Цифровизация и ее влияние на методы управления стоимостью компании

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Аннотация

В данной статье рассматривается влияние цифровизации на методы управления стоимостью (позже - VBM). Кроме того, текущие тенденции розничной индустрии и особенности розничных бизнес-моделей были рассмотрены для определения ключевых бизнес-драйверов для ритейлеров. Проблемы развития розничной торговли связаны с цифровизацией отрасли, демографическими изменениями, распределением доходов домашних хозяйств, растущей конкуренцией и ужесточением рыночного регулирования. В результате традиционные бизнес-модели больше не приносят ожидаемой прибыли.

Ключевые слова: бизнес-модель, методы управления стоимостью, цифровизация, информационная эра, розничный бизнес.

Digitalization and its impact on value-based management practices

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Abstract

This article considers the impact of digitalization on value-based management practices (later - VBM). Moreover, current retail industry trends and specifics of retail business models were considered for determining key business drivers for retailors. Challenges of retail industry development are proceeding from digitalization of the industry, demographics change, distribution of households' income, growing competition and tightening market regulation. As a result, traditional business models are no longer applicable.

Keywords: business-model, value-based management, digitalization, digital age, retail industry trends.

Introduction

Nowadays, the Russian retail industry is constantly expanding and consolidating. Challenges of retail industry development both in Russia and overseas have widely similar routes proceeding from digitalization of the industry, demographics change, distribution of households' income, growing competition and tightening market regulation.

As a result, traditional business models are no longer applicable. Retail companies need to adapt business processes and management structures to changes in consumers' preferences and needs, such as convenience and personalization. Moreover, retailers have to take into account growth of online shopping share in retail market and price transparency. Current market conditions additionally forced organizations to consider the increased price sensitivity and rational spending in their operating model.

Unfortunately, many retailers have failed to adapt their business models to evolving customer demands and still evaluating their businesses based on archaic, inapplicable key performance indicators.

Given the above, we can conclude that the formulated above problem is quite relevant for a modern economy and can serve as a path for the future development of Russian retail market segment.

Methodology and literature review

The aim of this article is to develop a system of measures for increasing retail companies' value in accordance with international practices. We plan to examine the specifics of business models in the retail industry and assess the impact of digitalization on international value-based management practices (later – VBM). Thus, the following tasks were identified:

- To consider the notion of business model and enterprise value;
- To explore challenges of retail industry development;
- To investigate specifics of business models in the retail industry;
- To analyze the impact of digitalization on international value-based management practices;
- To develop a system of measures for increasing retail companies' value.

Therefore, the object of this research paper is the impact of digitalization on retail companies' value. Consequently, the subject of study is the enterprise's business model and its management. The research paper's subject limitations are the investigated retail industry and its specifics.

When carrying out the research we used the subsequent methods: Induction, analysis, economic indicators, graphical method. The hypothesis of this work has been formulated as follows: The retail business models were impacted by modern technologies and have to be tailored to suit customers' needs.

As the VBM has been one of the leading concepts in management since '80, 20th century, many different economists from all over the world, which perform their research in different financial and economic spheres, studied this problem. In this article the studies of such economists as Damodaran, Daniel R. A. Schallmo Christopher A. Williams, John Mullins and Randy Komisar with their "Getting to Plan B: Breaking Through to a Better Business Model", Mitchell Levy, Slávik Štefan, Bednár Richard ("Analysis of Business Models") and scientific works of Nils Urbach, Maximilian Roglinger were used.

Specifics of business models in the retail industry

In the industrial age, business models (later – BM) changed infrequently. However, in today's networked environment, business models change so frequently that management has a difficult time determining which models to deploy and which to avoid. Acting on the wrong model or not acting quickly enough can lead to significant financial or opportunity loss and increase the potential to being forced out of business. Companies need a framework to create optimum and lasting value for all stakeholders in a business.

Several authors, which were examined within this topic, define a business model as the direct result of organizational strategy. From their point of view, organizational strategic choice shapes the business model. Thus, even an external observer could identify the organizational strategy through observing business model.

From another point of view, business model development is based in the economic value-add theory and defined as the logic of the firm, the way it operates, creates and captures value for its shareholders. It is also defined as the content, structure, and governance of transactions designed to create value through the exploitation of business opportunities. Another definition is that the business model is defined as an analytical framework that translates business structure, business processes and business infrastructure into concrete outcomes.

We think that the business model describes operations of company, including all its parts and components, functions, and processes, which result in costs for itself, value for customers and stakeholders. On the conceptual level, the business model of a company consists of three parts: interface with suppliers, relations with customers (value proposition) and operating model. Figure 1 below represents especially the retail BM.

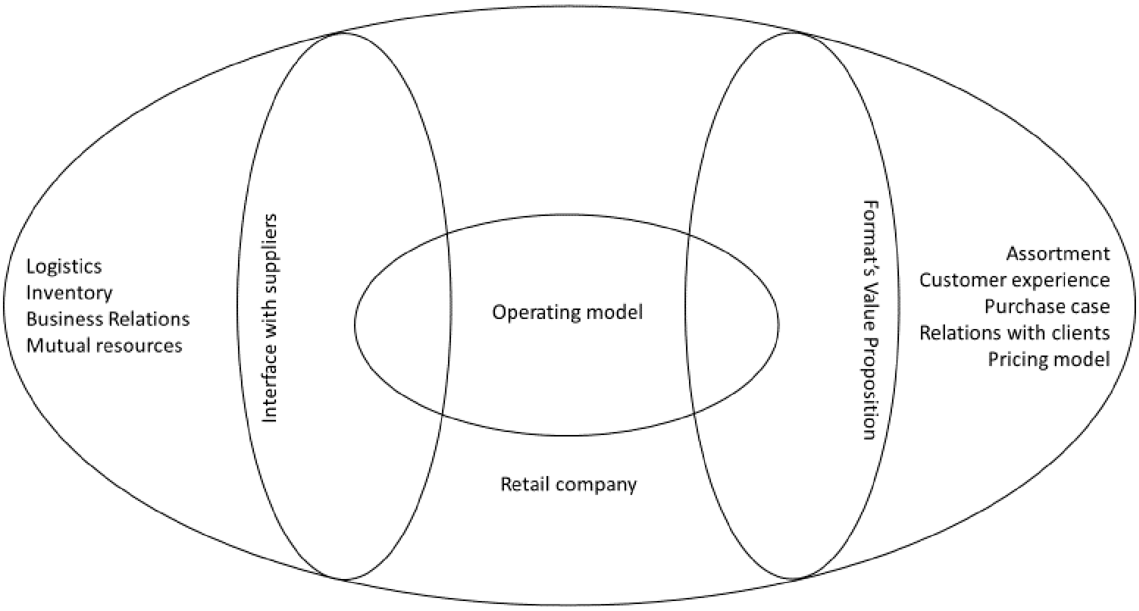

Fig. 1. Retail Business Model framework

According to John Mullins and Randy Komisar (2009) successful business model stands on five pillars, which predetermine the economic viability of the business:

- The revenue model: defined by the authors as the money that comes from a customer who is willing to buy what the company offers;
- Gross margin model: the difference between revenue from sales and cost for production, thus money, which lefts after payment of direct costs;
- Operating model: includes fixed costs that are indirectly paid for production;
- Working capital model: it is cash, which must be available to ensure fluent operation until the customer pays for the goods;
- Investment model: describes the usage of money that the company wants to invest for the development of business.

The recipe for a successful model is in the harmony of all five components, what helps to be more effective. This harmony creates value for customers and profit for the enterprise. A successful company is one which after paying of the gross margin, operating costs, operating capital and investments has still free money. A positive mathematical result is a sign of success in the present and probably also in the future. This concept could be applied for an analysis of business economy and evaluation of financial health, but it abstracts from other components of the business model. This model gives just little attention to the value, which is offered to the customer, and that is why this model is not useful for the complex analysis.

The Swiss business model guru Alexander Osterwalder and management Information Systems professor Yves Pigneur developed the Business Model Canvas (Figure 2).

<table>
<tr><td rowspan="2">Key Partners</td><td>Key Activities</td><td rowspan="2">Value Propositions</td><td>Customer Relationships</td><td rowspan="2">Customer Segments</td></tr>
<tr><td>Key Resources</td><td>Channels</td></tr>
<tr><td colspan="3">Cost Structure</td><td colspan="2">Revenue Streams</td></tr>
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Fig. 2. Business Model Canvas

Concept defines business model using nine components: key partners, key activities, key resources, value proposition, customer relationships, channels, customer segments, cost structure and revenue streams. Canvas is a useful visualization tool. It shows all the business model's components and their interconnections. The nine blocks of the Business Model Canvas pertain to the four main areas of a business: customer interface, products and services, infrastructure and financial viability. By considering these aspects, the BM concept links the company's strategic initiatives with the processes and activities that lead to the delivery of value. Positioning value drivers on the canvas reveals which building blocks they relate to, which may in turn draw attention to the building that deserve closer managerial focus.

Let us examine more closely the value proposition block of the described model. Different companies have different sets of value drivers (later – VDs), depending on what they need to deliver to customers. Generally, it describes the bundle of products and services that create value for a specific Customer Segment. Some value propositions might be innovative and represent a new or disruptive offer. Others could be similar to existing market offers but with added features and attributes.

The guiding principle of value creation is that companies create value by investing capital they raise from investors to generate future cash flows at rates of return exceeding the cost of capital (the rate investors require to be paid for the use of their capital). The faster companies can increase their revenues and deploy more capital at attractive rates of return, the more value they create. The combination of growth and return on invested capital (later — ROIC) relative to its cost is what drives value. Companies can sustain strong growth and high returns on invested capital only if they have a well-defined competitive advantage. This is how competitive advantage, the core concept of business strategy, links to the guiding principle of value creation.

Competition tends to erode competitive advantages and, with them, returns on invested capital. Therefore, companies must continually seek and exploit new sources of competitive advantage if they are to create long-term value.

As we have mentioned earlier, retail companies have to adapt business processes and management structures to changes in consumers' preferences and needs, for example, convenience and personalization. Moreover, retailers have to take into account growth of online shopping share in retail market and price transparency. Current market conditions additionally forced organizations to consider the increased price sensitivity and rational spending in their operating model.

Let us now consider current retail industry trends and key financial metrics of three biggest Russian food retailers, such as: Magnit, X5 Retail Group and Dixy.

Table 1

Statistics by regions

Region	*Industry Name*	*Number of Firms*	*CAGR* in Net Income- Last 5Y*	*CAGR* in Revenues - Last 5Y*	*Expected Growth in Revenues - Next 2Y*	*Expected Growth in EPS - Next 5Y*
Emerging markets	Retail (Grocery & Food)	64	7,36%	8,20%	13,95%	15,96%
Europe		28	-4,41%	5,01%	6,93%	23,74%
America		12	19,66%	5,75%	6,06%	8,35%

*CAGR – compound annual growth rate

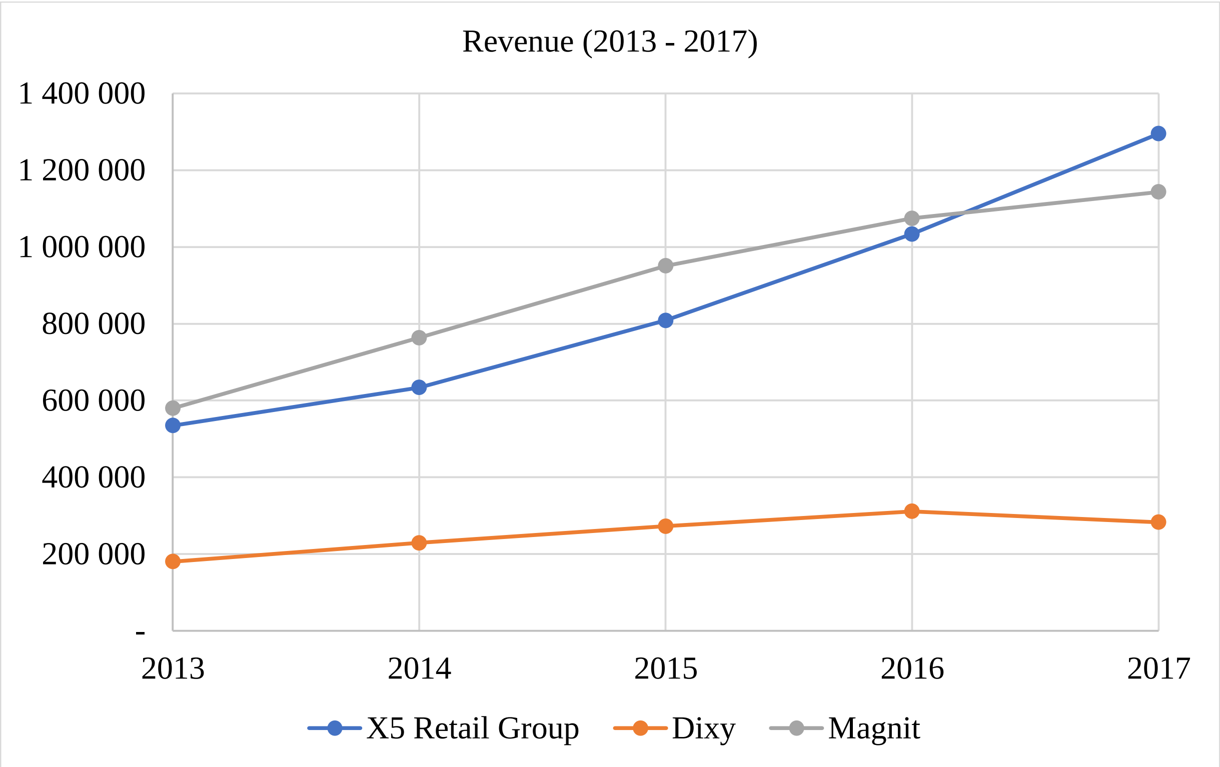

Fig. 3 - Revenue statistics (2013-2017)

Despite recent signs of recovery, the sales dynamic for food retailers' like for like (later – LFL) is negative in comparison to the rate of inflation (Figure 4, Figure 5). LFL indicator is an adjusted growth metric that only takes into account revenues generated from organically comparable stores or goods with similar characteristics and historical sales periods of operation.

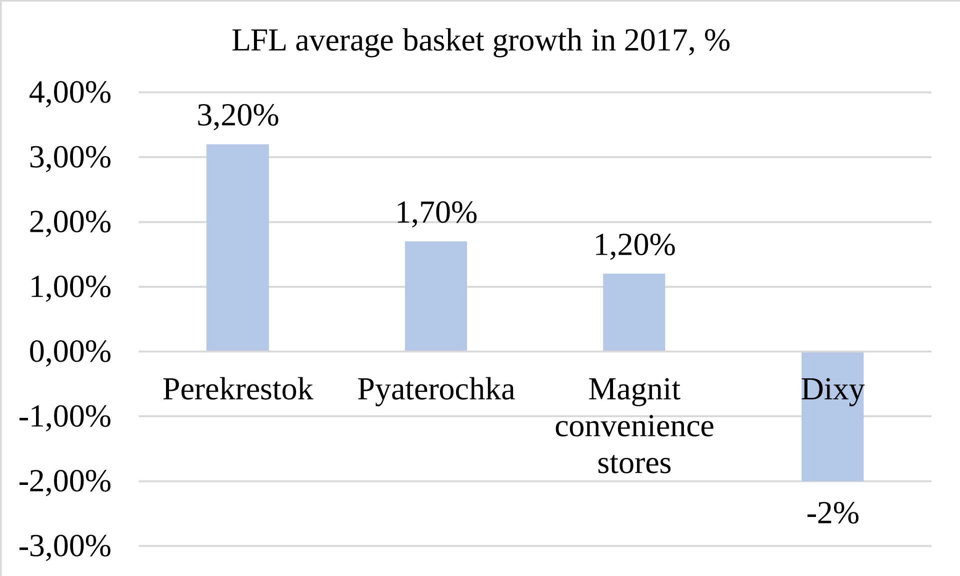

Fig. 4 - LFL average basket growth in 2017

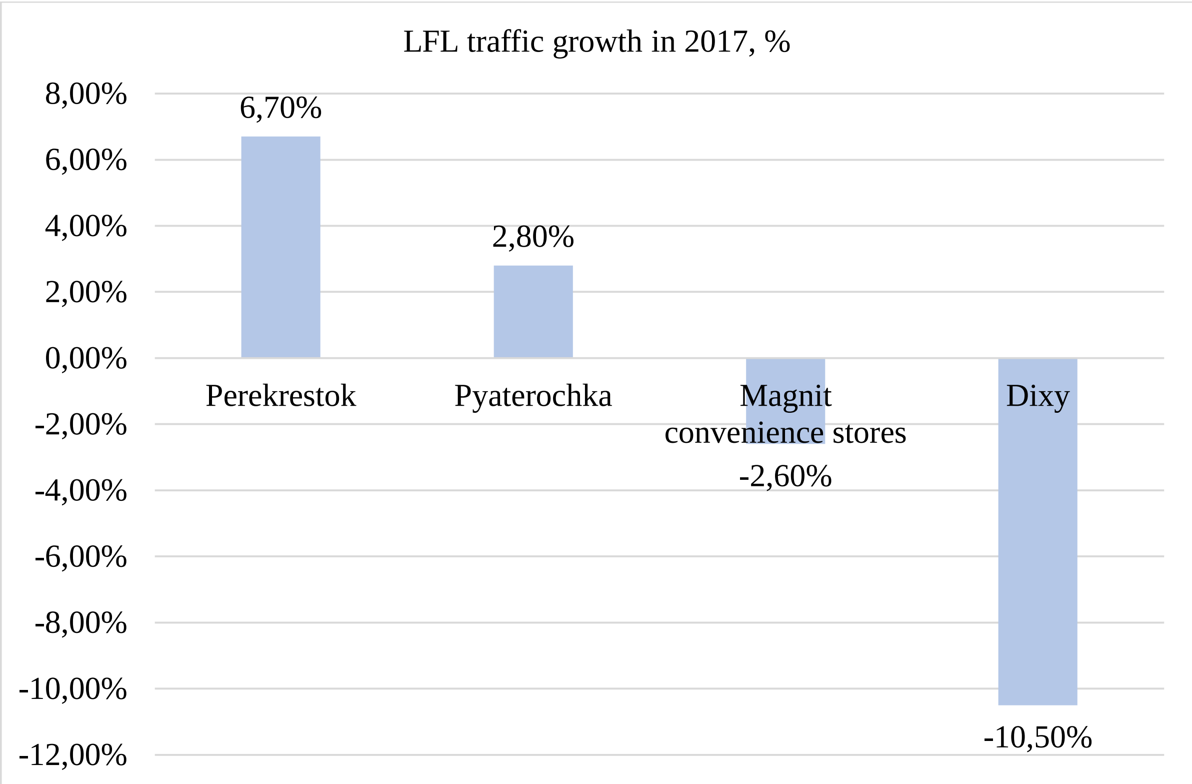

Fig. 5 - LFL traffic growth in 2017

Buying during promotions and in cheaper formats is still part of consumers' behavior, putting pressure on retailers' margins. Because of this, hypermarkets are losing a greater share compared to convenience stores. Retailers are continuing their marketing and promotional activities to compete for customers. Operational efficiency and cost optimization strategies will remain most important tactics for increasing margins. Also, retailers are focusing on increasing their capabilities by cooperating, developing new areas of activity and e-commerce channels, adopting technologies, and expanding across Russia.

Research on the impact of digitalization on international value-based management practices

Digitalization and innovation are having a huge impact on the retail sector with new business models emerging. Let us consider the notion of digitalization in more details. The definition of "digital" can be broken into three elements:

- Creating value at the new frontiers of the business world;
- Optimizing the processes that directly affect the customer experience;
- Building foundational capabilities that support the entire overall business initiative.

The implementation of technologies into business processes is only a small part of digitally transforming a business. Technologies need to create additional value for the customers, the business itself, and other essential stakeholders. To succeed in digital transformation, leading companies focus on two complementary activities: reshaping customer value propositions and transforming their operations using digital technologies for greater customer interaction and collaboration.

Overall, digital transformation is a company-level transformation via revised or newly created business operations and business models achieved through value-added digitalization initiatives, ultimately resulting in improved profitability.

To structure the field of digitalization, we use an enterprise architecture model that consists of five layers. These layers include:

- business model;
- business processes;
- people and application systems;
- data and information;
- technological infrastructure.

To tackle the challenges and to seize the opportunities of the digital age, it is essential for organizations to align these layers.

Considering the turbulence of business environments and the rich set of opportunity available, a key challenge for organizations in the digital age is to distinguish sustainable opportunities promising in the long run from short-term hypes.

Against this, an organization's business model is of utmost importance, as it enables exploiting existing market potentials and seizing new opportunities. Business models specify on target markets, operating models as well as cost and revenue streams. This also involves the organization's value propositions, describing which customer needs are satisfied by which product and service offerings. In the digital age, digital technologies allow for entirely new business models such as platform-based business models or innovative decentral models.

To turn their business model into reality, organizations require cross-functional work routines structured around business processes. In the digital age, process thinking must not only span across departmental but also organizational boundaries, covering entire value networks and ecosystems. Thereby, business processes define the tasks to be performed to achieve specific goals. Beyond established business process management (later – BPM) concepts that support efficient and stable execution of routine operations, organizations also require agile BPM concepts that support non-standard operations, the management of emerging and proactive organizational behavior as well as fast reactions to changing customer needs.

The tasks included in business processes can be performed manually by employees, automatically by machines or application systems, or collaboratively. Thus, people are part of an organization's structure that systemizes roles, responsibilities, and reporting lines.

In line with the shift towards agile BPM concepts, organizations must also foster people agility by moving from hierarchical to networked-like structures as well as by fostering employees' digital mindset and related skills. Further, organizations must account for new roles involved in business processes such as crowd workers, freelancers, roots, and autonomous things. Particularly, the collaborative execution of tasks is strongly advanced by technologies related to human-machine interaction, artificial intelligence, smart devices, and robotics. Many of these technologies also push the frontier of automation, because not only well-structured, but also unstructured tasks can be automated. Consequently, organizations need not only adopt traditional enterprise systems (for example, enterprise resource planning or customer relationship management systems), but also novel system types such as mobile apps or digital assistants.

In the table 2 below we have summarized activities and projects in the food retail sector, conducted by major market players in the considered market.

Table 2

Activities and projects in the food retail sector

E-commerce	Auchan company has started selling their products online in Russia
Innovations in IT	- X5 has launched a new system which identifies customers on their stores' Wi-Fi networks and provides them with personalized offers - X5 has begun using a bot to recruit prospective employees - X5 is developing self-service stands and testing a mobile app that scans and pays for goods automatically

	- Auchan has opened a store with electronic price labels and digital information panels
M & A	X5 Retail Group is selling Perekrestok Express and acquiring the O'Key supermarket chain
Strategic partnership	- O'Key is providing space in their stores for the fashion retailer Familia. Their partnership includes marketing campaigns and sales promotions - X5 Retail Group and Danone are planning to sell unique dairy products in X5 Retail Group stores

To sum up, we could say that the retail business models were significantly impacted by modern technologies. Retailors need to continue their transformation into agile data-led organizations that cater to the needs of the smart consumer as well as diverse stakeholders.

Conclusion and recommendations

Creating value for shareholders is not the same as meeting the analysts' consensus earnings forecast for the next financial period. It means balancing near-term financial performance against what it takes to develop a healthy company that can create value for decades ahead.

Companies can sustain strong growth and high returns on invested capital and enhance value only if they have a well-defined competitive advantage. Thus, to develop the system of measures in accordance with international practices for that purpose and reach research paper's objectives, we have explored current challenges of retail industry development and determined key business drivers for companies, which are operating in the considered market. Moreover, we have analyzed the impact of digitalization on international value-based management practices.

In general, a key challenge for organizations in the digital age is to distinguish sustainable opportunities promising in the long run from short-term hypes. To succeed in digital transformation, leading companies have to focus on two complementary activities: reshaping customer value propositions and transforming their operations using digital technologies for greater customer interaction and collaboration.

All these leads to a conclusion, that nowadays, the international VBM practices were impacted by current retail industry trends and retail companies have to adapt their business models to evolving customer demands.

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