Retail Industry Analysis

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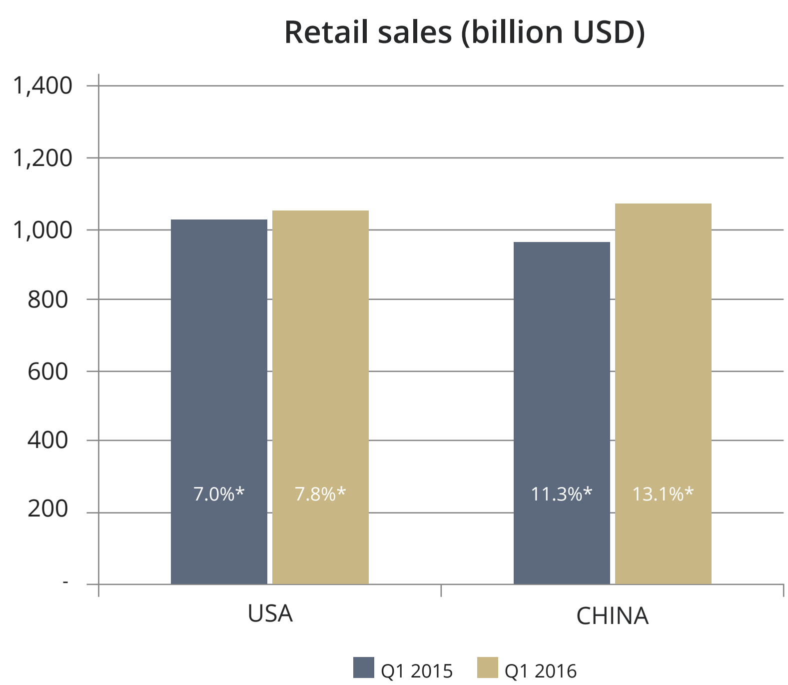
EFM Capital

Market overview and key players

The United States and China have the two largest retail markets in the world. This year, China surpassed the US in total retail sales with an amount of USD $1,203 Billion, which reflected a 10.3% increase from the same period in 2015. China's growth has stabilized in recent years, but is still very high compared to the US, which only grew at a 2.2% rate for the same period [(US CENSUS BUREAU, 2016; China Internet Watch, 2016).]()



* Denotes % of E-Commerce Sales
US Census Bureau, 2016; China Internet Watch, 2016

What stands out is not just the growth of the Chinese industry, but the percentage of e-commerce sales within the country, which is almost twice as high as the United States. In fact, according to BAIN CONSULTING, the growth of online retail sales linked to stores in the United States will slow down and online purchases will eventually plateau at approximately 20%. What this means is that the general population in the US will continue to shop offline at an 80/20 rate going forward (Bain Consulting 2015-2016 Newsletter).

If we look at the largest retailers in the world based on revenue, Wal-Mart Stores continues to lead by a wide margin. Despite its large lead, Wal-Mart is adjusting its strategy to focus more on online sales and customer experience. Earlier this year, it decided to shut down 269 stores worldwide in the first ever mass store closings for the retail giant (Forbes, 2016).

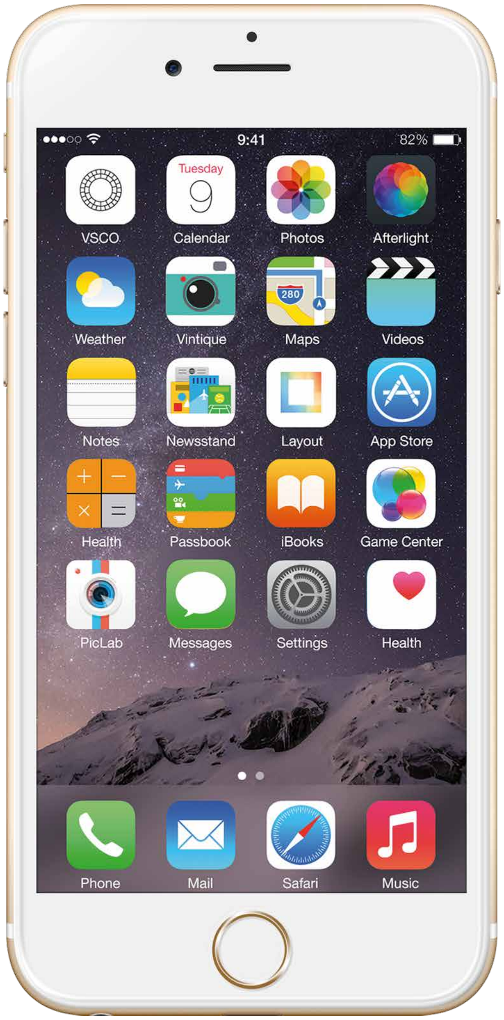
Perhaps the biggest surprise out of this group is Amazon, which continues to grow at a tremendous pace and is solidifying its operations in Mexico with brand new innovations such as Amazon Fashion (El Financiero, 2016). Amazon will continue to be one of the biggest threats to traditional brick-and-mortar players, which have had to enact new strategies to focus more on digital sales and transform the user experience with an innovative approach.

Source: DELOITTE, Global Powers of Retailing 2016
Note: Firms operating in North America

Innovation and technology trends

The evolution of payment Apps within the retail industry

Retailers around the world are already embracing what seems to be the inevitable for all consumers in the future – mobile payments. Apple has developed Apple Pay, and Google has Android Pay. The objective of these apps is to facilitate the purchase by pre-loading your card in the app so you can use it at any store that has the device enabled with a reader at the check-out counter. Some individual stores such as Starbucks and Wal-Mart have already developed their own technology to facility customer check-out, but it only works with their particular app. All of the Wal-Mart 4,600 stores in the United States are equipped with the Wal-Mart Pay [(Fortune, 2016).](#) Starbucks Mexico already has this feature, which will eventually become more widespread as Apple Pay and Android Pay enter this market very soon and individual retailers continue to expand its use.



Industry expert interview with Yong Wang

YONG WANG, Ph.D. is the Robert H. Freeman Professor of Strategic Marketing and Associate Professor at Ohio University College of Business and Officer of Research, Global Marketing at Columbia University in the City of New York.

Dr. Wang, which industry players do you believe stand out from the rest, and what makes them more successful?

It depends on if the players are judged from brand, sales, or profit (or other criteria). If we look at brand equity, those who stand out are ones heavily invested in branding, service quality, social marketing, and public relations. For example, Whole Foods Market is perceived to be a top place for healthy, organic products. Apple Stores are one of its own kind in terms of brand signal and service quality. They are on the top of the pyramid in regard to their "cool" image. If we look at sales, those who stand out happen to be the giants such as Wal-Mart, achieving sales through the economy of scale and efficiency. They stand out because consumers cannot live without them. Last, if profitability is the standard, the ability to control expense-to-revenue ratio and optimization of supply chain are always the priorities. Costco could be a good example. From an operations perspective, their business model deserves applause.

Overall, I think understanding the trends in retailing (e.g., changes in consumer behavior such as value perceptions; changes in technology such as in mobile marketing), being early followers to implementing trends, retaining and expanding the attractive consumer segments while keeping cost under control are necessary steps in managing successful retail businesses. If we see recently closed stores such as Sports Authority, it couldn't stand the competition when the marketing ecosystem does not work well. Thus, retailing is no exception to the marketing principle: understanding changes in value, internally creating high value constantly, and being able to deliver the value through retail exchange (consumers are willing to pay for the value). Last thing you know you are successful.

The retail industry includes giants that continue to have dominant positions, but do you believe that smaller players, or even boutiques will play an important role for consumers in the future?

Of course, smaller retailers have their own competitive advantage – regardless of corner stores, boutique stores, convenience stores, flower shops. Being in the right place at the right time can make a difference. You need to be in the right place because retail store is a physical place of distribution. Imagine a convenience store. For specialized stores, if place is not right, you'd better think of an online presence as a solution of space. Being at the right time means how to fulfill consumer needs in a timely manner. Imagine Halloween stores. You don't need to be a giant.

The customer has become more empowered lately, but the Voice of the Customer is still far from reaching its potential. Why do you believe firms are late implementing this?

There probably is no early or late implementation, but effective or ineffective use of customer voice. Retail strategy needs to be flexible, in response to changes in customer perceptions of value. To me, this is the hardest part of communication. Someone's complaint might be another consumer's appraisal. Strategists hire experts to examine the overall pattern, and analyze a larger set of factors beyond a narrow sense of consumer voice. However, if operational or quality issues are detected from consumer voices, retailers should resolve small problem before it gets big.

What is your opinion on concepts such as e-pay through mobile devices, and other developments such as the store of the future, where a customer's digital check-in enables employees to pull up historical data to better assist the customer, and stores or brands can send offers in real-time? Do you see these technological advances making a significant impact in the industry for years to come?

Technology appears to be a determinant factor, within and outside retail. Mobile technology, Web 3.0, small data analytics, even RFID, all deserve close attention as long as they are relevant to your retail business. Digitalization and artificial intelligence are inevitable in every sector. Retailers should examine not only the benefit, but also the cost. Make sure the timing of implementation is appropriate. Make sure the ROI is measurable. I also suggest retailers to select technology that is both reversible, customizable, and upgradable. Otherwise you will be stuck at some point.

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