Chapter 75

Digital Retail and How Customer–Centric Technology is Reshaping the Industry:
IT–Enabled Digital Disruption

Pablo Penas Franco
Syracuse University, USA

ABSTRACT

This chapter explains the digital disruption that has occurred and is still happening in the retail industry. It explains the relative positions of the world's leading retailers Wal-Mart, Amazon and Alibaba and the business models of the two top online competitors. It focuses on the impact of SMAC (Social, Mobile, Analytics and Cloud) technologies and new retail trends enabled or boosted by technology such as omni-channel, customer experience, internet of things (IoT) and analytics, fulfillment and delivery. It deepens into IT and business model customer-centric design, the role of the customer and the store in the new digital retail and finishes with an assessment of ROI in retail digitization. The chapter concludes the fundamental IT-enabled changes of digital disruption are critical for all players, traditional brick-and-mortar retailers, pure online players and those with both an online and an offline presence.

INTRODUCTION

Digital Disruption

Digital disruption is a mindset that ultimately leads to a way of behaving; a mindset that bypasses traditional analog barriers, eliminating the gaps and boundaries that prevent people and companies from giving customers what they want in the moment that they want it. (McQuivey, 2013)

In order to analyze how technology is reshaping the retail business, we must first understand digital disruption. Digital business is a reality, whether companies are ready or not to compete in a new, fast-pacing, and more competitive environment.

Let's provide a few examples of digital disruption. Goodwin (2015) states:

Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory, and Airbnb, the world's largest accommodation provider, owns no real estate.

We could add additional examples such as:

- **Amazon:** The world's largest book retailer, has no bookshops or, more accurately, didn't have any till November 2015. The company has more than 3 million books available and sold around $7.5 billion in books in 2015[1].
- **Apple:** The largest music retailer in the world from 2010, sold 35 billion songs online till 2014 through its online iTunes service. With a minor role of its physical Apple stores, its online iTunes store made Apple become the new leader in the music industry.
- **Google:** A search engine or arguably the already biggest media company in the world generated $67.4 billion in online advertising revenues in 2015. No other company in the world generates that much only from advertising activities.
- **YouTube:** Acquired by Google, is the most populated video service in the world with more than a billion viewers and 6 billion hours of video watched every month, relying mostly in user-generated content.

These examples should lead all companies to reflect on how digital business is reshaping their industries. New digital disruptors menace the status quo relegating former industry leaders to lower rank positions, even leading those unable to adapt into bankruptcy (i.e. Blockbuster). And there is no room for self-complacency. Digital disruptors are subject to be attacked by a new breed of competitors whose business models could make them obsolete or even redundant. For instance, Apple now faces new competition from free streaming and cheap monthly subscription services like Spotify.

The survival of the fittest is neither new nor exclusive to business. A Darwinian view of business evolution explains different periods such as the industrial revolution powered by the steam engine. But this time there is a fundamental and more profound impact: its speed and global reach. According to Bradley, Loucks, Macaulay, Noronha and Wade, (2015), "digital disruption has the potential to overturn incumbents and reshape markets faster than perhaps any force in history." Let's include the impact of globalization. Most digital disruptors were born as global players in an enlarged economic world. Now companies are able to reach not only western traditional markets but also those coming from communist regimes and other traditionally off-limits countries. In this context, the impact of digitization will be remarkable. The digital world is only starting and some disruptors already enjoy more than a billion users a few years after their creation.

The impact of digital disruption undermines the way business are conducted around the world and the very essence of different activities is being challenged. Industries will not change due to digitization.

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