



The retailer as technology company

In this article, adapted from their recently published book, *Reshaping Retail*, the authors assert that digital technology must be at the center of every retail organization.

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The modern retail system has worked to dazzling effect. Since the 19th century, store owners have emerged from humble beginnings and created an industry in which some retailers have become nationally or even globally dominant. Their expansion was propelled by the lowering of tariff borders and the exponential growth of international trade of consumer goods. Better production techniques, communications, and information technology enabled efficiency gains and reinforced a virtuous cycle of lower costs and lower prices. Along the way, savvy operators turned retailing into an impressive combination of art and science. Today, retailers in emerging

markets appear to be living out the story all over again, except on a scale and at a speed beyond anything we have seen before.

Given this history, it can be hard for retailers to accept that the industry as they know it is living on borrowed time, on the brink of transformation. But it has become clear during the course of our research that the retail industry is in the grip of a revolution powered by digital technology. This revolution may be as dramatic in its effects as the mercantile revolution that saw the birth of retailing and the Industrial Revolution that kicked off the modern era.



The many interviews we conducted with industry executives and experts confirmed both the urgency with which conventional store-based retailers must now act and the extent of the challenges this revolution represents in strategic, organizational, and, above all, technological terms.

Technology has long underpinned retail operations, so why is today any different? The main reason is that technological innovation hitherto has served primarily to help retailers do what they have always done, but better. Retailers have become ever more powerful intermediaries between suppliers and customers, able to operate at ever greater scale. Today's technology, however, threatens that power—and thus the entire business model.

Since the Middle Ages, retailers have relied on what is largely a “push” system of stock movements. The retailer (be it a merchant with a horse or the operator of a nationwide super-market chain) anticipated consumer demand, selected the goods to meet that demand, and arranged for those goods to be delivered to a place where people would buy—first the village market, then dedicated stores. Technology did not interfere with this process; it simply made the process more efficient.

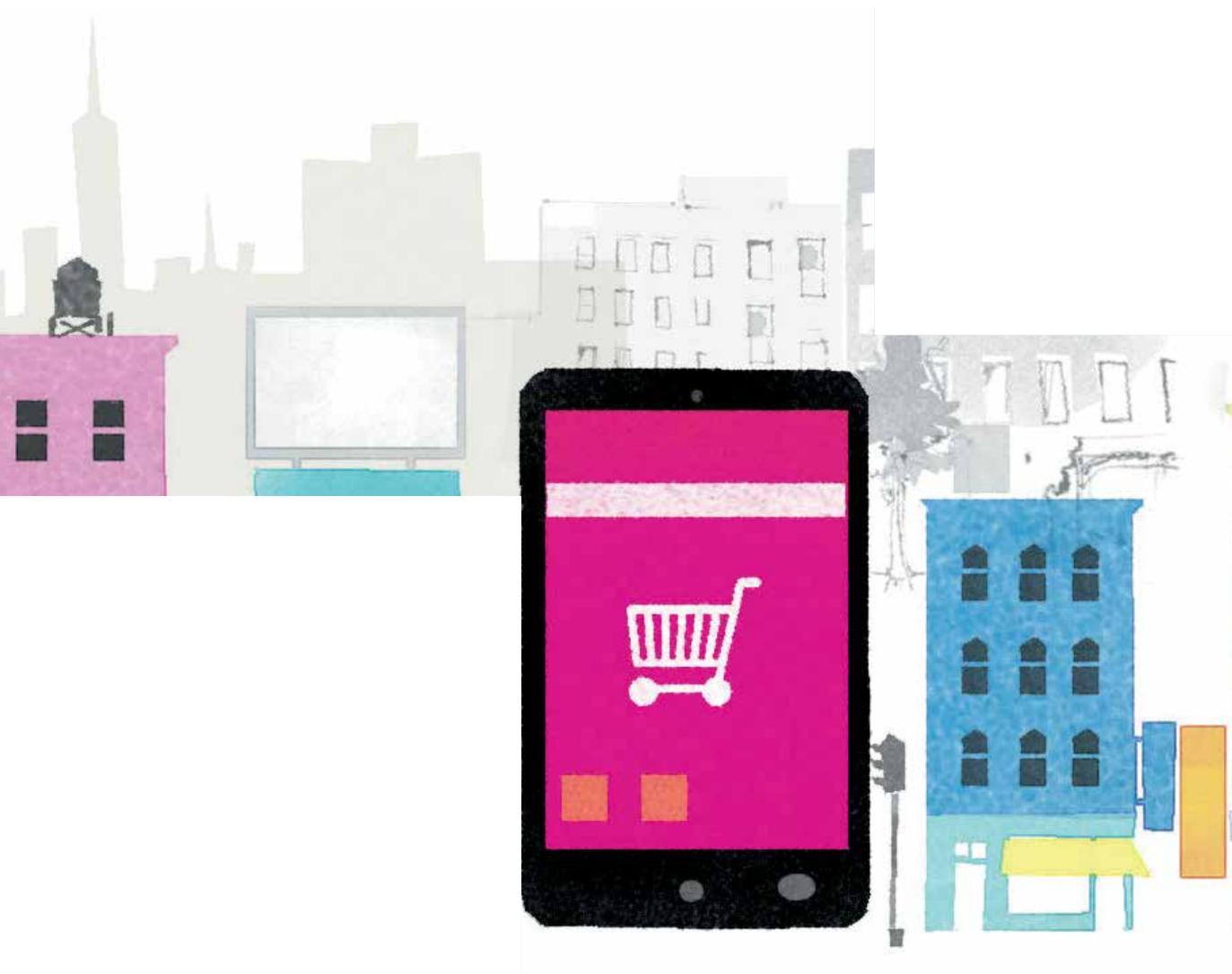
All this is changing. Advances in computing power, storage capacity, and network connectivity are driving three parallel and mutually reinforcing trends that will define the digital era of retailing: mobility, measurability, and agility. The first trend, mobility, is powered by the availability of technology everywhere: in stores, at home, on the go. Measurability will allow for far more activities in the value chain, not

least consumers' behavior, to be tracked more closely and quantified more accurately. And agility will come from the development of cloud computing, which enables companies to develop systems quickly and easily.

The technology behind these trends will help retailers improve their processes and create new experiences for customers to a degree previously unimaginable. It will also usher in new competitors and empower customers. Every retailer will have to contend with the power that now lies in customers' hands. New technologies have put an end to the information asymmetry between retailers and their customers. Consumers can browse, choose, buy, and receive products, all without entering a store.

But it is not all bad news for retailers—far from it. Consumers will still want to visit stores for many of the same reasons they already do: convenience, the social experience, and the ability to buy cheap goods (yes, we believe that even in a digital world, some store-based retailers will be able to match the prices of online rivals on certain goods). But retailers will have to put the customer at the center of the business model. This goes beyond customer care. It is customer centricity. Everything in the operating system—pricing, promotions, assortment—should be informed by customers' needs, recorded in real time. In some respects, customer centricity will mean a return to the kind of thinking that prevailed when owners of small stores bought the merchandise they knew individual customers would like. Retailers sacrificed this intimacy in favor of scale, as technology emerged to help them run complex operations more efficiently. Now they have to manage both intimacy and scale.

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In light of these developments, all sorts of retail skills and practices—some unchanged for a century or more—are fast becoming irrelevant or insufficient for success. Perhaps most difficult for many store-based operators will be the new technology requirements. Organization-wide fluency with technology will be a critical success factor for retailers everywhere, and the robustness and flexibility of their IT systems and the transparency and ease of use of their digital interfaces will become as important as traditional aspects of retailing such as location, store format, or in-store promotions.

Ultimately, success will hinge on more than competence; it will come down to a way of

thinking. Customer centrality will need to be valued not just by the store owner but by all employees in the organization; it will need to become embedded in their daily tasks. Technology must be at the center of the organization and recognized as such by everyone. As one senior executive of a global online retailer told us, “If I were forced to choose, I’d say we were a technology company rather than a retailer.” Retailers will, in essence, need to change their DNA—a transformation that needs to start now. ○

This article is adapted from the introduction of the authors' book, *Reshaping Retail: Why Technology is Transforming the Industry and How to Win in the New Consumer-Driven World* (John Wiley & Sons, August 2013).

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