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A Frost & Sullivan Article

Bold Strategies to Recapture Growth and Move Finance Forward in Retail

Table of Contents

- 4** The Future is Phygital
- 5** Changing Business Models, Changing Business Roles
- 6** Retailers: What Business Are You In, Really?
- 7** Three Key Industry Shifts Will Be Needed to Jumpstart These Growth Strategies
- 9** Re-Shaping and Re-Imagining Retail

As widely noted, COVID-19 has brought massive changes to the retail industry. After a difficult 2020 for many dealing with uncertainty, retailers are heeding signs that consumer confidence in their sector is slowly improving. Customer buying habits fueled by the pandemic are changing, and many leaders are ready to embrace new growth opportunities created by these changes. Capturing some of these opportunities may require retailers to change as well, delivering their products and services in distinctly new ways, including accelerating digital initiatives to accommodate customers who are now buying online in record numbers.

To meet the needs of an increasingly connected and empowered customer base, retailers are exploring and investing in solutions that improve the online buying experience, and provide a more targeted and authentic customer experience. Overall, big moves—and the vision and technologies that support them—are needed to succeed in an evolving, increasingly *phygital* retail landscape.

This article was written from conversations during a recent Virtual Think Tank conducted by Frost & Sullivan.

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The Future is Phygital

What is phygital? Phygital means integrating the physical with the digital, using technology to bridge the digital world with the physical one. This can provide a uniquely interactive experience for customers or users in the process. One example is using touchscreen technology in a brick-and-mortar store to enable shoppers to select items and sizes of their preference. It can also mean using AI-powered cameras that utilize facial recognition technology to recognize customers who opt in to a recommended service, and presenting them with personalized products or offers. Some companies are already using or testing these tools. For retailers, a phygital business model is an inevitable part of their future: the pandemic is only accelerating the transition.

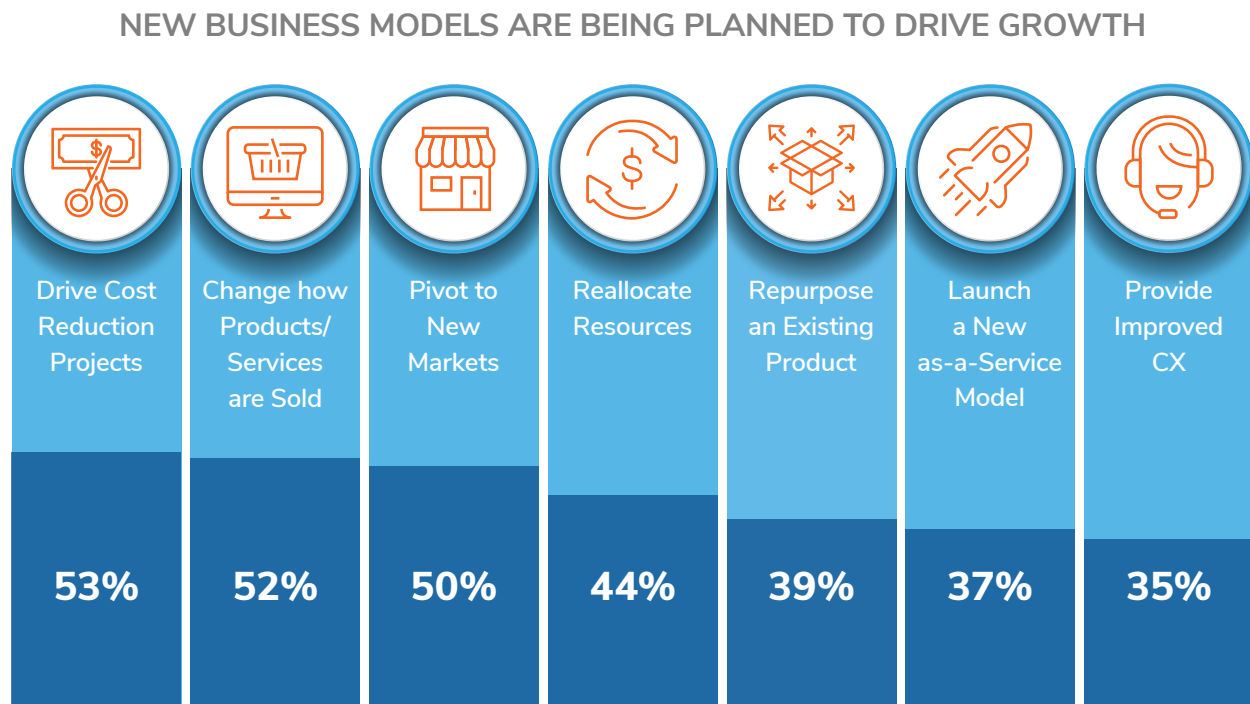
How is this relevant to your business? As Brian Cotton, Senior Vice President and Partner, Frost & Sullivan, recently stated, “Think about the next two, three, or five years in your organization. Will your managers and leadership evolve to a new business model that is founded on Information Technology? Will tools like augmented reality, machine learning, artificial intelligence and predictive analytics support a model that recognizes and embraces hyper-personalization? IT infiltrates all parts of the retail business, all parts of the value chain and the ecosystem. *That's phygital.*”



Changing Business Models, Changing Business Roles

Supporting digital transformation initiatives and maintaining a laser-like focus on the customer is critical for true differentiation in the current marketplace. A recent study from MIT Technology Review Insights, in association with Oracle, revealed this to be true across several verticals, including retail. As shown below in Figure 1, delivering products and services in new ways and expanding to new markets will be a key path to driving growth for many organizations. In fact, when polled in late 2020, senior leaders cited driving cost reduction projects, changing how products and/or services are sold, and pivoting to new markets as their top three priorities. Structural change and bold shifts in thinking by leaders will make it possible to achieve this. Re-defining the business model will be a first step for many.

Figure 1: Strategies for driving growth



Source: MIT Technology Review Insights: 2021 Planning: New Business Models, Big Opportunity 01/2021

Retailers: What Business Are You In, Really?

Creating an authentic community that communicates and delivers on the brand and company values is a top priority for today's retailers. When Frost & Sullivan recently asked a group of retail finance executives, "What business are you in, really?" they concluded that they were ultimately in the business of creating a satisfying, ideally meaningful experience for their customers, and differentiating their product or service in the process. As Michael Forhez, Global Managing Director, Consumer Markets, Industry Strategy Group at Oracle, stated, "If I'm on the retail side, I'm here to serve your purposes with a wide variety of offerings, but also to welcome you, to make this a safe place, and to make a difference in your homes and in your neighborhoods."



In addition to authenticity and community, today's customers seek a multi-dimensional experience, one that can be delivered through a variety of channels, on their terms and schedules. To meet these digital customer experience (CX) demands, customer service must evolve, and quickly. Retail leaders are not thinking about the roadmap to curbside pick-up or short term technology initiatives. Instead, they are focusing on making their organizations much more agile overall, and on delivering the core capabilities that customers seek at a much faster pace. As an executive from a well-known sporting goods company noted, "We call it out as a strategy, consumer digital acceleration. It's about doing things faster and better to provide consumers what they're looking for." The good news is that big changes and the need to conduct business differently can present big growth opportunities.

Three Key Industry Shifts Will Be Needed to Jumpstart These Growth Strategies



The C-Suite mindset must shift

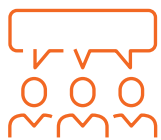
To support growth strategies like phygital applications, it is important that the C-Suite, including CFOs and financial executives, recognize that their role has or will need to evolve from focusing on traditional financial metrics to shaping and supporting new revenue generating strategies. Their key questions will need to shift from “Who do we owe?” to “How do we grow?”



Strategies and processes must evolve

The challenges of delivering immediately quantifiable ROI—always important to finance executives—must be balanced with larger strategic goals. Achieving this often requires viewing the business and the marketplace with a broader lens. As a retail finance executive stated, “The typical finance organization is run [as] a tight machine. Essentially, you know everything is going on in lockstep and [you are] running your processes, whether it's budgeting, planning, forecasting, etcetera. Now with the pandemic, everything is upside down in ways that make it hard to forecast and hard to predict what will happen next... I think we are all in a world where we have to be super agile and have to flex the muscle as needed. So it's a transformational time for the customer, but at the same time, the skills that we need, the processes and tools we need, have to be redesigned to meet those new expectations.”

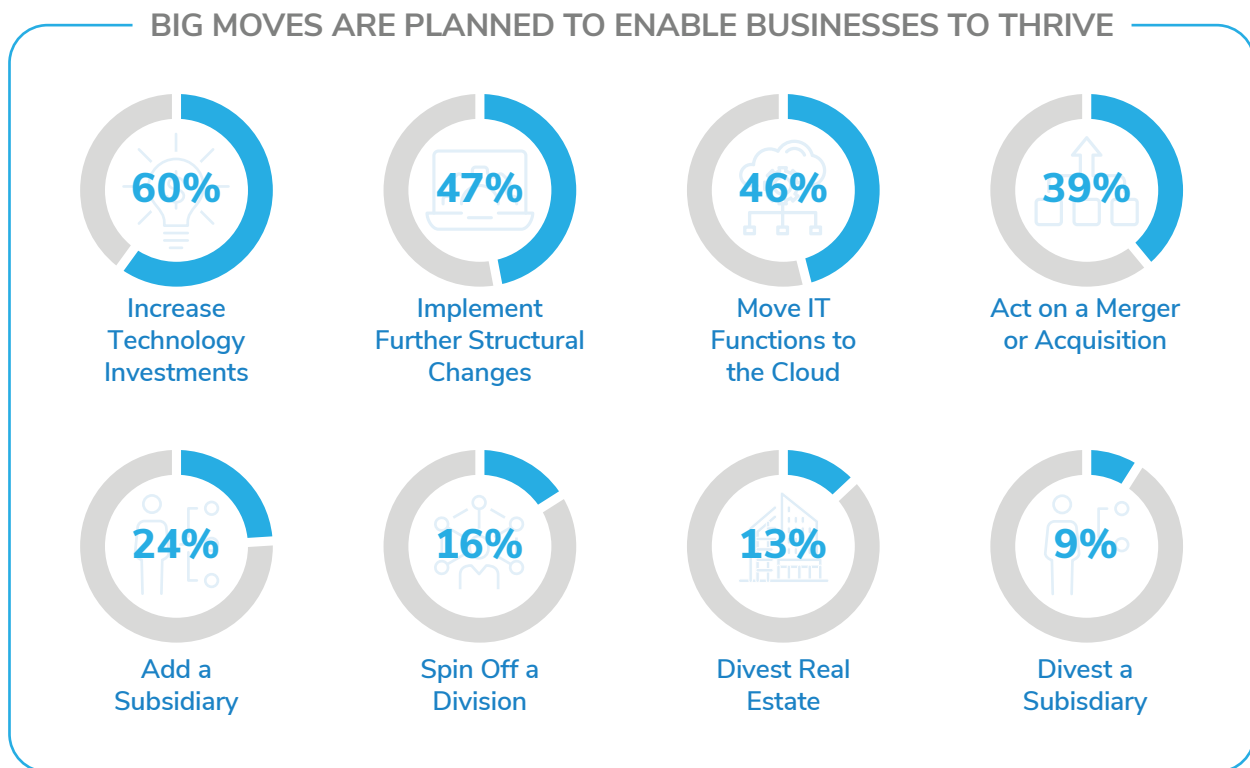
New digital tools will be a part of these strategies, and finance executives will need to consider increasing their investments in technology, as noted in Figure 2 on page 8. Synthesizing and intelligently leveraging large volumes of customer data—both structured and unstructured—to better serve and sell to customers will also be required.



Collaboration must be a growth strategy

Smart retail executives are watching and noting the changing business landscape the pandemic has brought on, and are planning how they will pivot or evolve their business models. The tools and skills that will support these changes will also need to flex or change. Prioritizing what strategies to try first, breaking down departmental silos, and encouraging new ways of thinking and collaborating across the organization will also be necessary. Moving to a more cross-functional business model is needed to accomplish many of these goals.

Figure 2: Technology investments will fuel big moves



Source: MIT Technology Review Insights: 2021 Planning: New Business Models, Big Opportunity 01/2021

Getting started on these goals might be as simple as meeting customers where they are today—at home, online and on their phones—and delivering your particular product or service in a new way. This could mean adding a service, such as membership in a community of like-minded customers using a product, to drive brand loyalty and stickiness. Using data and technology (via apps, platforms and digital interfaces) to better and more fully serve customers is only the first step on the path to adapting to changing customer behaviors.

For most retailers, creating ancillary or brand new products and services and delivering them in anything-as-a-service models will be next steps on the path to change and growth. This is how organizations will retain current customers and acquire new ones.

Re-Shaping and Re-Imagining Retail

The accelerated shift to digital selling, coupled with the pandemic, is causing foundational changes, indeed even disrupting the retail industry. New or renewed business models are on the horizon for even long-standing retailers. As Michael Forhez summed it up, “Even before a global pandemic, we were on pace to re-imagine the retail and consumer goods industry as we never imagined... we've made incremental changes over time. But when we take into account platforms, and digitization, and the connected consumer with that iPhone or other technology in their hand, they get to dictate the terms. People are thinking out of the box by not paying attention to the models that have existed for decades, but re-imagining what it means to serve the shopper in today's era.”

People will continue to buy goods and services during and after the current COVID pandemic. Their shopping habits have changed permanently, and retailers are adapting their models to align with these new behaviors.

COVID didn't force retailers to implement digital transformation, but the rapid increase in their customers' use of digital tools to shop for and buy goods and services has forced retailers to accelerate their own transformation.


Putting up an e-commerce website isn't enough, however. Digitization needs to be something that the entire executive team embraces, and financial executives are uniquely positioned to lead the way. As Scott Ross, Vice President of Finance at Giant Eagle put it: “As a grocery store, as any retailer, you've got to get used to the fact that more digital is going to mean that you need to really harness that skill, because it's not as easy as, oh okay, just got an order online, okay, ship it. There's a lot of different ways that can happen. There are a lot of processes that need to be evolved, and grown, and refined, and value engineered before it can become successful.”

Vinay Nagareddy, Global Vice President, Accounting Systems & Internal Controls, GameStop, expanded on this observation, and the ongoing need for agility, concluding, “Now, I see the difference, the people who are techno-savvy, who are agile, were far ahead of the game....They were able to change. They were able to move around faster. Whereas the teams [that] were highly structured, sitting back in the legacy artifacts...They were pretty much falling behind. I think that's a big differentiation. They were not able to deliver at the speed that we want to move at.”

In the race to win and retain the customer, the most agile retailers will win.



[Learn more](#) about the strategic moves that retail companies are making to capture growth.



F R O S T  S U L L I V A N

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