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Business Model Opportunities in Brick and Mortar Retailing Through Digitalization

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Abstract

Purpose: In current retailing, digitalization provides new value creation mechanisms that increase competition and offer customers myriad options to fulfil their needs. Increasing complexities in the retail landscape have instigated restructuring, pressuring traditional retailers to reconsider their business models. The purpose of this study is to explore and identify how brick and mortar retailers are approaching opportunities presented by digitalization.

Design/Methodology/Approach: 26 semi-structured interviews were conducted with mid- and top-level retail managers from the UK and Finland. This exploratory study analyzes the qualitative data through the key drivers of innovation (operational effectiveness and efficiency, lock-in, customer efficiency, effectiveness, and engagement). The opportunities are presented in terms of the three business model elements (format, activities, and governance).

Findings: The findings illustrate seven key business model opportunities enabled by digitalization. Retailers are responding to competition, providing speed and convenience through multiple channels, leveraging digital tools to improve efficiencies and deliver customer experiences, rethinking management models, and adjusting organizational approaches. However, brick and mortar retailers should re-evaluate the business model elements collectively in order to seize opportunities that drive profits and gain competitive advantage.

Originality/value: This topic is pertinent due to the accelerated restructuring of retail markets, yet the subject is underexplored in the literature. This paper highlights retail managers' perceptions and experiences of adapting through digitalization. Guided by this enriched data, we provide contributions by developing existing theory and identifying opportunities in brick and mortar retail business models.

Keywords: business model, opportunities, digitalization, brick and mortar retailers

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Introduction

When framing business models, one cannot fail to acknowledge the influence of digitalization. The increased versatility of evolving digital technologies has initiated a series of changes in multiple businesses during the past decade (Hänninen et al., 2018). The extent of retail digitalization cannot be overstated, witnessing the thrust of this typically low-technology sector into the digital era (Willems et al., 2017). Digitalization has enabled the creation of new mechanisms, forms, and models for trade. While it is uncertain if customer expectations are rising as a result of the myriad options available, or if they are indeed driving retailers to make changes, it is clear that customer behaviour is increasingly complex (Huré et al., 2017; Fuentes et al., 2017; Helm et al., 2020). Currently, the retail environment is unstable, witnessing the restructuring of markets and businesses, and changes in customer behaviour. Due to digitalization, complexities have increased, placing pressure on actors and retail value chains. The questions: who sells? what is sold? to whom, where, and when? (Hagberg et al., 2016) are persistent when designing retail business models, yet answers remain unresolved in the modern retail environment.

The rise of e-commerce has extended traditional value chains by changing the logic of value creation, more specifically, influencing how retailers seek competitive advantage by proposing, creating, and capturing value (see Timmers, 1998). This has led traditional retailers to find ways to integrate existing and extensive parts of the value chain, witnessing the influx of hybrid forms of multiple channel retailing (Beck and Rygl, 2015), such as multi-channel and omni-channel strategies (Verhoef et al., 2015; Yrjölä et al., 2018). However, this is only a short-term solution because striking a balance between a focus on competition, customer needs, and meeting global standards requires significant adjustments in the firm's assets and resource allocation. Changing the fundamentals is rarely a simple equation. Examples show that formerly successful global retailers such as J.C Penney, Sears, and HMV, have struggled to meet modern requirements and to transform their business models. Digitalization as a topic has gained interest among scholars and retail practitioners, and current developments indicate that significant retail restructuring has begun (see Corkery, 2017; US Census, 2020) which has been further accelerated by the COVID-19 pandemic (e.g. McKinsey, 2020).

This study is motivated by the idea that traditional retailers have much to lose in this restructuring. Digital retailers such as Amazon, eBay, and Zalando have proved their ability to grow, stay, and gain solid positions within their markets (Hänninen et al., 2018; Reinartz et al., 2019). At the same time, consumer trust in online retailing has increased and the internet has become one important information source when evaluating purchase decisions (Lubis, 2018; Simonson and Rosen, 2014; Labrecque et al., 2013). Additionally, in large retail markets such as the U.S and Europe, online retailing is growing relatively faster than retail markets overall (Statista A; Statista B). As a result, these developments challenge the need and role of physical retail space and thus, traditional retailers. This forces traditional retailers to compete for market share that they originally possessed.

Consequently, the research purpose is to explore how traditional brick and mortar retailers approach opportunities in the current evolutionary phase of digitalization. To enable this exploration, we decided to adopt a business model lens. Two reasons motivated this decision. First, the business model reflects management beliefs and assumptions of the actions of customers, competitors, and markets (Teece, 2010); and second, the ability to seize these opportunities is strongly related to managements' willingness and capabilities to modify the business model (Teece and Linden, 2017). Moreover, with exception of a few studies (Jocevski et al., 2019; Matzler et al., 2018; Sorecsu et al., 2011), the influence of the digital transformation from the retail business model perspective has been underexplored. To address this research gap, we conducted 26 semi-structured interviews in two fundamentally different retail markets with retail managers that belong to mid- and top management teams, in pursuit of covering current and future management of the industry.

Theoretical Background

A turbulent retail environment: failures, competitive forces, and customers

During the past five years, the European retail market has witnessed various bankruptcies. To explore this phenomenon, we gathered a list of traditional retail firms that held a solid market position at some phase in the past decade yet entered administration between 2015 to 2020 (Appendix 1). The list highlights that retailers who predominantly sell consumer goods through physical stores, regardless of product category, have faced difficulties. Department stores established over 100 years ago (British Home Stores, Debenhams, and House of Fraser), luxury brands (Diesel, Roberto Cavalli), clothing and footwear retailers (Blanco, Karen Miller, Brantano), electronics and video game stores (Maplin, HMV), and discounters (Poundworld) serve as examples of retailers that were unable to adapt to current market developments. To verify this is not normal market behaviour, we scrutinized U.S retail markets to identify similar developments. European retailers have tended to follow U.S retail markets closely due to its size, diversity, technological improvements, and especially, its ability to provide a vision of future trends (Helm et al., 2020; McArthur et al., 2016).

In the U.S, researchers and media both emphasize structural retail changes. Digital advancements and the rise of e-commerce have led to disruption in the U.S retail industry (Saghiri et al., 2018; Davis-Sramek et al., 2020; Gupta, 2017). It is estimated (by Bloomberg and New York Times) that retailing has reached a "tipping point", indicating permanent restructuring that is not yet visible but will lead to changes some physical retailers will not be able to endure (Townsend et al., 2018; Corkery, 2017).

Currently, 26 retail bankruptcies have been filed in 2020, including Neiman Marcus and J.C Penney. We focused on 30 traditional retail firms (inc. Sears, A&P, and Toys "R" US) that filed for bankruptcy between 2015 and 2018 (Appendix 2). The selected timeframe meant that we had access to firms' obligatory management bankruptcy briefing. However, after further scrutiny, no common pattern was revealed between the firms, and importantly, no consistency in terms of the reasons for their downfall (see Helm et al., 2020). In brief, the firms varied by size (turnover between $112 million to $17,5 billion), lifespan (less than 10 to more than 100 years), and offering (apparel and accessories, beauty, consumer goods, clothing, grocery, electronics, and toys). Retailers highlighted the reasons for their downfall (bankruptcy briefings) included declined traffic in physical stores, increased competition against online retailers, and unsuccessful process management, among other reasons for their demise. This indicates that the inability to adapt through digitalization must have been at least one of the influential factors. Historically, brick and mortar retailers have managed to engage and lock-in customers through strictly controlled value chain mechanisms, however, this luxury is seemingly fading away.

As technologies continue to transform retailing, brick and mortar retailers have endured turbulent times in the highly competitive market. The most disruptive external competitive forces come from three different domains, 1) competition, 2) customer behaviour, and 3) global standards, placing traditional retailers in the middle of a riptide. The most notable of which has been the rise of online-based retailers, such as Amazon, Alibaba, and ASOS, who earned their positions as market leaders by operating with lower overheads (Reinartz et al., 2019), offering cheaper pricing (Brynjolfsson et al., 2013) and wider assortments (Hänninen et al., 2018), and providing their customers with convenience and transparency (Reinartz et al., 2019). These developments have reduced customer switching costs when considering shifting from one service provider to another. Secondly, online channels have extended the market, leading to disintermediation as suppliers and manufacturers offer their products directly to the customer (Doherty and Ellis-Chadwick, 2010). Thirdly, new forms of trading, such as business models focusing on providing temporary access to goods (Frenken et al., 2015; Kumar et al., 2017) or consumer-to-consumer trade which extends product lifecycles (Ariely and Simonson, 2003; Abdul-Ghani et al., 2011; Black, 2005) compete with and complete existing retailing. Consequently, retailers face new digitally enabled competitive forces in addition to their regular local competition.

Simultaneously, consumers face multiple changes that influence their everyday lives. Various developments including the introduction of self-service technologies (Demirci Orel and Kara, 2013; Inman and Nikolova, 2017), adoption of mobile payments (Holmes et al., 2013; Taylor, 2015), last-mile delivery options (Vakulenko et al., 2019), global offerings (Hänninen et al., 2018), and the COVID-19 pandemic, have shaped customer behaviour. Alongside the extensive use of the internet and ramified globalization, there has been a growing emphasis on individual autonomy, individualization, and transparency (Reinartz et al., 2019). This has, in turn, influenced the shift in power balance from the retailer to the customer, a notion referred to as consumer power (Hagberg et al., 2017; Helm et al., 2020; Labrecque et al., 2013). Moreover, limitless access to information and wider offerings have enabled consumers to use more straightforward decision-making mechanisms (e.g. Bettman, 1998) and provided ample solutions to fulfill their needs. For example, Google has earned a position as a trustworthy information distributor causing extensive use of heuristics in consumer decision making (see Hauser, 2014). Another explicit example is the rise of consumer-to-consumer interaction that has emerged through social media platforms, such as Best Buy (Bassano et al., 2018). Offerings such as this contribute towards the emergence of emphasized emotional, life-changing, and social values (see Almquist et al., 2016).

Business models: retail business models and a look to the future

Although the term business model is over a half-century old, the concept has gained more attention since the millennium due to the rise of the internet (e.g. Afuah, 2003; Osterwalder, 2004). It has been used for multiple purposes in strategic planning, for example, to evaluate the commercial potential of innovations (Doganova and Eyquem-Renault, 2009), to assess value creation in online businesses (Amit and Zott, 2001), and in re-organizing firm structures (Teece, 2009; Teece, 2010). However, it should be noted that the business model is often seen as a context-dependent tool, and consequently lacks a commonly approved definition. Despite this, most popular business model definitions include proposing, creating, and capturing value. In business model literature, value creation consists of multiple streams focusing on internal (Amit and Zott, 2001; Zott and Amit, 2010), external (Day and Moorman, 2010; Yrjölä, 2014), or hybrid value creation (Kaplan et al., 2004; Johnson et al., 2008).

In the context of retailing, business models have not received great scholarly attention. In this regard, one of the most cited studies is Sorescu et al. (2011) in which the researchers elaborated retail model innovations inspired by the work of Amit and Zott (2001). Accordingly, "a business model is a well-specified system of interdependent structures, activities, and processes that serves as a firm's organizing logic for value creation for its customers, and value appropriation for itself and its partners" (Sorescu et al., 2011, S4). The authors emphasized that designing a retail business model is a rigorous consideration of interdependencies concerning choices of format, activities, and governance. The format refers to choices in interface selection and design that position a retailer in the market and enable customer touchpoint coordination for creating experiences. The activities define the exact selection of activities that enable and fulfill the experiences. Governance sets rules for actors performing the activities by defining the roles and incentives to motivate them (Sorescu et al., 2011). In the multi-channel retail literature, several streams touch on the concept of business models but only focus on certain areas concerning digitalization. For example, how the digital transformation influences the customer (Labrecque et al., 2013), retail channels (Picot-Coupey et al., 2016; Yrjölä et al., 2018; Rangaswamy and Van Bruggen, 2005), retail workforce (Huré et al., 2017; Pantano and Migliarese, 2014; Rafaeli et al., 2017), or the future of retailing (Grewal et al., 2017), leaving room for more comprehensive investigations, especially from a business model perspective.

Today, retailers should be described as orchestrators of multi-sided platforms that serve value creation and capture in ecosystems for customers, business partners, and the retailers themselves (Sorescu et al., 2011). This statement appoints several transformative requirements on traditional retail business models. First of all, instead of linking products and consumers, retailers would act as an intermediary or marketplace that enables people and organizations to share information, access a variety of goods and services, and buy or sell (Cusumano et al., 2019). Taking an intermediary role transits a retailer from dyadic (i.e. retailer and buyer) to triadic (i.e. between seller and buyer) relationships (Gawer, 2014); secondly, instead of focusing on controlling efficiency and product assortment, an intermediary turns sight to establishing connections through value networks (seeking value through interactions) (Shafer et al., 2005) and partner networks (seeking value through relationships) (Amit and Zott, 2011) to enable value creation. This causes a retailer to operate in networks instead of value chains (see Achrol and Kotler, 2011); and finally, as an intermediary operating in networks, a retailer seeks suppliers and manufacturers with product and service offerings (e.g. value) that link with demand, without controlling every part of the value chain between them. This suggests that the retail offering is co-produced (Lusch et al., 2010), which leads to the integration of value co-creation (see Grönroos, 2011; Saarijärvi et al., 2013) as a central mechanism instead of internally controlled retail operations. Van Alstyne et al. (2016) stated three major shifts for businesses that increase dynamics significantly when moving towards platform business models. They suggested (1) shifting from resource control to resource orchestration, referring to a total change in asset management, resource allocation, and success indicators; (2) shifting from internal optimization to external interaction, emphasizing modifications in appropriation logic; and finally, (3) shifting a focus from customer value to ecosystem value, highlighting a need to abandon the value chain approach (Van Alystyne et al., 2016). These suggestions place pressure on traditional retail business models to undergo transformation. In this study, we are focusing on the main elements of the retail business model which include format, activities, and governance (Sorescu et al., 2011).

Drivers that create incentives to modify the retail business model

When evaluating business model relevancy, one should consider competitors' models, sources of appropriation, external threats, and sustainability of the business (Bertolini et al., 2016). Successful businesses normally revise the business model four times before reaching profitability, indicating that traditional retailers must tolerate initial failures and course correction in shifting to a new business model (Johnson et al., 2008). Taking such a path may not sound attractive, especially if the current business is profitable. However, Sorescu et al. (2011) defined six drivers related to capturing and creating value that motivate, incentivize, or force retailers to consider business model reconfiguration. First, they highlight opportunities to gain operational efficiency, this includes efforts to streamline back-end operations (e.g. sourcing, inventory levels), enhance the store environment (e.g. seeking cost reductions and increased profits in-store), and make cost savings (e.g. automation, process digitization). Second, opportunities to gain operational effectiveness, such as finding ways to maximize probabilities in meeting organizational objectives (e.g. investments enabling longer-term profit, or market expansion). Third, opportunities to design lock-in themes, which involve the development of mechanisms that minimize customer costs and increase switching costs (e.g. memberships, subscriptions, or guarantees). These drivers motivate retailers from a value capture perspective. Fourth, opportunities to increase customer efficiency, which can be achieved through improving the convenience of service (e.g. store networks vs. online, pick-up services). Fifth, opportunities to influence customer effectiveness, referring to how effectively a retailer can facilitate consumers to meet their consumption goals (e.g. depth of assortment or long tail). And sixth, opportunities to increase customer engagement, involving the ability to evoke emotional involvement that goes "beyond purchase" (e.g. customer experience design, brand perceptions).

To explore the current opportunities for brick and mortar retailers brought to fruition by digitalization, we approach the data through the six drivers posited by Sorescu et al. (2011). This enabled us to gain an understanding of what brick and mortar retailers currently have turned their sights towards. To aid this exploration we propose the following question: What do retail managers perceive as existing opportunities in the retail business model enabled by digitalization?

Methodology

To respond to our research question, qualitative research methods were employed, and an exploratory approach was adopted. Qualitative research methods were selected to enable participants to share explanations, descriptions, and interpretations of the phenomenon (Lichtman, 2017). Moreover, we intended to explore our topic by "following wherever the informants lead us in the investigation" (Gioia et al., 2013, p. 20), an aim which seemed best attained through qualitative methods.

When considering countries that would provide comprehensive research settings according to the research topic, we were seeking markets that represent digitally advanced extremities from the European retail landscape. According to a study conducted by IMD World Competitive Center (2019), the UK (13th) and Finland (10th) represent high positions in a global comparison of digital competitiveness including evaluations of knowledge, technology, and future-readiness. While these countries differ by size, market structure, infrastructure, and consumption habits, the UK retail market is significantly bigger, more competitive, and considered to be advanced in terms of retail digitalization (Piotrowicz and Cuthbertson, 2014). However, interestingly the IMD study highlights Finland as a forerunner in technology and future-readiness. As such, these countries provide a fruitful combination when researching digital opportunities concerning retail business models.

To identify interviewees who could offer insights from the managerial perspective we conducted theoretical sampling. Theoretical sampling enables researchers to create specifications so that experiences can be compared across accounts to gain a better understanding from a particular perspective (Eisenhardt and Graebner, 2007; Given, 2008). Thus, the following criteria were determined about the participants: a) the retailer they work for predominantly operates through physical stores, b) they hold mid- to top-level management positions and, c) they work for retailers in the UK or Finland. To gain a broad understanding of how retail managers perceive opportunities presented by digitalization, it was considered advantageous to include a wide range of retailers. Therefore, we sent 250 requests to LinkedIn members that met the selection criteria. From this number, 87 people accepted the request, 54 responded, and 24 people agreed to be interviewed (27% response rate). The other two interviewees were identified by participants during the interview through the snowball technique (Noy, 2008). In total, 26 semi-structured interviews were conducted between April and July 2019 (see Appendix 3). Conducting semi-structured interviews enabled rich insights to be gained from retail managers and thus, create "rich opportunities for the discovery of new concepts rather than affirmation of existing ones" (Gioia et al., 2013, p. 17).

Participants were asked questions around four key themes including managerial insight, digital strategy and management, customer experience, and omni-channel integration. The length of the interviews ranged from 30 to 60 minutes, which together totaled 16 hours and 42 minutes. The participants held high-ranking positions and their number of years of retail experience varied from two to 30 years, enabling us to gain insights from individuals who are expected to be involved in both current and future management of the retail industry. Two of the participants were retail consultants, one from each country. Moreover, various retail branches (e.g. home furnishings, electronics, beverages, cleaning supplies, grocery, pet supplies, fashion, sport, and optical) and physical store formats (e.g. discount stores, department stores, hypermarkets, specialty stores, and supermarkets) were represented in the data.

The interviews were transcribed verbatim, resulting in 197 pages of interview transcription. The anonymity of participants was respected throughout the study, as such, each interviewee was assigned a code from M1 to M26 (Appendix 3). Once the transcripts were prepared, they were imported into Atlas.ti, a program that facilitates the organization and analysis of qualitative data.

Qualitative content analysis was deployed to ensure the analysis process was structured and systematic. This process involved three main stages including 1) preparation (e.g. selecting unit of analysis), 2) organization (e.g. coding and categorizing) and 3) reporting (e.g. presenting results) (Elo and Kyngäs, 2008).

Though there are different methods of content analysis, the process adopted in this study was inspired by directed qualitative content analysis (Hsieh and Shannon, 2005). In addition, to ensure vigor in the coding of the data, all the authors were involved in the data analysis process. As is advocated by Eisenhardt (1989), the involvement of multiple investigators enables richer insights from the data to be gained and instills confidence in the findings. First, we adopted the three main elements of the retail business model - format, activities, and governance (Sorescu et al., 2011) to begin coding the data. At this stage we highlighted all the units of thought that were relevant to the retail business model elements, this resulted in the identification of 144 quotations that express the main issues discussed by the retail managers.

Once the relevant units of thought were coded according to the retail business model elements, we applied the second level of coding using the six drivers discussed in Sorescu et al. (2011) - operational effectiveness, operational efficiency, customer lock-in, customer effectiveness, customer efficiency, and customer engagement. This involved revisiting the 144 quotations to code the relevant drivers. During the analysis, we observed that two of the drivers, customer effectiveness and customer engagement, overlapped. As is discussed by Sorescu et al. (2011), linkages between these two drivers exist through value creation. This can also be seen in other prior literature in which perceived customer value (e.g. retail mix combination) is recognized as an input to customer engagement (e.g. brand perception) (see Gallarza et al., 2011; Rintamäki et al., 2007). Consequently, we combined these drivers in further analysis as customer effectiveness and engagement. Steps were then taken to refine the list, this involved analyzing quotations with similar meanings and removing those which did not directly address the aims of this study, 35 key quotations emerged in this process.

In the final step, quotations were interpreted, conceptualized, and grouped accordingly, enabling category formation. This resulted in the identification of the seven key areas of opportunity perceived by retail managers that will be elaborated in the section that follows. An illustration of the analysis process is provided in table 1.

Table 1

Raw Data - Unit of Thought	Code 1	Code 2	Concepts	Category
M7: "So having this digital reach... Reaching our customers through digital channels, like Instagram for example for example: Facebook, Twitter, advertisements in banners and in various websites. So, we create the need that people feel that... okay this is a dress I need to have because I can see it everywhere. It's a trend now and everyone has it, or something. I need to recreate the need. That they actually need to buy it."	Format	Oprational Effectiveness	– Increased touchpoints –Retailers influence customer behavior	Offer Different Retails Channels

Table 1: Illustration of the data analysis process

Findings

In this section, we present the data to illustrate how retailers are perceiving and seizing the opportunities presented by digitalization in formats, activities, and governance.

Opportunities for retail formats

Respond to Pre-existing and Extended Competition

If company management is not willing to change the business model, they may cannibalize their business (Teece, 2010). According to the data, the digital environment provides multiple opportunities for traditional brick and mortar retail business models. However, opportunities may, in some cases, emerge from fundamental threats. This realization is greatly important, even if operating under the same conditions would not terminate business activities, increased awareness pushes companies to react and pursue opportunities.

M8: "Those [retailers] who don't digitize, don't have a website, don't allow the customers to purchase at home or on the move on their mobile, factually, they will fail in the next few years. They will not survive. So being blunt about it, survival is the need to move there."

M19: "In the big picture the traditional brick and mortar stores have been...or at least if not yet, they are facing very strong pressure to change and modify their business models and distribution chains. The pressure coming from online companies are the big ones like Amazon or really small ones like pure players then that really is making a huge need for everyone to change in terms of increased competition, more choices, and better prices for consumers. So, the ones that are not able to reach the same pace as these online players will eventually be banished out of the market unless they are able to make some kind of competitive advantage."

Digital channels and new business forms have taken market share and have changed the dynamics of competition. While traditional competition has not vanished, developments have blurred industry boundaries and competition has increased. Consequently, it is not necessarily clear who retailers are competing against these days. Opportunities lie in brand eco-systems that enable retailers to compile information, build customer profiles, and create personalized experiences through combining channels. In brand eco-systems, customers interact more with the retailer which decreases the chances of them switching to a competitor, suggesting customer lock-in is a driver. An example is provided in the following quotation:

M16: "It's just not the case that everyone needs to do everything digital, you've got to think of your positioning in the market, you've got to think have you got a brand people really want, is it really authentic? So, you just can't say we'll have an online platform and we'll sell to people, it's not like that, you've got to work about which parts you want to integrate with, you've got to work out how to get your brand across and what's your brand all about."

The current level of awareness and understanding of the digital influence on business has enabled retail management to regain confidence, emphasize opportunities, and seek competitive advantages over threats. As retailers continue to diversify, there has been a focus on building brand eco-systems (Reinartz et al., 2019).

Offer and Integrate Various Retail Channels

With the rise of the internet, brick and mortar retailers have broadened their customer offering through different channels, this effort has seen the proliferation of terms such as 'cross-channel' (Chatterjee, 2010; Picot-Coupey et al., 2016), 'multi-channel' (Verhoef et al., 2015), and most recently, the 'omni-channel' (Brynjolfsson et al., 2013; Huré et al., 2017; Von Briel, 2018; Willems et al., 2017; Yrjölä et al., 2018). The data indicates that managers consider the capability to combine various channels as an advantage and that through integrating channels they can enable seamless shopping for the customer, which will in turn enable the retailer to capture the most value. This thought is expressed in the following extract:

M26: "Because we can see, for example, that the brick and mortar stores, the value of them will change in the eyes of the customers. More and more people buy online, but what we see is that we still need to have the store where the customers can come and get inspired, and then go back home and shop online."

It is also noteworthy that although online channels are growing, managers recognized that physical stores remain an integral part of the business. In recent years, retailers have turned their attention towards reinventing the purpose to visit physical stores. Literature has already acknowledged the changing role of physical stores, claiming that they serve as 'showrooms' for customers (Picot-Coupey et al., 2016; Piotrowicz and Cuthbertson, 2014; Verhoef et al., 2015). The findings illustrate that brick and mortar stores offer customers an experience that cannot be rivaled by online channels, and managers maintained that the demise of the physical store is not on the horizon. This point is captured in the following quotation:

M23: "Whereas historically it was all driven towards getting visits to the store, now we still want to do that, but we need to find other ways to do that rather than just be the product because you can get the product online and never visit a store. So, we have to find other ways to encourage people to visit, through workshops, home furnishing events, knowledge… experiences you can't get online, because the store is still the most fundamental part."

Brick and mortar retailers are in a prime position, presented with the opportunity to leverage their offline and online channels to their advantage. In the highly competitive market, operational effectiveness is clearly a driver for retailers to utilize all the channels at their disposal in order to reach their customer base. Through combining different channels, retailers maintain numerous touchpoints with the customer which allows them to inspire, inform, upsell, and communicate with the customer on an ongoing basis. The findings suggest that retailers are aiming to deliver the same experience across channels, making for seamless shopping that meets customer expectations.

Provide Speed and Convenience

As customer demands continue to increase, several managers noted that customers are most concerned with convenience. To provide ease of shopping, retailers are implementing digital technologies within stores to minimize customer sacrifices and maximize customer efficiency. These include tools such as saved shopping lists, scan and go devices, guided picking routes, and self-checkouts. In the following quotations, managers acknowledge the extension of different retail formats to offer convenience for the customer.

M25: "When I started in this company, basically the customers' buying journey was quite structured. If they wanted to buy a sofa, they had to buy it through self-serve, so they would find where it is located in the self-serve area and they basically picked it up, or a store co-worker would make a list for them. But today customers can choose all varieties of how they want to shop, services are more aligned to the shopping process, meaning that customers can also order the goods to their homes… they can order the goods to their homes by themselves after seeing the products."

M10: "Most of our feedback is around […] how quickly they [the customer] could get through that checkout and get home. That is where a lot of our feedback is, so that is where a lot of our technology development and digitization are focused. So, we can make that experience easy and fast for them which is the technology side of it, which benefits us because they keep coming back, but it also benefits the customer because they walk out of the door with a smile on their face and say good things."

These quotations illustrate that digital developments taking place are not only for the benefit of the customer. Managers noted that digitalization creates opportunities to decrease customer sacrifices while simultaneously increasing benefits for the retailer. An explicit example of this is the implementation of self-checkouts which enables customers to buy more efficiently while increasing retailers' operational efficiency by reducing labor costs.

Opportunities for retail activities

Deliver Customer Experience

Customer experience is about stimulating consumers to respond in desirable ways (see Becker and Jaakkola, 2020) at touchpoints during the customer journey (Lemon and Verhoef, 2016). In retail settings, customers traditionally perceived experiences through a cognitive approach, for instance, by assessing functionality or speed of service (Kranzbühler et al., 2018). The data indicates that brick and mortar retailers are currently creating customer touchpoints (i.e. additional opportunities for interaction) outside the store environment. The very idea and opportunity is to enrich experiences and engage customers through social, emotional, and sensory aspects, in addition to cognition (Keiningham et al., 2017). One manager explained how their branded mobile application is used to track customer fitness activities which consequently reveals customer needs:

M17: "When you go into the store you can show them your QR code and it will show them everything that you have bought and the person in the store will be able to offer or suggest by looking at your [fitness activity] history and your purchase history, what would be a good sell for you. So, it kind of creates a through the line...not through the line, but basically a borderless experience for the consumer, at a marketing level, but also at a sales and CRM level. So, it is kind of like the store is no longer just about when you get into the store, but it is also what's happened before you get there."

Retail activities such as this are driven by customer efficiency, effectiveness and engagement. By utilizing digital tools, retailers can identify customer needs and provide them with access to multiple touchpoints through which they can seek assistance, find new information, browse products, and make relevant purchases. While digital development has pressured traditional retailers, it has also broadened the horizons for firms, enabling them to push industry boundaries to seek competitive advantages (Mendelson, 2000). Former research indicates that creating experiences influences, for example, customer satisfaction, retention, loyalty, and consequently share-of-wallet (Keiningham et al., 2017).

Utilize and Implement Digital Tools

The surge of digital developments has provided retailers with new sources of value creation and capture. Digital tools offer retailers the opportunity to streamline processes and amplify their existing offerings by enhancing the customer experience (Reinartz et al., 2019). Retail managers discussed the various digital tools that their firms have implemented, these include employees using iPads on the shop floor to improve customer interactions, handheld devices that provide employees with real-time inventory data, and customers using their smartphones to scan their products as they shop. In the examples provided by the retail managers, operational efficiency was considered a driver.

One manager gave an example of how digitalization has transformed stock management in the store and detailed the benefits of its implementation. This is referred to in the below quotation.

M10: "Rather the person walking up and down and just saying, oh I need to go and get a packet of this from the back, which in a store our size is quite a long job to go and get. If the first thing in the morning, the robot goes up and down the aisle and counts what is there and checks how much is there...it makes it much easier. That feed of information comes back out to a mobile device to then not have to count it, but just get it, and put it on the shelf and replenish. So, from a customer point of view, they won't see that technology, but they feel the results because it's always available. It is one of our phrases as well as strategies, you should have a full shelf all the time."

This quotation illustrates how digital tools enable firms to speed up their back-end operations while spending less on labor costs and indirectly improving the customer experience.

Opportunities for retail governance

Rethink the Management Model

Though retail digitalization has attracted much scholarly interest, to the best of our knowledge, the influence on the internal management models within brick and mortar retailers has been obscured (with the exception of Mende and Noble, 2019). Managers discussed the various implications of digitalization on management, most notable of which include data-driven decision making and a change in managerial skill sets.

The power of data and the benefits it can bring to retailers is already a prevalent topic in research (Grewal et al., 2017; Hänninen et al., 2019) and the findings from this study complement the literature. Managers claimed that data enables retailers to better understand the business and their customers, which aids and influences the decision-making process, as is illustrated below:

M19: "What it has brought along is this sort of...how to take advantage of digitalization in making internal operations and usage of data to make management decisions and steer operations more efficiently. How can you make that a success story as well, because I think there is huge potential with many retailers and many challenges as well about how to exploit that opportunity in the best way. [...] Let's say for example a top store manager, a well-performing manager, might not be able to stay with the pace of digitalization. And once you are not being able to adapt and develop new ways of working and using digital tools it will make you actually go from being a high-performing store manager to a low-performing store manager."

This manager also discussed the need to adjust the existing managerial skill set. Although this could be perceived as a threat, as digital literacy becomes a more important skill to possess in the job market, retailers can take the opportunity to train staff and maintain a skilled workforce who are capable of adapting to the digital environment. This illustrates that retailers are focusing their efforts on operational effectiveness and efficiency as drivers.

Adjust Organizational Approach

Exploiting digital opportunities requires dynamic capabilities from top management to recognize and seize the opportunities (Teece et al., 2016). Although, the way an organization approves, adapts, and executes changes remains uncertain. One could say that resistance to change is inevitable when combining digital business requirements into traditional retail business models, as it can lead to confrontations.

M22: "[The company] is going through a big transformation at the moment, which is all based around the need to change and find ways to be more profitable in this new environment, because the business was based upon stores and the busier the stores got, the cheaper they were to run, and then the more we could reduce prices, and the more you would reduce prices the more people come and buy and the more you sell, the more you become efficient. It's become this positive cycle. And I guess visitation drops in the stores because people are buying online, so we need to find other ways to bring them in, so that experience and exponential things in stores will be important in the coming years."

Adapting to digitalization from an organizational perspective requires significant investments (Helfat and Martin, 2015; Moorman and Day, 2016). Reconfiguring firm structure, metrics, and incentives/controls (e.g. Moorman and Day, 2016) is a slow but essential process for companies to transform. Recognition of this process was shared by managers in the following quotations:

M26: "One big change which we are doing on an organizational level right now. It was like over 1 year ago, [...] we just talked about IT, and now we have a digital function on a global level, and during the autumn we will have it in every country, so we will kind of move to 'real digital thinking'."

M4: "So, digitalization has an impact actually on everything that we do; how we talk to our customers, how we improve our processes, how we try to understand the kind of 360 degrees of our customers, whether they are online or offline. It impacts on logistics, on how we buy...well our supply chain and so forth. And I think also it really changes the culture and... or at least, it should change how the company is managed."

To summarize, digitalization will inevitably influence how companies stay relevant, control their resources, and foster firm culture. Retailers are faced with adopting necessary capabilities, ensuring continuously well-timed and efficient asset management, and managing to create a culture that supports resilience in a rapidly changing business environment. Being unsuccessful in even one phase of the process may lead to failure. On the other hand, it should be considered more as an opportunity to learn, react,

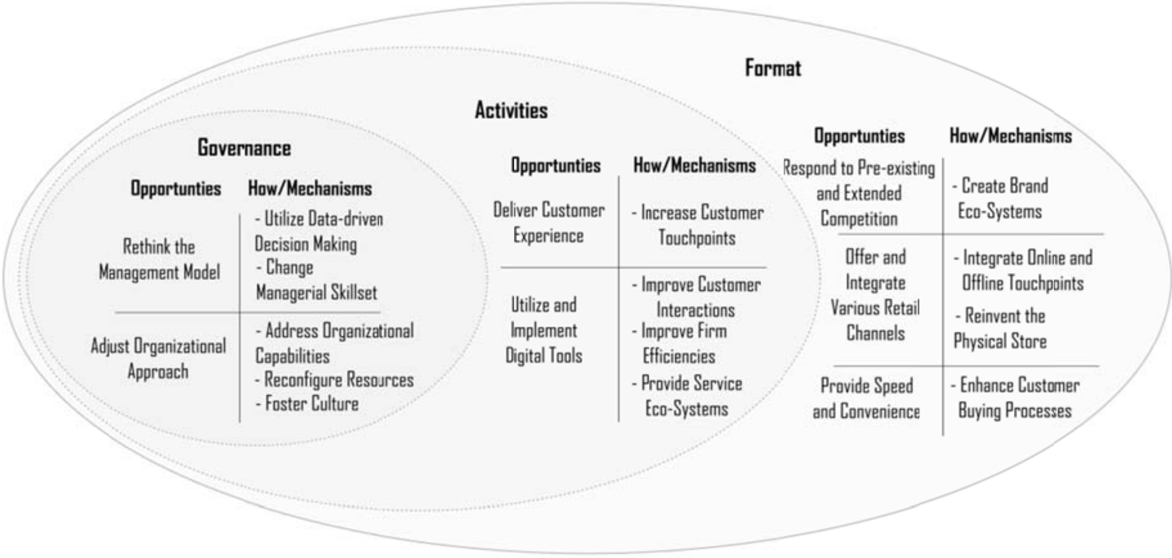

Figure 1. Retail business model opportunities enabled by digitalization

and respond to the demands of current business requirements in retailing. In this regard, operational effectiveness is a driver for retailers when considering changing the organizational approach.

To clearly express the findings, an illustration is provided that summarizes the key points discussed throughout this section (see figure 1). The figure represents the retail business model in terms of the three main elements. Within each element, we present the opportunities and the ways in which retailers are pursuing them.

Discussion and Conclusion

This study aimed to explore how retail managers perceive opportunities presented by digitalization. In addition, we challenged ourselves to identify how these digitally enabled opportunities influence retail business models. We investigated the topic through the elements of the retail business model by Sorescu et al. (2011) including format, activities, and governance. By conducting 26 semi-structured interviews we were able to gain an understanding of how brick and mortar retailer managers perceive opportunities through digitalization. Focusing on business model opportunities also allowed us to interpret, reflect, and compare the findings against the view of the future of retail represented in the scientific literature. The topic is relevant for three reasons. First, views from current retail markets in Europe show that traditional and formerly successful retailers (e.g. Debenhams, House of Fraser, Diesel) have struggled to adapt to current market requirements. At the same time, evidence from other markets (U.S) draws a picture of acceleration in retail restructuring. Second, current retail environments provide consumers with unlimited product offerings, low switching costs, and exceptional convenience, which can be seen through the increase in online consumption. Third, assimilating digital technologies into the retail business requires a change concerning how companies approach organizational design in the future. Indeed, these changes present challenges for brick and mortar retailers, however, the findings show explicitly that they see opportunities in each element of the business model.

Although some may see physical stores as unnecessary assets due to falling footfall, reinventing the purpose of the store to serve multiple channels and meet customer desires for traditionally offered value is considered a central source of competitive advantage. According to our findings, retailers are seeking opportunities for three critical purposes: 1) to differentiate, 2) to create, deliver and capture value, and 3) to manage the change. To differentiate in local, pre-existing, and extended global competition, retailers have turned their sights towards providing speed and convenience through multiple customer channels and brand ecosystems. Rather than only focusing on cognition, brand ecosystems enable social, emotional, and sensory aspects to be engaged. To ensure that new and relevant value is created, an increasing number of customer touchpoints have been generated to deliver increasingly personalized experiences regardless of location. Touchpoints located in store (e.g. self-service checkouts or integrated mobile apps) additionally enhance store operations, enabling retailers to increase the cost-benefit ratio while decreasing customer sacrifices. Furthermore, retailers are employing data-driven decentralized decision-making models and lowering hierarchical organizational structures. However, the influences of digitalization extend over management systems. Ensuring organizational ability to deliver desired experiences in the changing business environment requires continuous evaluation of capabilities and assets, as well as fostering supportive company culture for fast adaptation. Yet, the prerequisites of the retail business model reconfiguration demand significant changes in the organizational approach.

This study makes several theoretical and practical contributions that are elaborated in the following paragraphs. Three theoretical contributions are emphasized. First, this study makes a theoretical contribution to the literature through "providing connections among previous concepts" (Corley and Gioia, 2011, p. 15). Hence, our main theoretical contribution lies in the further exploration of the existing theory presented by Sorescu et al. (2011). In their article, Sorescu et al. (2011) utilize two key concepts, the retail business model elements (format, activities, and governance) and six innovation drivers (operational effectiveness, operational efficiency, customer lock-in, customer effectiveness, customer efficiency, and customer engagement), which served as the basis for our data analysis. We applaud their work as it illustrates the highly interconnected nature of the retail business model and further provides an insight into business model innovation in the retail context. In the paper, Sorescu et al. (2011) suggest that each business model element is connected to all drivers. However, by combining the elements and drivers in our analysis, further insights were gained, suggesting that certain drivers push specific business model elements in the context of brick and mortar retailing. More specifically, that format is driven by operational effectiveness and efficiency, and customer lock-in and efficiency. Activities are driven by operational efficiency, customer efficiency, effectiveness and engagement. And governance is driven by operational efficiency and effectiveness. This illustrates that managers do not perceive all drivers in each business model element.

Second, it seems that a paradox exists in the retailing literature, on the one hand telling a story of the retail apocalypse (Baggi, 2014; Helm et al., 2020), and on the other recognizing new sources of competitive advantage (Mende and Noble, 2019; Reinartz et al., 2019; Saarijärvi, 2012). Between these competing narratives, the threats and opportunities facing retailers are explored predominantly from the customer perspective (Hagberg et al., 2016; Picot-Coupey et al., 2016; Chatterjee, 2010; Fuentes et al., 2017; Helm et al., 2020; Labrecque et al., 2017) and employee perspective (Huré et al., 2017; Pantano and Migliarese, 2014; Rafaeli et al., 2017). However, to the best of our knowledge, no other papers explore retail digitalization from the perspective of retail managers. As retail managers are responsible for transforming the retail business model and adapting to changes in the environment, managerial insights on this topic are important. The findings of this paper open new avenues to influence and impact restructuring, instead of identifying phenomenon related sub-phenomena. Therefore, our paper serves as a foundation for building theory on the managerial perspectives on the retail business model through digitalization by linking opportunities and mechanisms.

And finally, the current stage of retailing is extremely important revealing the speed at which traditional retailers are able to understand and respond to new competitive forces. However, when reflecting on the fundamental shifts (asset management, resource allocation, appropriation logic, and abandonment of the value chain approach) (Van Alstyne et al., 2016; Helfat and Martin, 2015; Moorman and Day, 2016) that take place when moving from traditional retailing toward platform business models (Van Alstyne et al., 2016) suggested by Sorescu et al. (2011), only one correlated. Retailers have used ecosystem perspectives as a competitive tool to orchestrate internal processes and to ensure coherence in the customer experience (e.g. generating data from off-store environments). Whilst, traditional retailers are far away from abandoning the value chain approach, in this study we found that digitalization influences every business model element (format, activities, and governance). Thus, adopting a 'business model-centric' approach in a manner that recognizes every business model element and develops the business model as a coherent entity is an important vehicle for traditional retailers to adapt to the rapidly changing business environment of restructuring. Eventually, the forceful phase of digital evolution that we are witnessing will reveal the future directions of retailing and business model centricity may turn very beneficial.

This study has various implications for retailers, consequently, we detail the three main practical contributions of this research to guide retailers seeking opportunities in the retail business model. First, the study shows how brick and mortar retailers perceive the opportunities from a business model perspective, covering format, activities, and governance in the analysis. As such, this study provides a valuable checklist for traditional retailers to ensure that they are staying relevant in the current business environment. Second, it reveals that brick and mortar retailers are focused on the short-term rather than the long-term. The study participants recognized opportunities from capabilities or resources that exist at the moment, this is due to the need to react rapidly in the changing retail market. Through interpreting these developments, it is possible to determine that brick and mortar retailers are far from pursuing a complete shift to new business models, such as platforms (Sorescu et al., 2011) that have gained popularity and success due to different business model logic. We suggest that brick and mortar retailers turn sights towards their current and future competitor's business models to seek opportunities. Third, brick and mortar retailers have high confidence in competing against online retailers (e.g. Amazon, Alibaba) by centering competitive advantage around the stores as the heart of traditional retailing and the source of price-quality relation of offerings. However, when scrutinizing the profit equation of platform-based business models, it is clear that most traditional business model's tied capital (e.g. in products or stores) has been liberated to enhance the customer experience. By focusing on experiences, traditional retailers may have selected to compete against new rivals with the same weapons, indicating that new rivalries are developing customer experience with extensive intensity while operating asset-light business models. The study suggests that brick and mortar retailers should evaluate distinct options for the value chain, enabling them to respond to current competition and anticipate the emergence of other forms of competition. These changes suggest a new retail paradigm is emerging, one which requires recognition in both theory and practice.

Limitations and future research

This paper set out to extend the understanding of existing opportunities in the retail business model enabled by digitalization. As an ambitious aim, inevitably there are associated limitations, these relate to the data sample and research methods. Although we endeavored to identify the opportunities across the retail industry, we only collected data from the UK and Finland, which renders our findings and implications limited to retailers in developed European countries. Though we assert that what we lack in scale, we compensate with rich managerial insights from multiple mid- and top-level managers working in various types and sizes of retailers. An additional limitation concerning the data sample is the focus on the retail manager's perspective. As a retailer's raison d'etre, it could have proven beneficial to include the customer perspective, however, due to limited resources, this was not possible. In terms of the research methods, qualitative data was generated through interviews which can present challenges for researchers in terms of influencing the data. When conducting interviews researchers are a part of the data generation which can restrict the discussion to predefined notions and ideas within the researcher's knowledge. In this regard, Gioia et al. (2013) advocate that researchers should emphasize the interviewee's voice over their own to enable new insights to be gained. To ensure that the discussions were not impeded and to provide flexibility (Queirós et al., 2017), the semi-structured nature of the interviews meant that the questions played a supporting rather than leading role to enable the exploration of the topic through the eyes of the retail managers.

While digitalization has presented businesses with multiple challenges, it is also important to highlight the opportunities to support organizations as they adapt to digital ways of working and reconfigure their business models. We maintain that adopting a business model lens uncovered profound influences on the retail business model. Therefore, it is suggested that further research be conducted on the influence of digitalization on business models in other markets and industries. We selected digitally competitive markets for exploration, however it could be fruitful to examine countries that have yet to develop progressive attitudes and obtain business agility with cohesive technological integration. As a final note, we would like to mention that an abundant source of data was generated which unfortunately could not be fully explored within the scope of this study, as such, we suggest a direction for future research. An emerging theme within the data was business expansion, more specifically, that brick and mortar retailers are increasingly able to take advantage of digital technologies to reach new businesses, suppliers, and customers. Digitalization has facilitated the burgeoning of international mergers, enabled the diversification of retail products as buyers video call suppliers to secure new products, and supported the growth of new markets as retailers sell their products to customers overseas. Digitalization has opened up the world, initially instigating rising threats from competition 'entering in' the market, but going forward, brick and mortar retailers are well-placed to consider 'expanding out' to exploit the existing opportunities.

Appendix 1					
"Brick and mortar" retail examples	Founded	Categories	Annual turnover in the glorious times M$	Number of stores before entering administration	Date of Bankruptcy
Debenhams	1813	Department store chain	3088	122	July 2020
Poundworld	1974	Discount retail store	1742	355	July 2018
House of Fraser	1891	Department store chain	1530	59	Aug 2018
G-Star Raw	1989	Luxury fashion	1002	400	July 2020
Diesel	1978	Luxury Fashion	927	424	March 2019
HMV	1921	Music, DVD, video games store	476	113	June 2020 (Sec-ond bankruptcy)
Blanco	2009	Clothing store	467	120	Dec 2016 (second bankruptcy)
British Home Store (BHS)	1928	Department store chain	389	163	Aug 2016
Brantano	1962	Footwear	348	286	June 2017
Maplin	1976	Electronics store	312	217	June 2018
Roberto Cavalli	1975	Luxury fashion	231	51	March 2019
Karen Millen	1981	Clothing store	232	57	March 2017
Sonia Rykiel	1968	Luxury fashion	75	10	June 2019

Appendix 1: Examples of brick and mortar retail entered administration in the Europe between 2015 and 2020

Appendix 2

"Brick and mortar" retail examples	Founded	Categories	Annual turnover in the glorious times M$	Number of stores before Chapter 11	Date of Bankruptcy
Sears	1886	Retail chain	16700	434	October 2018
Toys "R" Us	1948	Children's toys	12400	807	September 2017
Great Atlantic and Pacific Tea (A&P)	1859	Grocery	5500	296	July 2015
sports authority	1928	Sportswear	3500	463	March 2016
RadioShack	1963	Electronics	3400	425	March 2017 (second bankruptcy)
Payless	1956	Footwear	3000	3600	April 2017
Bon-ton	1898	Department Store Chain	2700	272	February 2018
HHGregg	1955	Consumer electronics and home appliances	1960	220	March 2017
Quiksilver	1960	Surfwear apparel	1800	122	September 2015
Nine West Holdings Inc.	1970	Shoes, fashion, accessories	1600	70	Date: April 2018
Southeastern Grocers	2011	Grocery stores	1500	852	Date: March 2018

Appendix 2: Examples of brick and mortar retail bankruptcies (chapter 11) in the U.S between 2015 and 2018

"Brick and mortar" retail examples	Founded	Categories	Annual turnover in the glorious times M$	Number of stores before Chapter 11	Date of Bankruptcy
Gander Mountain	1960	Outdoor recrea-tion	1300	162	March 2017
Gymboree	1976	Children's apparel	1270	1100	Date: June 2017
Vanity	1955	Women's apparel	1200	140	March 2017
Mattress Firm	1986	Mattresses	900	200	October 2018
Rue21	1970	Teen apparel	822	400	May 2017
Pacsun	1980	Teen apparel	797	645	April 2016
KIKO USA	1971	Beauty	700	28	January 2018
Charming Charlie	2004	Apparel and ac-cessories	620	67	December 2017
BCBG	1989	Women's apparel	600	259	February 2017
American apparel	1989	Apparel	600	250	November 2016 (second bank-ruptcy)
Gordmans	1915	Discount depart-ment store	579	68	March 2017
Aerosoles	1987	Footwear	550	80	September 2017
Wet Seal	1962	Teen apparel	500	173	February 2017 (second bank-ruptcy)

Appendix 2: Examples of brick and mortar retail bankruptcies (chapter 11) in the U.S between 2015 and 2018 *(Continued)*

"Brick and mortar" retail examples	Founded	Categories	Annual turnover in the glorious times M$	Number of stores before Chapter 11	Date of Bankruptcy
Perfumania	1988	Perfume and beauty	490	240	August 2017
True Religion Apparel Inc.	2002	Denim and jeans	419	27	July 2017
Eastern Outfitters	1967	Outdoor apparel and gear	400	18	February 2017
Brookstone	1965	Gadgets and gifts	351	100	August 2018
The Walking Company	1991	Footwear	272	69	March 2018
Vitamin World	1977	Vitamins	200	158	September 2017
Hancock fabrics	1957	Fabrics	200	185	February 2016 (second bank-ruptcy)
Cache	1975	Women's clothing retailer	200	150	February 2015
A'gaci	1971	Apparel and Ac-cessories	136	76	January 2018
Samuels Jewelers Inc.	1956	Jewelry chain	112	121	August 2018

Appendix 2: Examples of brick and mortar retail bankruptcies (chapter 11) in the U.S between 2015 and 2018 *(Continued)*

Appendix 3			
Code	Position	Experience (years in industry)	Country
M1	Head of Technology	21	Finland
M2	Customer Marketing Manager	6	UK
M3	Chief Information Officer	8	Finland
M4	Chief Digital Officer	20	Finland
M5	Digital Customer Experience	5	Finland
M6	Commercial Manager	2.5	Finland
M7	Store Manager	10	UK
M8	Chief Executive Officer	30	UK
M9	E-commerce Manager	6.5	Finland
M10	Project Manager	25	UK
M11	Managing Director	20	UK
M12	Chief Technology Officer	30	UK
M13	Regional Manager	30	UK
M14	Digital Business Advisor	22	Finland

Appendix 3. The characteristics of interviewees

Code	Position	Experience (years in industry)	Country
M15	Marketing and Communications Manager	8	UK
M16	General Manager	20	UK
M17	Head of Digital and Technology	20	UK
M18	Head of Digital Marketing	11	Finland
M19	Country Manager	20	Finland
M20	Chief Digital Officer	15	Finland
M21	Strategy Manager	7	Finland
M22	Market Manager	24	UK
M23	Head of Customer Experience	16	UK
M24	Country Manager	19	Finland
M25	Communications and Insights Manager	16	Finland
M26	Country Transformation Manager	10	Finland

Appendix 3: The characteristics of interviewees *(Continued)*

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