When experience defines how consumers buy, what will retailers sell?
(PART 2)

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The metaverse is emerging as a new space for retailers, bridging the physical and virtual worlds to deliver new shopping experiences.

(CONTINUED FROM PREVIOUS EDITION)

There are three stages of opportunity for retailers in this fast-evolving space:

1. Acting as gateways to brand discovery

In a space such as the metaverse, retailers may be trusted to act as curators for consumers across a range of brands, enabling chance discoveries without overwhelming the customer. This is not a radical departure from how many retailers operate both physically and online today. But it demonstrates that they can still achieve relevance by creating the right experience around products and services; offering customers choice; and granting brands access to customers.

2. Extending their virtual worlds

Retailers can build out their presence in the metaverse by using virtual spaces to drive gamified, social or event-driven shopping, where the transaction becomes the secondary by-product to the experience. Imagine shopping as a digital treasure hunt or as a live-streamed event. Brands have opened virtual stores in mass multiplayer online games to tap into their growing popularity, and many are increasingly blurring the boundaries between selling physical and digital products in the metaverse. In fact, restaurant chains are already exploring the opportunity of allowing people to buy a virtual meal in a virtual restaurant while having a real one delivered to their door at the same time.

3. Becoming co-creators

Retailers and brands can begin to work together with consumers to create a blend of experience and product that bridges physical and digital spaces. This opportunity remains largely untested, but as consumers start to use the metaverse to design and create their own digital products, retailers can collaborate with brands and manufacturers to convert these into physical goods. Equally, retailers and brands can work together to deliver entirely personalized branded experiences that use augmented reality (AR) overlays to enhance physical products and spaces. All of this remains a long way off, but as it takes shape, it raises profound questions about intellectual property, data and cyber risks, brand protection and, more fundamentally, the way that value is created for consumers, brands and retailers.

The changing role of the retailer

This heralds a new world of retail experiences for consumers. But the implications for the companies selling to them are equally game-changing. Because whether you look at the physical space, digital space or the blending of the two, some fundamental – and likely permanent – shifts are underway in the age-old relationship between retailers and brands.

Throughout history, retailers have been the gatekeepers for brands' access to the consumer. But now this relationship is morphing at pace, as the future value proposition of retail pivots to the attention economy. The core of this new proposition relies on selling a curated brand experience to the consumer – an activity that in turn benefits the brand.

This could have a profound effect on the way that retailers create value. One option may be that rather than selling brands to consumers, the retailer could sell consumers to brands. This could mean that consumers themselves increasingly become the product on which the retailer's business model is based.

The shift from relying on product margin

This reversal of how retailers create value completely subverts their traditional business models. It means they'll need to expand their sole focus away from retail margin to a wider range of revenue streams.

As they combine their capabilities in new ways, retailers have the potential to become portfolio businesses. They could transition from a point-of-sale (POS) portfolio business to one which has multiple profitability sources – some marginal and some not. Over time, only a few lines will relate to product margin and they will have a mix of physical and virtual assets, retail, non-retail, products, advertising and data-driven business models or revenue streams – a portfolio with components that are mutually supporting, and which needs to be sustainable and profitable overall.

This recalibration raises a host of possibilities. Will a retailer look to make money from selling the product to the consumer? Or should that transaction be zero-margin, realizing value instead from the consumer data they have gathered through loyalty programs, for example, which may be worth more to the brand than a one-off sale?

By the same token, an individual component of the portfolio – say the bricks-and-mortar stores – might not be profitable on a stand-alone basis but may be contributing inputs, such as data and relationships, that support the profitability of the other components. So, it's worth keeping in the mix.

This will work if retailers focus on where they can add value. Leading retailers have several inherent core capabilities – consumer relationships, consumer data, physical spaces, people, online properties, real estate and so on. They need to ensure they have the digital capabilities needed to bring these components together to manage their IP, their back-end systems as well as cybersecurity. They now need to rethink how they can combine and leverage those capabilities to unlock the greatest value for themselves, their customers and their brand partners.

Forget stores, focus on space

For retailers to navigate the future in a world which is changing rapidly and often unexpectedly, they will need to stop confining their channel strategies to "stores" and "e-commerce." Instead, they will frame their channel approach holistically around "spaces." These could comprise physical, digital, virtual or blended spaces which will all come together to deliver a "metachannel" perspective.

Here are three key imperatives for retailers to consider as they develop this strategy:

1. Take a systemic approach to understand the value your spaces can bring

Traditional KPIs, such as sales per square meter, are no longer an indication of the value a space can bring your business. Retailers are familiar with this concept and have used loss leaders for decades as drivers of footfall into their stores. Now they must go a step further and consider the value that a space brings to their business holistically. A store might not make any money, but the value of the data it generates might bring in alternative revenue streams. Similarly, a presence in the metaverse might be a costly distraction, but it could be laying a foundation for a much stronger opportunity that could safeguard the profitability of physical spaces tomorrow.

2. Don't anchor, experiment

For too long, the experiences that retailers offer have been framed by their core business of selling products to people. Now retailers can decouple that relationship and explore transforming experiences in ways that are only constrained by their imagination and budget. That's not to suggest that retailers should invest in major loss-driving concepts, but they should also step outside their comfort zone now to see how they could be done if given a blank slate.

3. Understand what you are selling and who you are selling it to

The retailers of today buy products from brands and sell them to customers. In that value chain, they are little more than transactional intermediaries. This may have worked for hundreds of years, but it may not work forever. One option may be for the retailers of tomorrow to be selling their consumer insights back to brands either through data or through commission on the products they sell. They may be selling services, time, events or experiences back to consumers. In considering how they make best use of their space retailers must also consider how it can create the most value for everyone.

Summary

The pandemic has accelerated many changes in consumer buying behavior, resulting in people no longer differentiating between where they shop, but simply shopping in ways that are convenient to them, wherever they are in their day. As a result, retailers need to focus on delivering a consistent, connected customer experience, that's integrated across all their channels and gives people a reason to visit and spend time there. Whether that place is in a physical store, online, or in the metaverse, making it an integrated experience and measuring its performance overall will ultimately deliver far more value to customers and retailers. ■