Changes to Retail Business Models - Overview of the Determining Factors

Retail business models, both with respect to overall retail operations, as well as individual types of retail organisations, are undergoing transformation brought on by the current economic environment. This can be attributed to growing competition, changes to customer behaviour and expectations, globalisation, as well as the availability and development of new information technologies.

This paper outlines the essence and fundamental components of retail business models, indicates the probable directions in which those models may evolve and identifies the determining factors and trends that shape the business models applied by retailers. In her analysis the author has demonstrated that although the retail sector eagerly embraces innovation, any changes to business models are evolutionary in their nature. They mainly involve the introduction of new solutions in terms of store formats, cooperation within the distribution channels, changes to the range of products and services offered and the use of mobile technologies.

Key words: business models, retailing, store format, innovation in commerce, competition, buyer behaviour.

Introduction

The retail sector is undergoing dynamic changes caused by the processes occurring in the business environment and the growth strategies implemented by companies. Such changes are subsequently reflected in the structure of the retail sector, which is beginning to be dominated by large retail chains, and in the creation of new business models. The key challenge facing retailers in the current economic setting is to answer the question how to ensure and deliver value to customers and what innovations to introduce with the view to building a relatively solid competitive advantage. A new paradigm governing the establishment of business models and competitive strategies is the assumption that the company and the customer co-create value. A customer-oriented approach constitutes the chief premise behind the introduction of innovation in retailing on a highly competitive market.

This paper aims to identify the factors determining changes to retail business models both with respect to overall retail operations and the individual store formats. Based on the observations of the operations of contemporary retail enterprises and the findings of the research conducted into structural transformation of retailing in Poland, one may argue that changes occurring in the business environment result in the need to

---

search for and implement effective ways of building competitive advantage using new business models.

This paper will discuss, consecutively, the nature and constitutive parts of a retail business model, the question of business model evolution, the analysis of external and internal factors determining the introduction of changes to business models, as well as selected trends and examples of innovative solutions in shaping retail business models.

**Nature and constitutive parts of a retail business model**

The notion of a “business model” relates to the principles and manner of conducting business operations in an organised format. It defines the foundations of a given type of business activity, the rationale behind business operations, the choice of resources, the scope and character of internal and external relations, the main cause and effect dependencies between the individual components of the model. This term has come into widespread use with the development of information technologies and the advent of new e-commerce ventures. According to Afuah and Ch. L. Tucci, any company that wishes to do business online should have a viable business model specifying how they intend to generate profit in the long term. The business model answers the question of who the customers of a given company are, what constitutes value to those customers, what the sources of revenue are, what the company competencies are and how the value chain is configured. J. Magretta believes that a business model of a given enterprise sets forth how to make money, defines the economic rationale behind its business and how to deliver value to customers while at the same time maintaining costs at an optimum level.

Management literature also uses the term “business system”, understood as a “specific configuration of resources, value-adding activities and products/service offerings directed at creating value for customers”. The shape of a business system (or system of creating value) depends on the business sector and type of business operations. The relations between the business system and the fundamental components of a company’s organisational system are shown in Fig. 1.

The development of a business model is a complex decision-making process, requiring answers to the following questions:

- what the company’s core business is or should be,
- what resources and key competencies are required for the company to gain a competitive advantage,

---

4 A. Afuah, Ch. L. Tucci: Biznes internetowy. Strategie i modele, Oficyna Ekonomiczna, Kraków 2003, s. 29.
- how the resources and competencies are configured.

The first question concerns specifying the company’s main area of operations and the strategy employed, the second relates to the need to allocate specific resources and having key competencies, whereas the third indicates the need to determine enterprise architecture, i.e. internal and external dependencies within the organisational structure.

The fundamental components of a business model, such as the range of products or services offered (value delivered to customers), resources and competencies, as well as value chain configuration, are present in any business, but may be shaped differently depending on the company’s area of operations and the manner in which it strives to build its competitive advantage.

![Diagram of Business System and Organisational Systems](image)

Figure 1. Relationship between the business system and organisational systems

When attempting to explain the importance of a business model in retailing, it has to be assumed that the model represents the principles governing the operation of a retailer whose main task involves the purchase of goods with a view to reselling those to end customers. Through their operations retailers increase added value in the distribution chain by offering goods at the place where customers are willing to purchase them (place utility), at the right time (time utility) and by enabling the conclusion of a transaction on the basis of which a given product is purchased (utility of possession).

The notion of a business model relates in essence to the entire enterprise, however, when applied to retail operations, it is important to specify the manner in which the operational activities involving the sales of goods to end customers will be

---

conducted. This concerns the choice of the store format. A strategic problem is deciding on a multidimensional concept for the store format, i.e. selecting the correct combination of the following components: range of products and services, location, pricing policy and terms of purchase, which together make up a package of benefits for the consumer⁸.

Taking into account the fact that trading companies vary significantly in terms of the type and number of stores operated, their location on many markets in geographical sense, as well as in the choice of the form of commerce, e.g. brick-and-mortar stores, online stores or mail order (the so-called Multi Channel Retailing) and the degree to which their operations are standardised, it may be safe to say that there exist numerous business models in retailing. The fundamental components of retail business models include the subject (profile) of activity, i.e. the range of products and services offered, the spatial range and target market (who the customers are and what they consider to be of value to them), resources and competencies and value chain configuration (how business functions are executed, how the relations with suppliers and other business partners are established and maintained).

**Retail business model evolution**

A business model understood as a concept for company operations is not subject to frequent modifications. Rather, the usual tendency is to maximise the potential offered by a given model and limit the risks related to any potential changes.

The models used by companies within a particular business sector are mostly based on solutions applied industry-wide and are improved or adjusted to reflect the specific market conditions. The starting point for introducing changes to a retail business model may be a particular store format, e.g. a department store, discount store, supermarket, hypermarket or a specialist store or the form of trading, e.g. brick-and-mortar stores, e-commerce, mail order or direct selling.

In order to transform the existing models into a new business model a question arises as to what changes should be introduced to enable the retailer to better seize market opportunities and stand out among its competitors.

During the period of systemic transformation in Poland the business models employed by foreign trading enterprises and their chains of stores became a benchmark for many domestic retailers, who decided to follow the established path and adopt some of their solutions. For instance, Poland was quick to take up the concept of franchising, as well as other forms of co-operation within distribution chains.

Now and again, however, an innovative business model is developed, often as a consequence of challenging the assumptions and rules of the game followed by established companies and creating new variants of the fundamental characteristics of a store format (Fig. 2). An example of such an innovative model is the concept of discount trade developed by the founders of the Aldi chain, which became a model to be followed later by many trading enterprises operating in various sectors.

---

Other examples of trading companies that have introduced innovative business models include Amazon, Benetton, Ikea, Tchibo, Wal-Mart and Zara. Their business experience continues to be the source of inspiration for many retailers who try to adopt or imitate certain solutions. According to Ph. Kotler, companies that have achieved market success owing to innovative business solutions have a number of advantages at their disposal, which constitute a unique combination of a few factors or components making up the business model. A competitor who chooses to copy only some of those components (methods of operation) is likely to fail to gain a competitive advantage\(^9\).

Thus, changes to the business model may be evolutionary in nature if they involve the modification of a selected element or function, or radical (comprehensive) if they lead to the reconstruction of the existing mode of operation (Fig. 3).

Changes introduced into the business model may be considered innovative if they are related to a new business idea or manner of operation or if they improve the existing organisational solutions. The notion of innovation in commerce may be defined as any successful launch of a new or improved process of providing commercial services that has been accepted by market participants\(^10\). Most frequently business model

---


\(^10\) J. Chwałeć: Kierunki rozwoju innowacji w handlu, Handel Wewnętrzn 2014, nr 2, s. 88.
modifications involve the introduction of changes to the existing store formats, applying
the concept of outsourcing or incorporating certain activities in the value change of a
given trading enterprise, for instance services or production (own bakeries or other
manufacturing plants).

Other forms and methods of introducing changes to the retail business model include:
- gradual expansion by satisfying the needs of new market segments and
  expanding into new markets in spatial terms,
- introducing new product categories not related to the existing profile of
  operations,
- introducing additional services aimed at offering to customers specific
  solutions rather than just products,
- incorporating new business models as a consequence of mergers and
  acquisitions.

Changes to retail business models – the determining factors

The need to modify business models is driven, on the one hand, by external, i.e.
environmental, factors, and, on the other hand, by internal considerations depending on
the company itself. The main external factors that may affect the existing retail business
models include:
- the state and intensity of competition, including the market behaviour of
direct and indirect competitors,
- consumer preferences and expectations,
- the development of new information technologies,
- economic globalisation and trade internationalisation,
- the tendency to cross over the boundaries of own sector (sectorial
  convergence).

The modern competition processes and the competitors’ market behaviour are
characterised by great complexity and intensity. As far as changes to retail business
models are concerned, competing for customers and resources seems of particular
importance. In the first case it is about the correct positioning of the company and its
range of products in the mind of customers. Retailers are in direct competition with other
retailers at the level of the whole enterprise. Competition also occurs on the individual
national markets, where shopping chains operate, as well as at the level of individual
stores, taking into account their location. Apart from direct competition there is also
indirect competition between companies operating different store formats. This is due to
the similarity of the range of products and services offered and similar tools employed to
impact the target market. Consequently, competition arises between discount stores and
supermarkets or local neighbourhood stores, as well as between brick-and-mortar and
online stores. In turn, competing for limited resources mainly involves seeking land for
planned investments or finding and securing the right shopping premises\textsuperscript{11}.

The growing competition in the retail sector often gives rise to mergers and
acquisitions, which require the introduction of new business solutions. In the present

\textsuperscript{11} M. Sławińska (red.): Modele biznesu w handlu detalicznym, Wydawnictwo Uniwersytetu Ekonomicznego
w Poznaniu, Poznań 2010, s. 53.
economy retailers consider mergers and acquisitions to be the fastest way of boosting sales by, simultaneously, taking over a chain of stores and increasing the customer base, thus radically improving their market share. The process of concentration (consolidation) in retailing may give rise to innovative business models that determine various aspects of retailing operations, e.g. the type of resources employed and their configuration, the development of a commercial offer (at the level of the whole enterprise and individual stores), forms of customer service, co-operation with suppliers and spatial range of operations.

Furthermore, it should be added that competition in the retail sector does not concern only companies with a similar profile of activity, but rather entire chains of co-operating business entities, i.e. chains of stores, suppliers of goods, logistics service providers, advertising agencies or companies rendering other services.

Another important factor determining changes to retail business models is buyer behaviour. When faced with the buyer’s market, where supply exceeds demand and competition is fierce, it is increasingly important to be able to create and deliver adequate value to customers. Such value is most often defined as the difference between the expected benefits of a transaction and the overall cost of obtaining such benefits\(^\text{12}\). Customer orientation, taking into account their preferences and expectations, constitutes a vital argument in favour of innovation in terms of determining the range of products and services to be offered and the customer service process. Contemporary buyers, having access to innumerable sources of information and a choice of places where goods can be purchased (for instance brick-and-mortar or online stores), may actively impact the purchasing process. Customers’ expectations no longer concern only the product itself (its quality, properties or price), but also include convenience of purchase (place, time), service quality (speed, professionalism, comprehensiveness), as well as the manner of communicating with the company. To maximise customer satisfaction, the desired product with specific properties needs to be made available (or delivered) at the right place and time, with access to complementary products or services\(^\text{13}\).

New information technologies also affect consumer behaviour, as well as the operation of trading enterprises. Owing to these technologies it has become possible to effectively manage chains of stores located on various geographical markets, as well as to use centralised supply and warehousing systems and introduce changes to customer service.

However, new information technologies are of particular importance when it comes to virtualisation of commercial operations. They have created new opportunities in terms of communicating with customers and introducing e-commerce business models. The use of applications that make it easier for customers to obtain information and make mobile purchases is becoming more and more widespread. Mobile technologies also facilitate personalised activities aimed at existing and prospective customers in terms of marketing communication\(^\text{14}\).

The factors determining changes to retail business models include globalisation, which poses new strategic challenges to trading enterprises. As a consequence of

\(^{12}\) G. Sobczyk: Bliskość handlu źródłem wartości dla klienta, Marketing i Rynek 2015, nr 8, s. 631.
\(^{13}\) M. Kucia: Wirtualizacja działalności handlowej przedsiębiorstw, Marketing i Rynek 2015, nr 8, s. 214.
\(^{14}\) A. Sznajder: Technologie mobilne w marketingu, Oficyna a Wolter Kluwer business, Warszawa 2014, s. 11.
Globalisation more and more retailers decide to enter foreign markets and, on the one hand, attempt to standardize the store formats, and, on the other hand, recognize the need to adapt to local conditions. International retail operations make certain business models gain in popularity, for instance franchising or discount trade, as well as affect the manner in which domestic companies operate after observing the activities undertaken by foreign retail chains and their competitive strategies.

Another important factor responsible for changes to retail business models is the trend to expand industry boundaries. This is reflected in the interpenetration of various types of business activity. At present we are witnessing the decline of the traditional monofunctional division of tasks in business operations, based upon the assumption that a manufacturer produces goods and intermediaries (vendors) sell them to the end customers. Manufacturers have acknowledged the importance of direct influence upon customers and relationship building, therefore they seek ways to eliminate the middlemen at the retail level. Consequently, they establish electronic distribution channels and set up chains of their own stores, as well as selling their products through vending machines. Retailers, in turn, incorporate into their value chain manufacturing or wholesale activities, as well as diversifying their operations through various strategies, such as introducing new store formats.

The reasons why retailers choose to expand their scope of operations may include:

- the wish to boost company’s competitiveness by offering a comprehensive range of products and services,
- the strive for increased sales profitability,
- the preference of customers to purchase various goods and services at a single place (one-stop-shopping).

The internal factors determining changes to retail business models result primarily from the need to maintain or strengthen the company’s market position, as well as to secure adequate profitability. These factors comprise, first and foremost, the vision and strategy of business development, management skills and the resources at the company’s disposal, such as human, tangible, financial, technological and intangible resources (i.e. know-how, corporate brand, private brands).

Based on the above review of various conditions, both external and internal, it may be concluded that strategic decisions with respect to the introduction of changes to business models are influenced by a large number of interdependent factors. Retailers wishing to modify any component of their business model need to proceed carefully, beginning with a thorough analysis of the external environment and the company’s internal potential, as well as resolving a number of decision-making problems.

**New retail business model trends**

Faced with growing competition in the retail sector, often international in its nature, as well as the changing consumer expectations and preferences, companies are forced to

---

16 T. Dominiski: Strategie rozwoju handlu, PWE, Warszawa 2005, s. 60.
introduce innovative solutions into their business models. Such changes should result in
the creation of value for customers and increased efficiency.

As demonstrated by business practice, changes to retail business models are
evolutionary in nature and most often involve the introduction of new solutions within
the following areas:

- store formats and store location on various geographical markets,
- range of products and services, requiring the employment of new resources
  and the establishment of new transaction links within the supply chain,
- forms of co-operation with other business entities,
- development of e-commerce and the use of mobile technologies,
- communication with customers and the positioning of the corporate brand
  and private brands with respect to goods and services.

When developing a new store format concept, companies usually takes into
consideration the resources and key skills they have at their disposal and aim to achieve
the synergy effect. In such circumstances the following factors seem of particular
importance: range of products (potentially increasing the volume of purchases from
suppliers), sales technology (IT system and logistics services) and familiarity with the
target market. Examples of such a solution include the following store formats: Freshmarket
established by Żabka Polska or Krakowski Kredens owned by Alma Market
S.A., as well as the creation of smaller outlets adapted to local conditions as part of the
Carrefour or Tesco chains.

Changes to business models may also include the expansion of the product
range to include new product categories, as well as the introduction to the product range
of private labels or services provided in the same points of sale or services addressed to
the same target market, but requiring the creation of separate infrastructure, e.g. petrol
stations, catering services, hotel services or entertainment. Commerce and services may
be combined in a dispersed or consolidated form (i.e. shopping and service centres).
Depending on the existing business model each company may adopt different solutions,
for instance the Rossmann chain of health and beauty stores introduces new product
categories unrelated to the health and beauty sector. In turn, the Lidl chain of discount
stores continuously expands its product range to include private label brands and
producers’ brands. Moreover, it increases its range of fresh produce and runs special
campaigns based on the country of origin of various products or their designated use
(e.g. lines of sportswear or household goods).

The expansion of the number of products offered by discount chains, as well as
offering fresh produce and ready-to-eat meals, is intended to create an incentive for daily
shopping. This is also facilitated by the location of stores in the vicinity of housing
districts or places with intense customer traffic. There is a noticeable increase in
convergence in the retail sector, i.e. the blurring of clearcut boundaries between
individual store formats. This constitutes a strategic challenge to trading company
owners and managers, who are forced to seek new and innovative solutions.

An example of a unique business model is the Tchibo chain of stores, where the
extensive range of Tchibo coffee products is accompanied by a wide selection of
products grouped into collections under a given theme, a new one each week. At the
same time the company sells its products online, giving the customer’s choice as to the
manner in which they wish to make a purchase.
In order to improve the competitive position and boost economic effectiveness, trading companies also develop various forms of co-operation in the value-creation chain. Examples of solutions in this respect include franchising systems used and developed by retailers and wholesalers alike, as well as by manufacturers launching their own branded chains of stores.

Innovations in retail business models also involve the introduction of e-commerce solutions, which may be used as the main or as a supplementary distribution channel (online stores parallel to brick-and-mortar stores).

According to Ch. Anderson, owing to the rapid growth in e-commerce, we are facing an era of unprecedented choice. There are virtually no limits when it comes to expanding the range of products offered by e-commerce companies. For instance, the marketplace software used by Amazon enables it to aggregate the range of products available in a dispersed chain of stores.

Another change occurring in the area of retail business models includes new solutions for communicating with customers and positioning or repositioning the corporate brand. To that end a large number of different promotional tools and activities are used, which should together make up coherent and integrated marketing communication.

**Conclusions**

Identifying retail business models and their determining factors is a complex research problem due to the great variety of entities in that sector. Certain fundamental, conventional business models founded upon the wish to increase sales by competing on price or, alternatively, on standing out in terms of product quality and superior customer service, usually serve as a benchmark for developing own, unique business solutions with a view to gaining and maintaining a competitive advantage. In her research the author has found that such solutions involve mainly:

- developing an original concept of a store format or form of sales and introducing it on different markets in geographical terms,
- implementing new forms of business co-operation with other entities in terms of product distribution, for instance by outsourcing or introducing franchising as an option for business growth,
- introducing or improving e-commerce operations,
- using new forms of marketing communication and means of positioning the corporate and product brands.

In a rapidly changing environment, especially in terms of the state and intensity of competition, buyer behaviour and preferences, as well as the development and application of information technologies, retailers need to review their business models and improve the processes related to the execution of fundamental business functions, such as procurement, warehousing, sales and customer service.

---

17 Ch. Anderson: Długi ogon. Ekonomia przyszłości - każdy konsument ma głos, Media Rodzina, Poznań 2008, s. 239.
18 Tamże, s. 306.
The effectiveness of the changes or modifications introduced into business models is ultimately determined by the way in which a given retailer and its store formats are perceived by customers and whether the new additions to the range of products and services meet with a positive reception.

References
Banaszyk P., Cyfert Sz.: Strategiczna odnowa przedsiębiorstwa, Difin Warszawa 2007.

Uwarunkowania zmian modeli biznesowych w handlu detalicznym

Streszczenie
Modele biznesu w handlu detalicznym zarówno w odniesieniu do funkcjonowania całego przedsiębiorstwa, jak i poszczególnych typów jednostek handlowych ulegają zmianom w warunkach współczesnej gospodarki. Ma to związek z rosnącą konkurencją, zmianami zachowań i oczekiwań klientów, globalizacją gospodarki, dostępnością i rozwijaniem nowych technologii informacyjnych.
W artykule przedstawiono istotę i podstawowe elementy modeli biznesowych w handlu detalicznym, wskazano na kierunki ich ewolucji oraz dokonano identyfikacji determinant i trendów w kształtowaniu modeli biznesowych firm handlowych.
Z przeprowadzonej analizy wynika, że sektor handlu detalicznego cechuje się dużą innowacyjnością, ale zmiany modeli biznesowych mają charakter ewolucyjny. Pogłębiają one głównie na wprowadzaniu nowych rozwiązań w zakresie formatów sklepów, współpracy w kanałach dystrybucji, zmianach oferty asortymentowo-usługowej, stosowaniu technologii mobilnych.

Słowa kluczowe: modele biznesu, handel detaliczny, format sklepu, innowacje w handlu, konkurencja, zachowania nabywców.

Informacje o autorze:
prof. dr hab. Maria Sławińska
Uniwersytet Ekonomiczny w Poznaniu
e-mail: maria.slawinska@ue.poznan.pl