as 48%. The convenience stores and online markets will, in due time, take over the market and define the retail management [14]. The shift from the big-box stores to the convenience stores has also repercussions on the average grocery store size, as well as the average assortment of goods sold. With all the issues already mentioned, the present average surface stands at 775 square meters. The average surface in retail was constantly on the increase, until recently. The projection for 2025 is quite shocking, with an expected drop of 10%, to a shrunk average store surface of 700 square meters. Some predictions are going so far as to predict even a greater shrinking rate, by 30% to 35%. The overall result will be the reducing of available shelf space. An average number of stock keeping units (SKU), the weighted average assortment size, per channel format, is 8.000. The prediction for 2025 is reducing the available shelf space, dropping it by 15% to 25%, to 6.000 to 7.000 SKUs. The retail companies are also experiencing eroding margins, which have been in effect since the past decade. The reducing SKUs and the newly available shelf space steers the attention of retail companies on the products displayed on the shelves, with the emphasis on the customers' preferences. The lowest price is thus not the most important factor any more. The creation of multi-channel, digital formats is indeed the future of retail management [15].

As can already be seen, the retail leaders are making the necessary changes, in order to satisfy new customers. The French retail company, Carrefour, is going through the most important transformation of its stores. Their focus shifted massively towards the convenience format (from 200 to 900 square meters). By the end of 2015, the Group had 7.181 convenience stores, including 1.070 new stores. In France, the inclusion of the Dia store is the answer to the demand of smaller formats, caused by a more dynamic lifestyle, coupled with the need for a more convenient shopping experience. Currently, they are proceeding at a rate of converting 40 stores a month. By opening the stores in strategic locations, acquiring local retail chains, renovating the existing assets and by developing innovative digital solutions, Carrefour is tailoring its model to the specific needs of each

local area. Although Carrefour has not given up on hypermarkets and supermarkets, nearly 400 new stores were opened under the Market, Bairro and Supeco banners, reaching the total number of 3.462 supermarkets (with the area of 1000 to 3500 square meters), by the end of the year.

At the end of 2015, Carrefour was operating a network of 1.481 hypermarkets worldwide (2.400 to 23.000 square meters), including 61 new stores. Even though Carrefour is opening new hypermarkets and supermarkets, the current business strategy is obvious. Namely, during 2014, 1.070 convenience stores opened, standing in sharp contrast to 461 new hypermarkets and supermarkets [16].

Also, a second French retailer, Auchan, has opened its first "myAuchan" convenience store in Paris, France. The store replaced a former, 300 square meter "A2Pas", with the aim of offering shoppers a reinvented, innovative, multichannel format. The store offers 5,500 SKU assortment of both regular and premium products, along with an improved customer service and a dining corner [17].

As a part of its push to drive online and convenience sales, the German retailer, part of the Schwarz group, Lidl, is reportedly going to open a new "Express" format. This new format will be trialed in Berlin, with the tagline "Always.More.Online". The new format will be smaller than a standard Lidl store, with the product range focused mostly on convenience products. It will also feature several Express checkouts. In order to encourage online shopping, it will offer an in-store pick up service for purchases made online [18].

The modern customer is also concerned about the origin of food and its' sustainability, with health concerns being paramount. As such, the healthier way of life necessitates organic, gluten-free, fresh and locally produced food. In large European cities, where traffic jams are frequent, public transport is available to individuals, the car use is expensive and thus avoided. The environmental concerns are also a factor, with modern customers frequently resorting to buying at a local store. This is the main reason companies operate their convenience stores in growing locations and invent in store amenities, such as an in-store prepared meals, a large selection of fruit and vegetables, as well as organic products.

The Swedish retailer Axfood has become a part-owner of the Urban Deli format, which is a restaurants / food market / specialty store hybrid.

The Carrefour has also started the first "Shop'n Go" car-sharing station and charging point, created in Milan. The initiative is part of an effort to raise customer awareness with regard to the advantages of shared and electric transport, crucial for environmental sustainability, thus promoting eco-sustainable and efficient behaviour in urban areas and particularly major cities, such as is Milan [19].

Numerous companies recognize the importance of online market sales, although the web commerce has been available for the last 20 years has not had a predicted impact on the consumer. The current market share of online sales is just 8.4% of total retail sales [20]. The most popular e-commerce products are clothes and footwear, home electronics and books. The online share is high in non-food categories, however, the average online share of the grocery sector is still quite low, with the possibility of sector growth. The retail companies are undertaking enormous efforts in order to pinpoint the most suitable strategy of attracting customers to purchasing fresh food, fruits and vegetables.

According to the Delloite's study "Global Powers of Retailing 2016 Navigating", there exists a "new digital divide", with one third of the 250 largest market leaders without an e-commerce option. About one-fifth (33 companies) in 2014 did not have a transactional website. This is similar to the 2013 result, but down from more than one-quarter during year 2012, as an increasing number of retailers has launched an e-commerce business. Most of the companies that did not engage in e-commerce are retailers of food and other fast-moving consumer goods (i.e. supermarket, hypermarket, hard discount, and convenience store operators). The reduced profits and margins in hypermarkets and supermarkets are replaced by the digital commerce and the profits made in-store are funneled to the digital transformation efforts. The best-selling products in online trade consists of non-food products, so that particular brand of goods has to be increasingly offered on-line. The food products will thus present the opportunity for the greatest growth. Also, the on-line commerce will accelerate the future

expansion of digital commerce. The present customer is served through all the available channels: stores, mobile, online, and social, making them the omni-channel customers. The omni-channel retail integrates the various different methods of shopping available to consumers (e.g. online, in a physical shop, or by phone), making them in constant contact with the company, essentially being able to pick up where they left off on one channel and continue the conversation on another [21]. Certain customers require fast delivery, some of them want predictable delivery time and others want to pick the products after the work time. Companies have to tailor all the channels in accordance with the customer needs, for the research shows that omni-channel customers spend two to five times more than customers who buy in only one channel [22].

The current business model, one based on distinct, separated business departments within a hierarchical structure can no longer exist. Some traditional companies are trying to implement the omni-channel principle by inventing a "digital department" or a "mobile department", but this alternative has severe drawbacks. Given the fact that a modern customer buys through multiple channels and isn't concerned with the companies' ability to address this particular business challenge, forces the management to unify all of the departments. Companies must thus be effective across with regard to all the functions and channels. These new services and stores emphasize the need for excellent coordination between the departments within a retail company. More than ever before, the management is responsible for coordinating all the functions across the channels. Traditional companies are still afraid of the new trends and do not invest sufficiently.

The supply chain and the planning process has to be effective in order to yield favorable results. According to the 2016 survey, "Retail CMO's guide to the Omnishopper", item unavailability is the most frustrating aspect for customers (at 73%). Therefore, the inventory is the most important factor in creating the shopping experience, more important than information security (59%), the existence of too many choices (48%) or too much information (48%). There has to be a system in place which manages the planning and the supply chain, with orders reflecting on inventory state. Thus, IT investment is in the focus of the retail companies. Without the existence of proper logistics and a responsive IT infrastructure, one covering every aspects of the company business process, the final result will be severely lacking. The multi-channel formats, ones based on the digital transformation process and the creation of smaller formats, such as the convenience stores, have a greater probability of success under these conditions of shifting consumer behavior.

Each company has to start with a clear strategy and vision. The investment in digital transformation has to be accompanied with investment in procurement, marketing, staff, logistics and stores. The entire process, overall structure and technology used has to be in the service of converting the company to a omni-channel format. The conversion requires various skills, seeing how the customer is at the center of attention. The digital transformation emphasizes the service component, therefore, it and is no longer sufficient to just display a product on the shelf and expect it to sell.

In the previous chapter, all the relevant factors influencing the retail industry were considered. Currently, the customer requires a complete buying experience, both in the store and on-line. This is the only option that will ultimately make him/her a loyal customer. The loyalty programs represent an important tool in identifying, rewarding and retaining profitable customers [23]. However, the loyalty is not the sole reason behind the purchase, with the most important factor being the value provided to a customer. Therefore, converting from a simple retail to the omni-channel format must be an all-encompassing venture, presented to the customer only upon successful completion. This process cannot be rushed.

There are seven capabilities a retail company needs to get right in order to serve an omni-channel customer [24]:
• Building web and mobile customer experiences with intuitive interfaces, rich content and a great connection to the physical store experience.
• Building the right assortment across channels in a way that makes the most of each channel.
• Marketing effectively across traditional and digital media channels through media allocation, message and promotion coordination, and optimizing each media channel.
• Developing profitable fulfilment and shipping models.

- Integrating management of inventory across the supply chain, and placing SKUs in the right nodes (stores, distribution centres and fulfilment centres) for rapid delivery at minimum cost.
- Incorporating advanced analytics techniques into day-to-day decision making.
- Building an agile technology development function that is connected to the business and is flexible enough to work across functions.

The retail industry management has a difficult task, to unite all the departments within a particular company. A great example of adopting this new model is Macy's. In 2010, they announced a new, omni-channel strategy. Macy's found that customers who shop across multiple channels are 8 times more valuable than those who shop confined within a single channel. Therefore, the company invested in both the digital commerce, as well as their stores, utilising the stores as distribution centres, shipping items directly to online buyers and filling inventory when items are low in stock. Also, the omni-channel position was created within the company, a person directly responsible to the CEO, not only responsible for the digital transformation process, the stores, mobile and online activities, but also for the logistics, the company's overall systems and operating functions. The financial performance of Macy's, due to the actions undertaken and the importance of this deliberate investment, has improved significantly, gaining in market share and rising their stock for 43.1% in 2013. [25].

Another example of a successful digital strategy implementation is the French retailer Carrefour, which offers its customers a wide range of solutions for ordering, delivery or collection. In Italy, a service called "The clicca e ritira" is available, one constantly expanding, with more than 240 points where items can be picked up within an hour of ordering, or delivered at home within three hours.

The projections made regarding the reduced influence of brick-and-mortar stores show that e-commerce has yet to achieve a 10% share of the total sales volume. The reasons behind this is that consumers still want to socialize and interact with others, therefore, the stores give them the opportunity to chat with other customers or store personnel, spend their time and touch the products. The classic retailers still earn profitable operating margins, ranging from 5 to 11%. The e-commerce cannot substitute an in-store venture, however, it can help a retail company in being more successful, trough combining both the strategies. Both the e-commerce and brick-and-mortar are indispensable, with the companies under conditions of finding a synergic level between the two.

4. CONCLUSIONS

In this paper, three distinct trends are emphasized: the urbanization process, the aging population and digitalization. These trends will inevitably shape the future and affect all the aspects of life, as well as the global retail industry. The aging population is on the increase, with the fertility at its lowest points, especially in Europe. The socioeconomic gap is constantly increasing and in combination with the demographic impact will be impossible to avoid. The migratory trends of urbanization, with the rural population on the decline, make the current strategies of retail companies no longer feasible. Hypermarkets and supermarkets, historically the largest market shareholders, are decreasing and the retail companies are directed towards smaller formats as convenience stores. The price is no longer a primary purchasing factor, value and high quality are the subject of customer's need. An average modern customer is quite informed, with the loyalty decreasing in relevance. The future of retail depends on both the effective and efficient use of all the available resources. The multi-channel formats, ones based on the digital transformation process and the creation of smaller formats have a greater probability of success in today's changing world. The digitization process has to be implemented within each company, in a seamlessly and deliberate fashion. The synergy of digitization, the physical stores and management remains as the key to retail companies' success.

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