CHAPTER ONE

Inflection Points in Retailing

> A strategic inflection point is a time in the life of a business when its fundamentals are about to change. They are the result of an event which changes the way we think or act.
>
> —*Andrew S. Grove, ex-Chairman, Intel*

We speculate that the success or failure of retail companies is not the result of short-term actions but rather the culmination of a series of decisions made over time. Successful companies consistently and accurately anticipate or create new market trends. Those less successful either fail to react to market conditions or simply make the wrong choices. The companies have lagging sales and profits over a long period of time—then suddenly make headlines as the financial consequences of their actions come to bear. They become candidates for our ever-growing list of companies who have entered the Black Hole of Retail—where companies head in but rarely make it out.

The concept of an *inflection point* suggests that there are critical points in the history of an industry or an individual company that signal permanent and enduring change. When a company faces an inflection point, its future might literally be at stake—the proper responses to these signs lead to sustained growth, while inappropriate reactions often lead to obsolescence.

It is easy to reflect back on the past and point out retrospectively where these right or wrong decisions were made. It is more difficult, but also more informative, for retailers and suppliers to recognize if an impending inflection point is at hand. And even more critically, to have the necessary skill sets to predict those potential inflection points and respond quickly and appropriately. Knowing when to react to a trend versus ignoring a fad, and doing it again and again, helps certain companies stay relevant, efficient, and ultimately successful.

Andy Grove, the founder and ex-chairman of Intel is credited with popularizing the concept of an inflection point and bringing the term into popular usage in the business world. While the term is often used (and perhaps overused) in the modern business lexicon, what about its applicability to retailing? What really signifies an inflection point as it relates to the retail business? We postulate as follows:

An inflection point is a formative occurrence—a permanent shift in the competitive situation that forever changes the way business is done.

In plainer English—miss a big inflection point and you could be in big trouble. What makes it difficult is determining where the inflection point occurs. Rather, a series of conditions appear to exist in the market that leads to a retailer response and the subsequent creation of an inflection point. It is hardly just one thing and hardly ever packaged together in a neat and tidy way. There are plenty of tea leaves that need to be read.

The concepts of *accelerators* and *disruptors* have been introduced to describe the notion of disruptive change in the marketplace. Retail is in a steady state of evolution, with literally thousands of decisions and changes made on a daily basis. Inflection points represent those moments in time that upset the status quo and represent a significant and permanent shift in the market. Those changes are often the result of companies' responses to accelerators and disruptors.

For example, consumer changes (e.g., aging demographics, smaller household sizes, increasing ethnicity) are often cited as accelerators that invite retailer responses. It is those retailer responses that define the actual inflection point. Similarly, the introduction of a new competitor or format represents a disruptor to the market, either due to the impact of that format itself or the competitive response to that retailer's entry.

INFLECTION POINT MODEL

The inflection point model is illustrated in Figure 1.1. The market moves at a steady rate of change until a significant response is made to accelerators or disruptors occurring in the market.

Some retailers respond innovatively and appropriately, gaining share; others either fail to react or have the wrong response and suffer reduced sales and share.

Create or React

In simple terms, retailers have two options in responding to accelerators or disruptors in the marketplace:

1. They can consciously choose to create their own futures, in effect, creating their own inflection points.

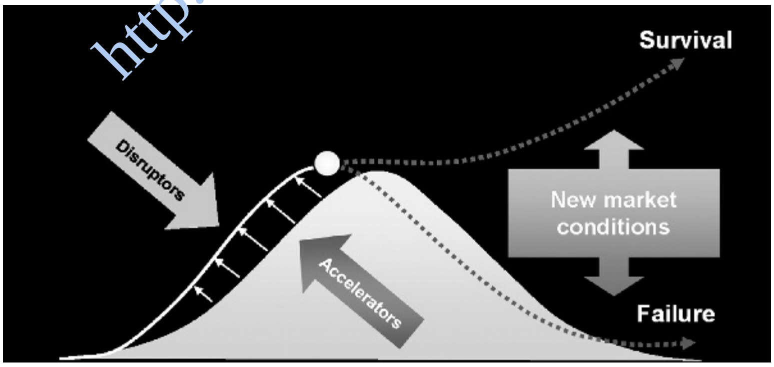

Figure 1.1 Inflection Point Created in Response to Distributors and Accelerators

These retailers are leading change, creating an inflection point based on their own responses to market conditions. While it seems like a retailer would always want to be on the leading edge, there are times when getting out too far ahead can result in considerable losses.

2. Or, they can choose to respond to the changes in the marketplace created by another company. It is often the reaction to change (not the initial change itself) that has the greatest impact on defining the inflection point. While we don't recommend lagging too far behind, it is often not a bad idea to let others lead the charge, then quickly imitate.

Depending on the size, niche, resources, and skills of a particular retailer, either response might be appropriate. The key is being in a position to quickly evaluate the market situation and develop the appropriate response for the organization. One of our business mantras is *Moving Doesn't Always Guarantee Success but Standing Still Is a Sure Way to Lose.* The marketplace is simply too demanding not to change.

As we look at the emergence of Greentailing, it is clear that a number of disruptive factors are now at play. As we detail in later chapters, the classic factors for an inflection point occurrence are all very much in evidence. Whether your company embraces the tenants of Greentailing, one thing is certain—an intelligent, strategic response is needed. It is a trend that cannot be ignored. Your customers, competitors, and the media are making certain of that.

What's Involved in Getting It Right?

Simply spotting a trend isn't enough. Developing an appropriate and timely response and having an organization capable of achieving dramatic change are also enormous challenges.

The ultimate manifestation of a response to change in the market is the creation of a new format, or the radical reconstitution of an existing one. While retailers make hundreds or thousands of iterative changes on a daily or weekly basis, true change comes along rarely. And revolutionary change even more rarely than that.

One of the reasons that format creation is such a challenge is that it's hard to get right. A new format must correctly find the intersection of consumer change, competitive differentiation, and be powered by the internal competencies to succeed. And, by the way, it would be nice if it made some money as well. Getting it right is truly an art form.

There is no more animated discussion within our consulting business than when it comes to rendering an opinion on a new retail concept or a major new idea within a store. It is the retail consultant equivalency of a really great bar argument. A new concept or prototype is the culmination of divine inspiration, blood, sweat, and tears and countless hours of strategizing and research. For anyone involved in a retail industry, opening a new concept is one of the most exciting events. It is also one of the most difficult things to get right, and you can crunch numbers and study it to death, but it is almost impossible to actually determine how a consumer will interact once they're in a newly created retail environment.

We've been chronicling change in retailing for almost 20 years as part of our *Retail Watch* newsletter. We started *Retail Watch* to provide an editorialized view on new ideas after getting tired of reading hyped-up press releases or glowing articles that never mentioned any flaws. We've logged millions of miles traversing the globe to see new ideas only to be disappointed to see a store that clearly wasn't cutting it with the ultimate judge, the customer. Our favorite example of this is "store of the year" design awards, which almost guarantee a concept's doom. (Remember, customers don't buy store designs.) So, we have taken a point of view, in a slightly irreverent way to actually criticize the formats we visit. Our criteria is pretty simple—we have to experience a store to write about it and we have to visit anonymously. By the way, you can add "guided tours" with the retailer's management among our other pet peeves—we want to see stores as customers see them—not when they've been prettied up for the royal tour.

As part of studying new retail concepts or formats, we always ask ourselves: Have we seen "the future of retailing?" which we once proclaimed after visiting the prototype Wal-Mart Supercenter way back in 1990, or have we seen something that will likely be written off the books in short order? Or worse yet, will the failure to create a new format that profitably connects with the customer cement a company's path to retail oblivion, which we affectionately call the Black Hole?

If so much is riding on the success of creating a new concept, how do you actually go about creating one? What are the rules and lessons that might apply that will help retailers avoid some of the costly mistakes and lead to a better chance of success? It is our fundamental belief that much can be learned about future success by studying what's currently working and extrapolating those lessons into something new and exciting.

How Do You Know if You're on the Right Path?

With all of the new retail formats opening these days, there are a number of arguments about what's working, not working, and most importantly, why? Why does one concept become a breakthrough while others simply break down? We have been involved in development of a number of retail formats that have succeeded and some that have failed and, because we have reviewed every significant new concept to come along in retailing over the past 20 years, we have a right to a few strong points of view:

- *No one, ever, has nailed a new concept, right off the bat.* In fact, the "newer," the tougher it is to pull off. There are so many moving parts and pieces that it is nearly impossible to get them all in sync. So, we need to look for glimmers of what a finished concept might be like, not the total picture in front of us.

- *There are no overnight successes.* Name a concept, any concept, and you will typically find a rather lengthy pattern of development and evolution until someone gets it right. The key to profitable retailing is replication—once you get beyond prototype, the real money lies in rolling out a formula.
- *It is absolutely critical to get the customer and the experience right.* That's where it gets tricky and where the real debate should lie in understanding a concept. Is it right on consumer trend? Does it have the right products? Mix? Design? Experience? Pricing? And so on. We would argue that nailing the customer and the experience is most critical—the others will follow—assuming you have the time and resources. But, you better have the right products and services to sell—customers don't buy a store design.
- *Make sure it is sustainable.* There have been many concepts that look great out of the gate, only to falter later. Think Krispy Kreme. Distinguishing between a faddish concept, versus ones that can stand the test of time, is sometimes tough to do. Ensuring that a concept has sustainability, defined by repeat customer visits, is critical.

It is fairly easy to look at new retail concepts (and we will be looking at a number of new ones in this book) and find fault with almost all of them. The real trick—finding the roots of a concept that can be grown and nourished versus the ones that might wither away because there are fatal flaws (consumer, financial, or whatever).

As to the current state of "green," there is an emergent crop of retail formats, retail departments, and new items that are competing for elusive success. Because we are early in the game, there are few ideas we have seen that truly qualify as unbridled successes. The consumer's intent versus actual actions still seems to be misaligned—saying you are "green" and truly purchasing "green" seem to be quite different at this moment. Green products have historically had a perceptual stigma of lower quality or effectiveness (some of it deserved) at higher prices. And helping the customer understand all of the complexities of green is not an easy task.

The road to revolution in retailing is always a bumpy one. There are plenty of pioneers who are out there, often with arrows in their backs, the consequence of getting too far ahead of the consumer, supply chain, or sustainable business model. There are also the trailers, who simply never catch up. In this book, we examine, in detail, some of the hot ideas that are going to revolutionize retailing. We provide a road map on how to profitably respond for the long term.

New inflection points are at hand, and retailing will never be the same. The bandwagon has arrived, and revolution is on its way.