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Master Thesis

**The Impact of the Covid-19 Pandemic on Globalization and
Digitalization in the Non-Food Retail Industry**

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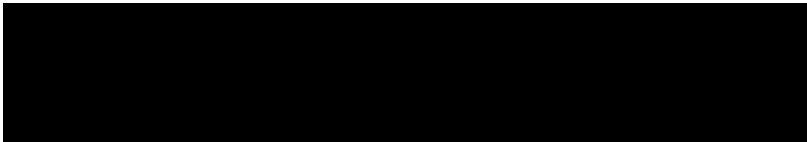
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Management Summary

The megatrends of digitalization and globalization have shaped the retail industry during the last decades significantly. However, the outbreak of the Covid-19 pandemic in 2019 has severely affected the global economy as interconnected value chains have been disrupted, and digitalization has become a sudden necessity due to lockdowns and travel bans.

The aim of this master's thesis was to identify the impact of the Covid-19 pandemic on global upstream value chains as well digitization efforts in the European non-food retail industry. In addition, this thesis examined the potential future development of the retail value chains along the dimensions of globalization and digitalization within 10 years. The novelty of the pandemic made it a largely unresearched phenomenon.

A comprehensive literature review has been conducted to provide a broad understanding of the subject. This review encompassed the retail industry, the Covid-19 pandemic, and the megatrends of digitalization and globalization. In addition, the digital business transformation matrix, Porter's value chain, and a digital maturity model were introduced as frameworks for subsequent primary data collection. Subsequently, empirical research has been conducted through nine qualitative interviews with decision-makers from the European retail industry to answer the research questions.

The thesis identified a fluctuation in demand, promotion of sustainability, disturbance of information flow in procurement, supply shortage, interruption of logistics flows, and saturation of distribution as impacts of the Covid-19 pandemic on upstream value chain activities. Moreover, globalization depends largely on product category level criteria, and Covid-19 has led to further globalization of value chains. The pandemic's impact on digitalization encompassed an acceleration of digitalization, shift of customer expectations towards digitalization, improved digital connectivity, moderate investments in digital infrastructure, high investments in digital competence, and strategic optimization. Moreover, a sustainable digital acceleration has been identified, and retail organization's decision-making was considerably sped up. Lastly, all retail organizations greatly gravitate towards increasingly digitalized operating models.

Overall, it was concluded that the Covid-19 pandemic has critically affected the retail industry, but the sector will eventually emerge strengthened from the crisis. Digitalization enables further globalization, and location advantages make specialized clusters

inevitable sourcing partners. Globalization has not come to a halt due to Covid-19 but will increasingly be enabled by digital means. Retailers are recommended to embrace digital business models to remain competitive and to use the advantages of globalization. The results of this thesis are generally valid for the European retail industry, and further research is recommended to draw an analogy to the findings in 10 years.

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List of Abbreviations

CCA	Conventional content analysis
DBTM	Digital business transformation matrix
DC	Distribution center
DMM	Digital maturity model
EU	European Union
FMCG	Fast moving consumer goods
ICT	Information and communications Technology
IT	Information technology
KPI	Key performance indicator
MNE	Multinational enterprise
OECD	Organisation for Economic Co-operation and Development
PL	Private label
RQ	Research question
R&D	Research and development
UK	United Kingdom
USA	United States of America
VMI	Vendor managed inventory

1. Introduction

This section introduces the reader to the topic of the impact of Covid-19 on the megatrends of globalization and digitalization. First, background information is provided, followed by the relevance of the research and the research objective and research questions. Subsequently, the scope of this thesis is outlined, and the structure of the following chapters is presented.

1.1. Background Information

The retail sector has evolved from an elementary exchange with roots reaching as far back as the ancient Greeks to an essential and globally set up industry (Meyer, 2019). Vertical and horizontal integration has transformed the once simple business model into a complex, highly interconnected, value-adding discipline (Crewe & Davenport, 1992; Haas, 2019; Wortmann, 2003). Today, the retail industry is the second-largest employer in Europe (Statista, 2021a). Moreover, retailers have generated sales volume in Europe of over EUR 3.2 trillion in 2018 (Statista, 2020b) with high growth expectations through global value chains and the emergence of e-commerce sales channels (Reinartz et al., 2019).

Globalization and digitalization have shaped the evolution of retail in equal measures. Through modern transportation and communication technology (Barthelmess, 2017), the world has flattened (Friedman, 2005), and retail value chains have spread out all over the globe. Retailers themselves have become integrated with up-and downstream value chain activities and became increasingly involved in global sourcing, trading, manufacturing, and distribution (Rugman & Girod, 2003; Wortmann, 2003). In parallel, digitalization enabled globalization through communication technology but also changed customer behavior and operating models. Customers access information online, and omnichannel retail has become the norm (Jocevski et al., 2019). Moreover, Retailers started to integrate a digital culture and improved internal processes with the help of electronic data (Knoppe & Wild, 2018).

Since 2019, the retail industry has been facing a challenge of unimaginable proportions when the Covid-19 virus escalated to a global pandemic. This pandemic has led to a series of countermeasures that included the closure of borders, reduction of economic activities, and initiatives to prevent personal interactions in all aspects of life (Bulman & Koirala, 2020). While the effect on the global economy is still hard to assess to this day, the Asian

Development Bank estimated the economic losses to amount anywhere between USD 77 to 347 billion in 2020 (Statista, 2020a), while the OECD stated a GDP reduction of 3.5% in 2020 (Statista, 2021b). More importantly, the retail industry has not been spared from this crisis. In-store frequencies have diminished drastically (Jones et al., 2021), a wave of sector-specific bankruptcies has been recorded (Repko & Lauren, 2020), and it can be expected that the pandemic leads to a profound and sustainable transformation of the sector (Accenture, 2020; McKinsey & Company, 2020c). The economic unpredictability of the pandemic situation has made it difficult to foresee how the new normal will look like (Altig et al., 2020; Credit Suisse Research Institute, 2020). Moreover, the global nature of the pandemic (Accenture, 2021b; Our world in Data, 2021) and the measurements taken to hinder the spread of the virus (Bulman & Koirala, 2020) have impacted the two megatrends of globalization and digitalization in particular. A development to which the retail sector remained highly exposed.

Building upon the work of Bergamin et al. (2020), this thesis with the title “The Impact of the Covid-19 Pandemic on Globalization and Digitalization in the Non-Food Retail Industry” aims to explore the impact of the Covid-19 pandemic on the two megatrends of globalization and digitalization with a focal point on the European non-food retail industry. This thesis assesses the two megatrends within this sector and discusses how the pandemic influences the retail industry.

1.2. Relevance of Research

This thesis is highly significant for European retail management. Non-food retailers of all categories such as fashion, furniture, and general retailers that operate anywhere from a local presence to a global footprint are included. The findings of this research will help retail management to adapt their strategic direction and to transform their business model. This research revolves around the highly recent topic of influences on globalization and digitalization through the Covid-19 pandemic. Consequently, industry players want to gain knowledge and insights about the magnitude and nature of such transformation to adapt their businesses to remain competitive and become part of the new future of retailing.

Moreover, this study is relevant for academics in the discipline of business and economics. The impact of a global pandemic on global economies and industrial sectors is highly complex (Rosenwald, 2021). Therefore, researchers around the globe want to

have access to first-hand information to complement the current body of knowledge and to update managerial teachings. This knowledge contributes to being better prepared for the future, transferring insights to a broader audience, and advancing academia.

The retail industry in Europe generated a sales volume of EUR 3.2 trillion in 2018 and is expected to reach EUR 3.55 trillion by 2023 (Statista, 2020b). In 2017, one out of every four companies was active in the retail and wholesale sector, and three European retailers were among the top ten global retail companies (EuroCommerce, 2017). Additionally, the retail and wholesale sector constitutes the second largest employing industry in Europe, with over 30 million employees across the EU-27 and the United Kingdom (Statista, 2021a). This industry is of high importance for Europe, not only in economic activity but also in providing European citizens with goods and services and acting as a significant employer.

In summary, the relevance of this topic is justified by its usefulness for retail and business management, through the valuable addition of information to a largely unresearched phenomenon in academia and with the sector's profound implications for Europe's economy.

1.3. Problem Statement

The Covid-19 pandemic has disrupted globally interconnected value chains (Free & Hecimovic, 2021; Shih, 2020) and challenged the cross-border business conducting status quo (Antràs, 2020; Free & Hecimovic, 2021). Moreover, the virus has forced the business world to suddenly think digital through consequences such as social distancing and lockdowns (Kim, 2020; Schuldt, 2021; Soto-Acosta, 2020). Digitalization significantly influences businesses, policymakers, and customers alike (European Parliament, 2021), and globalization has leveled the world's playing field and created unprecedented equality of opportunity (Friedman, 2005). These aspects of the Covid-19 pandemic represent a significant challenge the retail industry is confronted with. Not only did the sector have to sustain business continuity under suboptimal circumstances, but the entire industry has been challenged to reorient and reinvent itself in the medium term. To avoid failures in the retail industry and to gain insights into the pandemic's influence, it is crucial to understand how the Covid-19 pandemic impacted the megatrends of globalization and digitalization within the realm of the retail sector.

Due to the inductive nature of this thesis, the research gap was identified at the end of the literature review in section 2.

1.4. Research Objective and Research Questions

Despite the variety of literature available on globalization and digitalization, there is hardly any research on the impact of the Covid-19 pandemic. The recency of the pandemic resulted in a natural scarcity of literature on the topic. Moreover, the retail industry has not been subjected to research on such crises, and current findings cannot predict nor explain how this sector develops in the future. The literature review in section 2 provides an extensive overview of the relevant academic research and thoroughly illustrates the literature gap.

This study aims to close this research gap by exploring the impact of the Covid-19 pandemic upon the megatrends of globalization and digitalization and by elaborating on plausible scenarios. All of this is done through the specifics of the European non-food retail industry, an important economic pillar of a highly diverse EU market (Burt, 2010, p. 3).

The research questions that arise from this initial position are concerned with the impact of the Covid-19 pandemic on the megatrends of globalization and digitalization and the future scenarios expected to occur within the European non-food retail sector. More specifically, the following three research questions will be answered and discussed throughout this thesis:

RQ1: How does the Covid-19 pandemic impact the global upstream value chain activities of the European non-food retail industry?

RQ2: How does the Covid-19 pandemic impact the digitalization efforts within the upstream value chains of the European non-food retail industry?

RQ3: How will the European non-food retail industry value chains develop along the dimensions of globalization and digitalization?

As stated above, the findings of this research will contribute to the scarce literature and add valuable insights into the Covid-19 pandemic and its consequences for the economic world. Industry players and scholars alike are targeted to use this knowledge and apply it to business decisions and the current body of understanding of the crisis within academics.

1.5. Scope

This thesis focuses on the impact of the Covid-19 pandemic on the globalization and digitalization megatrends in the non-food retail industry. For this work, non-food retail encompasses any category that does not solely revolve around comestibles. For example, this can include footwear, personal care, homeware, DIY, and mixed retailers that offer both foodstuffs and non-food merchandise (Retail-Index, 2021b). Excluded are food-only retailers due to the nature of the trade, such as perishability (Corstjens & Lal, 2012).

Due to the increasing dilution of the retail business model (Burt, 2010, pp. 5–6; Haas, 2019, pp. 1039–1043; Wortmann, 2003, p. 16), a wide variety of horizontally and vertically integrated retailer organizations is included in the scope. These can range from pure resellers to strongly integrated retailers such as Marks & Spencer (Crewe & Davenport, 1992, p. 189) and beyond. Literature about the internationalization of sales and the digitalization of customer-oriented downstream value propositions is abundant. Thus, this thesis focuses on upstream value-creating activities such as sourcing/procurement, manufacturing, logistics, and distribution. A more precise description of the modern retail business model is provided in Section 2.1.3.

The geographical scope of this study is set to the European Region. More precisely, retailers with headquarters in the European Union, the UK, and Switzerland or with significant operational activities in this region are included in the study. The author defines significant operational activities as per the listing criteria of the Retail-Index, which include a minimum of five stores or a minimum annual turnover of EUR 3 million (Retail-Index, 2021a).

1.6. Structure

The format of this thesis follows the generic structure of a research paper by the ZHAW School of Management and Law (ZHAW School of Management and Law, 2021). The introduction provided necessary background information and introduced the reader to the topic, problem statement, research questions, and scope. Then, a comprehensive literature review elaborates on the retail industry, the Covid-19 pandemic, and introduces the digital business transformation matrix by Bergamin et al. (2020) as the main foundation of this work. Subsequently, the literature review builds upon this matrix and further elaborates on the megatrends of globalization and digitalization. The literature review in this thesis is presented in a distinct section of the paper. This allowed the author to create a broad

understanding of the subject matter and develop the research questions and the gap finding logically and inductively (Creswell, 2009, p. 27). Figure 1 illustrates the structure of this thesis, and the red rectangle marks the literature review. The funnel design of the figure indicates the organic and logical development of the thesis's subjects. Following the literature review, a section for methodology, the findings, discussion, and a conclusion complete this work.

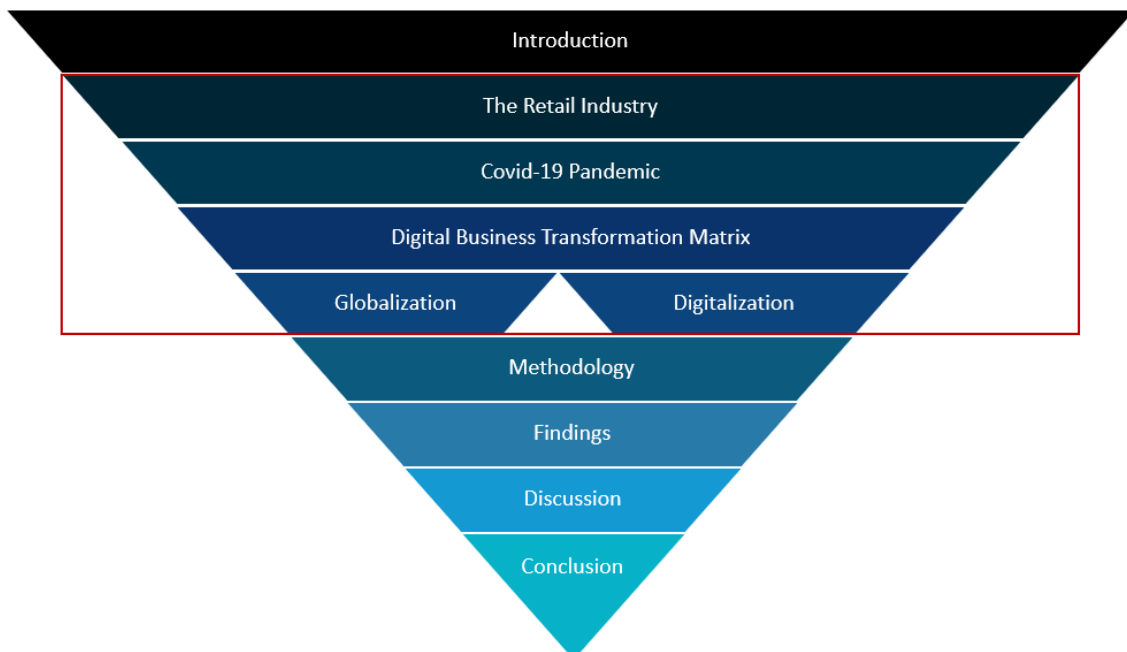


Figure 1: Structure of the Thesis (own illustration)

2. Literature Review

The following chapter introduces an encompassing literature review. First, an introduction to the retail sector is provided, followed by the essential aspects of the Covid-19 pandemic. Subsequently, the megatrends of globalization and digitalization are assessed.

2.1. The Retail Industry

This chapter introduces the retail industry by outlining the definition, historical perspective, and specific aspects of this sector.

In a traditional view, the retail industry consists of firms that source and trade products, and make them available for sale to customers (Farfan, 2019). Moreover, Amadeo and Brock described retailing as the means of bringing products and services from producers to consumers (2021). Today, retailing includes various channels, such as e-commerce and brick-and-mortar stores (Meyer, 2019), and encompasses small convenience stores as well as multinational enterprises (MNE) that operate internationally (Rugman & Girod, 2003). Furthermore, many modern retailers do not limit their activities solely to reselling goods and services but have vertically and horizontally integrated value chains on a regional yet global scale (de Bragança & Daghli, 2017; Hultman et al., 2012; Wortmann, 2003).

2.1.1. Historical Perspective

Historically, the first proto-retailers can be traced to ancient Greece when hawkers offered their goods on markets in Angora (Meyer, 2019). The Encyclopaedia Britannica further added that the specialized merchants' profession emerged with the establishment of marketplaces (Encyclopaedia Britannica, 2021). Since then, the retail industry has gradually evolved and changed significantly. Small corner stores became the norm in the western hemisphere until the mid-19th century (Stanton, 2018, p. 173). These small, family-owned shops sold a broad but shallow variety of groceries and non-food articles such as essential tools and fabrics (Meyer, 2019). Usually, such a corner store was situated within a few minutes of its regular customers and sold all the necessities needed for daily life. Customers in these stores were actively served by personnel, and the supply of corner stores was provided by wholesalers (Stanton, 2018, p. 173). A wholesaler acted as the intermediary between the manufacturer of goods and independent retailers (Cambridge

Dictionary, 2021b). Characteristically, a wholesaler handles large quantities of merchandise and does not sell to end-users (Collins Dictionary, 2021). The independent retailers were subjected to the price politics of wholesalers, and began to organize as “chain stores” (Stanton, 2018, p. 173) to gain bargaining power during the 19th century (Stanton, 2018, p. 173).

Following the establishment of retail chain stores, another concept gained traction, the self-service concept. As opposed to being served by store personnel, a self-service retailer allowed customers to choose their product themselves and pick it up off the shelf as they wished (Gay, 2004, pp. 152–154). Self-service had several consequences, such as increase productivity and stronger incentives for impulse purchasing. However, consequences were not only seen in downstream value chain activities such as sales and marketing. The self-service concept moved manufacturers closer to the customers as branding became increasingly important since the customer now selected the products. Self-service then also led to larger supermarkets, first introduced in the USA by King Kullen retail stores in the early 1900s. Supermarkets are large self-service stores that offer a sophisticated selection of products and are usually situated in peripheral areas (Stanton, 2018, pp. 173–174). The self-service retailing concept and supermarkets were introduced in Europe later than in the USA. It took until after WW2 when the first European self-service supermarket retailer was established in the UK during the 1950s (A. Alexander et al., 2005, p. 810).

In contrast to the unified Northern American retail market (Stanton, 2018), the European retail market has been shaped by numerous political, economic, and social particularities. The European Union (henceforth also referred to as EU) acts as a customs union, among many other functions. Consequently, cross-border trade of goods and services in Europe is, with exceptions, free of tariff barriers (European Commission, 2018). Such constellation promoted cross-border business conducting within the European markets (Sousa, 2013, p. 681). However, Burt stated that Europe essentially represents a cluster of individual markets for the retailing industry due to heavily diverging cultural traditions and differing public policy (2010, pp. 2–4).

The numerous enlargements of the European Union (European Commission, 2020) have led to a culturally diverse economic union. Consequently, consumer spending patterns vary strongly among the different regions within the EU (Burt, 2010). Moreover, policy-relevant subjects such as internal market matters and industry-specific policies are often

handled either by both the EU and the member states as shared competences or are solely coordinated by the EU member states (European Union, 2021), leading to divergent business practices (Burt, 2010, p. 3). Appendix B provides an overview of the top 30 retailers in Europe, their turnover in 2019, and their home country. In line with the European market structure described above, Amazon is the only retailer in this list whose headquarters are not situated in Europe.

Due to the particularity of the European market, this thesis focuses on the retailers that are either headquartered in Europe or that have significant operative activities within the European region. Nevertheless, this does not exclude retailers with other regional focal points as the industry is highly internationalized (Retail-Index, 2021a).

2.1.2. The Retail Industry Today

Across the entire European retailing market, a reduction in sales shares of smaller retailers to the benefit of larger organized retailing companies has been observed between the 1990s and 2010s. Burt described this consolidation process for the fast-moving consumer goods (FMCG) sector as well as for other retail markets as follow (Burt, 2010, p. 5):

The continued search for scale and market share (either domestically or internationally), has led to increased concentration ratios in most, if not all, traditional retail product markets. Whilst this is most visible in the fmcg markets - raising public policy concerns over horizontal and vertical competition, the same picture is emerging in other non-food and smaller product sectors.

Price pressure and consolidation forces have led to an increasing dilution of traditional boundaries within the retail industry in Europe (Burt, 2010, pp. 5–6). Wortman further described how private labels had changed the division of labor within the sector in a way that “leads to a blurring of the distinctions between retailers, wholesalers, designers and manufacturers” (Wortmann, 2003, p. 16). Private labels (PL) in retailing are products where the retail organization vertically diversifies into value chain activities by being involved with the design, production, retailing, and marketing and sales aspects. Especially in clothing, furniture, and consumer electronics, PLs have gained a significant share of sales, up to 50% (Wortmann, 2003, pp. 13–16). IKEA is a prime example of a retailer with vertically integrated value chain activities that has created a strong relationship with global suppliers (Hultman et al., 2012).

As described by Crewe and Davenport, there is a wide range of vertical integration within the retailing industry. On one end of the spectrum, retailers can employ a “close control” (Crewe & Davenport, 1992, p. 189) behavior which exercises great control over the production process, design, and even sourcing of the raw material for its PL products. On the other end, retailers can be involved in upstream value chain activities at an “arms length” (Crewe & Davenport, 1992, p. 189), delegating any upstream value chain activity to subcontractors and without any concern except for the final product (1992, pp. 188–189).

Despite this dilution of traditional retailing, the industry can be classified into the following categories (Dani, 2018): Food products, soft goods such as clothing, apparel, and fabrics, and hard goods such as appliances, electronics, furniture, and sporting goods. Figure 2 presents a more detailed distribution of different retail categories represented in the EU-27 member states and Switzerland. Based on the Rretail-index, all retailers with more than EUR 3 million annual turnover have been included in the data (2021a). The overwhelming majority of retailers represented in the data operate in the non-food retail sector, out of which apparels, consumer electronics, and furniture are the most predominant sub-section (Retail-Index, 2021a).

Due to the natural expiration of food items and the relatively small market share of this sector, this thesis focuses on the European non-food retailing industry, including soft and hard goods (Dani, 2018). Diversified retailers such as department stores that offer both food and non-food products such as department stores are also included in the scope of this work.

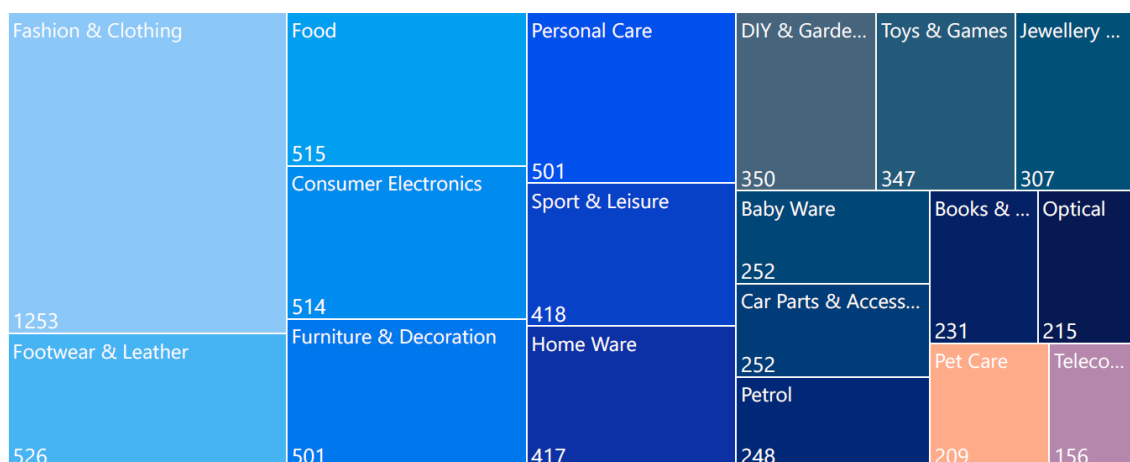


Figure 2: Retail Categories in the EU and Switzerland (own illustration based on Retail-Index, 2021a)

2.1.3. Retail Business Model

The Boston Consulting Group described the business model of a retailer within a two-fold framework. On one side, the customer value proposition revolves around the products and service offering as well as the customer experience and pricing (Ramos & Souza, 2020). An analogy can be drawn with the downstream activities of Porter's value chain model, namely outbound, marketing and sales, and some aspects of secondary activities (Porter, 1998, p. 37). On the other side, Ramos and Souza have identified the operating model, which provides the underlying framework for the value proposition. The operating model includes activities such as sourcing, procurement, and supply chain activities (2020). There again, an analogy could be drawn to Porter's value chain upstream activities such as R&D, operations, and outbound logistics (Porter, 1998). Figure 3 illustrates the generic retail business model by Ramos and Souza (2020).

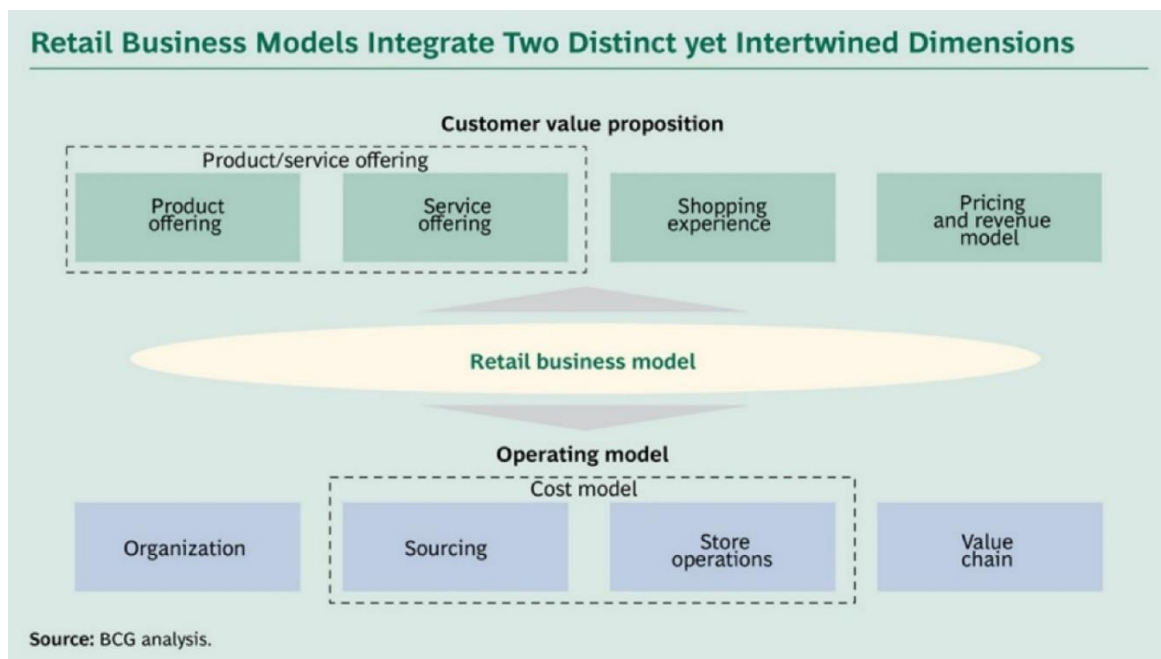


Figure 3: Retail Business Model (Ramos & Souza, 2020)

Similar findings from other authors supported the viability of the generic retail business model. Sorescu et al. described a typical retailer business model with a three-fold framework that consists of the following aspects (2011): First, the retailing format focuses on coherent processes catering to the customer experience. Second, retailing activities are actions that help fulfill the customer experience, such as logistics, trading, and sourcing. Last, the retailing governance describes a retailer's activities within the larger realm of stakeholders, such as stakeholder management and customer and supplier relationships (Sorescu et al., 2011, pp. 139–144). This description is similar to the retailing business

model by Ramos and Souza by differentiating in customer-focused activities and underlying processes (Ramos & Souza, 2020; Sorescu et al., 2011).

Another study conducted by Haas described a generic retailing business model with six aspects. The value proposition, client relations, and value appropriation concern product and service offering, customer experience, and pricing. Partner relations and vertical- and horizontal integration revolve around supplier governance and value chain activities beyond pure reselling (Haas, 2019, pp. 1039–1043). Both the vertical- and horizontal integration of a retailer are integral parts of Haas' business model, supporting both Burt's and Wortmann's findings that the distinction of a retailer became increasingly diluted as up-and downstream value chain activities are included in its core activities (Burt, 2010, pp. 5–6; Haas, 2019, pp. 1039–1043; Wortmann, 2003, p. 16).

The retailing business model has undergone an extensive transformation in the past. From retailing as a distinguishable concept, the adaptation towards more integrated value activities and constant business model innovations have led to an increasing dilution of the traditional retailing value proposition. Such business model transformation has been described in the past, including Sorescu et al., who identified customer orientation, changing customer values, and technological advancement as drivers for change (2011, p. 12). Cao identified business model transformation in retail as redefinition of target clientele, renewal of the value proposition towards customers, and value chain redesign (Cao, 2014). Further business model transformation research in the retail sector included customer-oriented omnichannel transformation driven by digitalization (Davis-Sramek et al., 2020), retail experience and customer behavior (Ferreira et al., 2020), the creation of a seamless customer experience through (Jocovski et al., 2019) and business model canvas transformation through digitalization (Öhlin, 2019).

Business model transformation literature for the retail industry has mainly focused on the customer-oriented value proposition. The literature provided a solid starting ground to understand better how a generic retail business model functions and how the retail industry can react to external influences. However, the current business model literature does not predict the impacts of an external event such as a global pandemic on a retailer's business model. Consequently, this thesis aims to build upon this knowledge and elaborate on how external influences impact retailers' business models.

2.2. The Covid-19 Pandemic

Following the basics of the retail industry, its aspects, and its business model, this section introduces the Covid-19 pandemic as the major external influence on the retail industry. First, an overview of the pandemic and its course is given, followed by the most important measures to counteract the pandemic. Eventually, first insights on how the Covid-19 crisis affected the retail sector are elaborated upon.

2.2.1. Introduction to the Pandemic

On December 31st, 2019, the outbreak of an unknown pneumonia was first confirmed in Wuhan, China (Qin & Wang, 2020). In response to the unknown disease, the Chinese authorities cut off the city of Wuhan on January 23rd, 2020, to interrupt the spread of the virus that has already killed 17 people and infected at least 570 cases in China, Taiwan, Thailand, and South Korea at that time (Qin & Wang, 2020). Shortly after, the USA started to restrict travel from China (Taylor, 2021). After the infections gained traction in the Asian region, cases in Europe started to occur throughout February 2020. By March of the same year, South America recorded increasing numbers of infections. (Taylor, 2021) In March 2020, the WHO declared the Covid-19 named virus outbreak a pandemic of global magnitude (Silk, 2021). Many governments and health institutions were overwhelmed by the pace which the virus spread throughout the world (Lesser et al., 2020).

At the time of this global first wave, the deadliness of the Covid-19 virus was largely unresearched (Langreth, 2020). The unprepared healthcare systems in many countries, insufficient knowledge about the disease, and limited medical equipment such as respiratory machines, led to a high death toll among the infected (Langreth, 2020). This development continued throughout the year 2020, and by May 2021, there were a total of over 171 million confirmed infection cases, and more than 3.6 million deaths have been reported (World Health Organisation, 2021b). The only viable long-term solution to this global pandemic appeared to be a global vaccination campaign (The Business Standard, 2021), and by May 2021, 198 countries have started vaccinating against Covid-19 (Reuters, 2021).

The Organization for Economic Co-operation and Development (henceforth referred to as OECD) (OECD, 2021b) created an overview of the most important measurement of the governments of the world to cope with the Covid-19 pandemic (Bulman & Koirala,

2020). Authorities around the globe have issued strict measures to curb infections during the year 2020 and well into the year 2021, until the vaccination campaign could have been rolled out (Bulman & Koirala, 2020).

2.2.2. Measurements against Covid-19

The first cluster of measurements concerned the healthcare sector. Both capacity for staffing and health infrastructure has been supported strongly through various measures such as promotion of health care employment (Stahl, 2020), equipment purchases (Siegenthaler, 2021), and an increase in the number of emergency beds (NPR, 2020). Additionally, numerous regulations and rules, such as removing overtime caps for medical personnel and remote consultation barriers, have been adapted temporarily to accommodate the extraordinary situation as reported by the Bulman and Koirala (2020). Besides extensive investments into vaccination and medical equipment research, governments have also imposed export bans for medical suppliers (Bulman & Koirala, 2020).

The second cluster of measurements revolved around contamination. To stop human-to-human transmission, personal interactions have been greatly limited. Among the most significant measurements were stay-at-home policies, school closure, remote work rules, and nationwide lockdowns (Bulman & Koirala, 2020). Consequently, public life has come to a halt, and most retail stores have had to close for longer periods. Supermarkets that sold necessity products could remain partially opened while all other retailers had to remain closed for weeks or longer in many parts of the world (Centre For Retail Research, 2021; Handelsblatt, 2021; Repko & Lauren, 2020; SRF, 2021; Travel Inside, 2020). Additionally, many countries prohibited both international travel and movement within national borders. Within the report of ECOSCOPE, countries that account for nearly 3 billion people have prohibited international travel. Moreover, 53% of countries have imposed travel restrictions such as obligatory quarantine time (Bulman & Koirala, 2020).

The measurements impeding people's private lives and cross-border business conducting have led to strong insecurity, and consequently, most economic activities came to a halt. The OECD calculated a global real GDP reduction of 3.5% in 2020 due to the Covid-19 pandemic (Statista, 2021b). In response to this development, governments around the globe have expanded fiscal policy measures, here presented as a third cluster of measurements. The most common measures included unemployment aid, short-term

work allocations, social security budget expansion, credit guarantees, and special support for parts of the population particularly affected by the crisis. Furthermore, expansionary monetary policy measures were employed to increase liquidity within the economy (Bulman & Koirala, 2020). The ECOSCOPE expected further policies to kick-start economic activities and avoid a recession at all costs (Bulman & Koirala, 2020). First indications could be seen in future-oriented stimulus packages by the European Union and the United States (European Commission, 2021a; The White House, 2021).

2.2.3. The Impact of Covid-19 on the Retail Industry

The long-term impacts of the Covid-19 pandemic on the retail industry are not yet clearly visible. However, in the short term, the consequences of the pandemic were negative (OECD, 2020a). One study found that GDP dropped in both developed and developing countries. However, the drop was more significant in the latter (Maliszewska et al., 2020). Eurostat showed how European non-food retail trade volume took a significant hit in April 2020, only slowly recovering over the subsequent months (Eurostat, 2021). Between 2020 and 2021, the in-store frequency around the globe fell between -20% to -96%, depending on the nation (Jones et al., 2021).

Consequently, the retail industry has been heavily affected by the Covid-19 pandemic, as a wave of bankruptcy within this sector illustrated (Repko & Lauren, 2020). Especially the second cluster of measurements mentioned above has affected the retail industry heavily as traditionally physical sales channels had to be closed, and global value chains broke down. Furthermore, insecurities and social distancing measurement have led to a change in consumer behavior and a sharp decrease in consumer spending (Vader et al., 2020; World Data Lab, 2021).

This change in consumer behavior meant that customers purchase more essential goods and fewer non-essentials, became less loyal to brands and purchasing habits, and gravitated towards digital sales channels and e-commerce (Accenture, 2020; McKinsey & Company, 2020c). Moreover, a recent study by Eger et al. has found that these changes are fueled mainly by fear and that older generations show a higher magnitude of behavioral change (2021, pp. 9–10).

Two major impact streams could be identified within the realm of the retail industry and the Covid-19 pandemic. First, as the pandemic reached a global magnitude, interconnected supply chains could not sustain the pressure and broke down (Accenture,

2021b). Consequently, globalization, as known through increasing interconnectedness among global stakeholders (World Health Organisation, 2021a), is at the center of this subject.

Visibility and a focus on the resilience of global supply chains were recurrent themes (Accenture, 2021b; PwC, 2021; Shih, 2020). There are first studies that questioned unlimited, global value chains as per neoliberal thinking in the light of a threat of a global pandemic (Free & Hecimovic, 2021), advocated for stronger control mechanisms (Guan et al., 2020), or considered reshoring (Javorcik, 2020). There were also signs that companies consider nearshoring a viable option to cover supply chain risk (Consultancy, 2021; McKinsey & Company, 2020a; Remko, 2020). Additionally, sourcing practices were suggested to be adapted to changing customer behavior, stock balance, supply diversification, and increasing demand in visibility (Deloitte, 2021b).

The other impact stream is concerned with digitalization. As the Covid-19 virus is transmitted from human to human, customers gravitated towards e-commerce, and it is expected that traditional retail will be strongly disrupted (UNCTAD, 2020). While overall consumer spending fell, online purchases rose, and online-oriented customer behavior was expected to persist (UNCTAD, 2020). Not only did consumers plan to spend anywhere between 17% and 82% less across all retail sectors (Kim, 2020, p. 213), but customer activity also increasingly shifted towards online channel retail. Research has shown that it is unlikely that this shift will end after the pandemic (Kim, 2020, p. 214).

Digital transformation was expected to bring significant change to business models (Zukunftsinstitut, 2021). Driven by the Covid-19 pandemic, retailers in Europe, North America, and Asia have started to digitally innovate in the customer journey's pre-, post-, and purchase stages (Nicolai & Grange, 2021, p. 12). The Covid-19 pandemic has been suggested to be an accelerator of digital business transformation in all industries and within manufacturing, commercial and service business (Soto-Acosta, 2020, pp. 261–265).

2.3. Digital Business Transformation Matrix

The digital business transformation matrix (DBTM), introduced by Bergamin et al., supports companies in understanding managerial implications of transformation and change (2020, pp. 16–24). The author's research on megatrends, conducted by interviewing a wide range of managers within several different industries, has shown that

two factors are of utmost significance in assessing a firm's strategic positioning and further developing a company.

These two factors are the geographic footprint and the digital orientation of a company. Based on these findings, Bergamin et al. developed a matrix that allows identifying a firm's current position and to indicating the planned transformation along the two axes of globalization and digitalization. This enables a company to develop its business transformation strategy with a structural framework, increase organizational agility, plan geographical expansion on both ends of the value chain, and advance digital transformation. This positioning process is conceptualized as a cycle, and thus firms are required to renew their positioning regularly. Figure 4 illustrates the two axes of the matrix and provides further details about the magnitude of digitalization and globalization within each interception (Bergamin et al., 2020, pp. 16–17).

Digitalisation	Digital Business Model	Local Digital Champion Local / regional market presence with customised, digital offering	Regional Digital Champion Digital business model with regional data management and regional market presence	Global Digital Champion Digital business model with regional data management and global market presence
	Mixed Business Model	Traditional Enterprise in convergence Local and regional market presence with traditional and digital offering	Regional Player in Convergence Mixed business model with regional market presence and traditional and digital offering	Global Player in Convergence Mixed business model with global market presence and traditional and digital offering
	Traditional Business Model	Lean Enterprise Local / regional market presence with traditionally broad offering and close customer contact	Regional Player Regional market presence, transforming operating model	Global Player Global market presence, best in class- operating model and economies of scale and scope
		Local Market Position	Regional Market Position	Global Market Position
Globalisation				

Figure 4: Digital Business Transformation Matrix (own illustration based on Bergamin et al., 2020, p. 16)

2.3.1. Positioning within Globalization and Digitalization

Bregamin et al. (2020, pp. 17–19) developed three distinct sets of analyses to position a firm within the realm of globalization in the digital transformation matrix. The first set revolves around the magnitude of merchandise offering, ranging from a broad product line for local customers to an increasingly focused and globally positioned offering. Second, the geographic footprint of a firm is assessed, ranging from purely local to mainly global market presence. Third, a firm's operating model is assessed, from local sourcing and supply chains to fully integrated, global upstream value chains. (Bergamin et al., 2020, pp. 17–19) This thesis focuses on the last of the three aspects, the operating model, and further sheds light on the global footprint of upstream value chain activities of non-food retailers in Europe.

Within the realm of digitalization, Bergamin et al. have developed five criteria to assess a firm's position, which are listed below. These criteria together show a comprehensive picture of the state of digitalization of a company (2020, pp. 19–22):

- Quality and presence of digital strategy
- Digital products and services
- State of a firm's digital connectivity
- Degree of organizational agility
- Quality of IT architecture

2.3.2. Significance of the Digital Business Transformation Matrix

The digital business transformation matrix provided the theoretical foundation for this thesis. Digitalization and globalization are essential when analyzing a firm's strategic positioning and development track. The Covid-19 pandemic significantly impacted these two megatrends, and it is reasonable to assume that the retail industry reacted to this change in its business environment. The DBTM allows the author of this study to investigate further how the retail companies are positioned at the composition of this thesis and where the management concentrates its future efforts along the two axes.

The work of Bergamin et al. has been composed before the outbreak of the Covid-19 pandemic. Consequently, their findings did not consider this change in environment and the impact of the pandemic on the interviewee's perception of digital transformation and geographic development. Nevertheless, their work remains significant as a starting point to for further research on the two megatrends of globalization and digitalization.

2.4. Globalization

Following the two major research streams of the impact of the Covid-19 pandemic on the retail industry and the two main axes of the digital business transformation matrix (Bergamin et al., 2020), this section examines the globalization megatrend. First, an introduction to globalization is given, followed by drivers and barriers of the megatrend. Subsequently, the current literature about globalization in retail is presented, and Porter's value chain (Porter, 1998) is introduced as a framework to assess globalization more precisely.

The term globalization has been recorded in the English language for the first time in 1959 (Scholte, 2008). Its ideals, however, can be traced back much further in time, and scholars disagree on when exactly the globalization of the world as we know it began (O'Rourke & Williamson, 2002). Globalization encompasses the integration of worldwide financial and economic aspects, trade, and communication. Social and cultural influences intermix together, and the global economic flows are increasingly interconnected (Cambridge Dictionary, 2021a). Besides these abstract definitions, economic globalization can be described as "the closer economic integration of the countries of the world through the increased flow of goods and services, capital, and even labor" (Stiglitz, 2006, p. 4). It is essential to add that globalization is not a static phenomenon but a continuous process as time advances. Furthermore, there is not an end state of globalization but rather markets and companies that are more globalized relative to others. Such markets and firms are usually characterized by increased integration within international economic structures and a stronger interdependence with governments, partners, competition, suppliers, and customers (Bang & Markeset, 2012).

2.4.1. Drivers of Globalization

Generally, globalization has had its most decisive impact since the 20th century, and the two main historical drivers of globalization are the decline of global trade barriers and technological innovations (Barthelmess, 2017). In a meta-study, Bang and Markeset have identified the five most relevant and most frequently mentioned drivers of globalization (2012, pp. 235–237).

Removal of trade barriers

First, lower trade barriers have been identified as a driver of globalization. The reduction of tariff and non-tariff barriers, such as import quotas, was an integral promoter of

globalization (Bang & Markeset, 2012, p. 236). Trading allowed countries and companies to specialize in producing specific goods and services and trade the remaining resources with other partners. Foreign investment was attracted through trade, and generally, increased trade has been a source of employment and resulted in a wider variety of available products and services (IMF, 2008). Additionally, firms could reduce their cost per unit through economies of scale, and international competition reduced monopoly power (Abboushi, 2010). In contrast, protectionist practices have led to an impediment of trade, followed by a deadweight loss in the economy that restricts trade (Abboushi, 2010, pp. 389–391; IMF, 2008). Abboushi identified the national interest in specific industries, inequality in the balance of payments, unemployment in exporting industries, and the protection of infant industries, as well as the aspiration to “level the playing field” (Abboushi, 2010, p. 289) as reasons for protectionist measures against trade (2010).

Low transportation- and communication costs

Second and third, lower transportation- and communication costs have been identified as drivers of globalization. Bang and Markeset described how transportation enabled physical trade across the globe and showed similar patterns between changes within transportation costs and trade barriers mentioned above (2012, p. 236). Friedman further stated how the decrease of communication costs and the emergence of capable IT infrastructure contributed extensively to the pace of globalization (Friedman, 2005).

Technological development

As a fourth driver, technological development, especially in IT and communication technology, led to further integration of global merchandise flows. The internet played a significant role in this development, not only for interpersonal communication but also for communication between systems and machines. Moreover, communication allowed people from all over the world to work together in real-time and thus removed a significant barrier of cross-national, even cross-regional cooperation (Bang & Markeset, 2012, p. 236). The technological advancement in communication technology also enabled the advancing integration of global supply chain networks. Consequently, firms are increasingly able to invest in other countries and engage in outsourcing or subcontracting on a global scale (Milberg & Winkler, 2009, p. 13). Following Crewe and Davenport's view of the spectrum of control within the vertical integration (1992, p. 189), Winkler argued that the development in communication technology allows firms to engage in

various buyer-supplier relationships. Different magnitudes of contractual horizons, technological cooperation or investments, and modular product and service design allowed companies to integrate their supply chains and capitalize on economies of scale (Milberg & Winkler, 2009, pp. 13–14).

Diffusion of technology

Lastly, as a fifth driver of globalization and closely connected with technological development, is the spread of technology (Bang & Markeset, 2012, pp. 236–237). Bang and Markeset described that digitalization, and thus the digital transmission of information, played an important part in the advancement of globalization. However, even the best technologies were limited if different regions do not have the same capabilities to receive, extract and process digital data. This line of argumentation is also valid for other technological aspects such as manufacturing capabilities. It represents a driver of globalization as it could explain regional differences in growth across the globe (Bang & Markeset, 2012, pp. 236–237).

2.4.2. Barriers to Globalization

Besides the complicated relationships between globalization and armed conflicts such as terrorism (Pollins, 2008), several obstacles impede the megatrend of globalization. Behrman proposed significant barriers to globalization within the realm of business (Behrman, 2008).

Political obstacles

Behrman identified political obstacles as a first category of impediments of economic globalization. Inadequate governance, the inability to provide a sound regulatory environment and enforce such, and missing institutions were acknowledged as key obstacles of globalization (2008, pp. 210–211). This is closely connected with what Behrman called the lack of “civil society” (Behrman, 2008, p. 211), which represents aspects such as freedom of speech and transparency and is believed to positively correlate with FDI and a favorable business climate (Behrman, 2008, p. 211). Populism and communities of interest have been mentioned as further political obstacles to internationalization. While the former may include governmental takeovers of corporate assets and protectionist policies (Milner, 2019), the latter is concerned with internal stability and the absence of political isolation practices (Behrman, 2008, pp. 212–213). Lastly, national power and leadership practices within politics have also been assumed as

counterproductive to globalization due to reduced willingness to cooperate (Behrman, 2008, pp. 213–215).

Economic obstacles

There are several economic obstacles to the megatrend of globalization. To begin with, uneven distribution of resources negatively correlated with acceptance of globalization. Especially the lack of an economic middle class was assumed to affect consumption as well as domestic capabilities for production and talent availability (Behrman, 2008, pp. 215–216). Data transparency for national and international stakeholders was a further impediment for the global integration of businesses and markets (Behrman, 2008, pp. 216–217; Vagadia, 2012, p. 10). While trade agreements were generally beneficial for globalization, there are concerns that, if not executed with great consensus, such agreements could lead to a backlash in the form of trade conflicts as seen with Brexit or the US's opting out of the Trans-Pacific Partnership (Behrman, 2008, pp. 217–218; Melchior, 2018, pp. 3–6; Vagadia, 2012, p. 10).

As mentioned in section 2.4.1, protectionism, as the opposite of open economic policy, was a major obstacle of globalization (Abboushi, 2010; Behrman, 2008, p. 218; Vagadia, 2012, pp. 10–11). Furthermore, the lack of skill within either national markets or companies prevented a nation or a firm from globalizing and successfully competing within the international environment (Behrman, 2008, p. 219; Vagadia, 2012, p. 11). Lastly, new forms of global risks that are no longer regional but transform into global issues are likely to represent globalization barriers (Behrman, 2008, p. 220). A current example was the financial crisis of 2008 that developed from a regional housing crisis to a global financial and economic catastrophe. Following the recession, governments across the globe implemented policies that impeded the neoliberal paradigm of uncontrolled interconnectedness and business practices purely regulated by market forces (Stiglitz, 2009).

Social and cultural obstacles

The third category of globalization obstacles is concerned with social and cultural aspects. Firstly, there is corruption in private and public institutions (Behrman, 2008, pp. 221–222). Additionally, the cultural identity of a region impeded flows of foreign FDI from culturally incompatible origins, thus hindering globalization efforts by corporations (Behrman, 2008, pp. 222–223). Ethics of firms have become a major research stream in

business literature, and consequently, unethical behavior and lack of corporate responsibility put a strain on the globalization efforts of corporations (Behrman, 2008, p. 223). Lastly, immigration, in particular when groups cannot assimilate, and cultural conflicts due to differentiating cultural values, impeded globalization in the realm of social and cultural aspects (Behrman, 2008, pp. 223–225; Vagadia, 2012, p. 10).

Table 1 summarizes the identified drivers and obstacles of globalization.

Drivers of Globalization	Obstacles of Globalization
Removal of trade barriers	Political obstacles <ul style="list-style-type: none"> • Civil Society • Populism • Interest communities • Power • Leadership
Low transportation costs	
Low communication costs	Economic obstacles <ul style="list-style-type: none"> • Transparency • Trade conflicts • Protectionisms • Skills • Global risks
Technological development	
Diffusion of technology	Social & cultural obstacles <ul style="list-style-type: none"> • Corruption • Cultural identity • Ethics • Immigration

Table 1: Summary of Drivers and Barriers of Globalization (own illustration)

Globalization has three areas of influence on the competitive situation of enterprises, called effects (Bang & Markeset, 2012, pp. 237–239). Firstly, globalization led to a convergence of formerly separated markets. As mentioned by Burt, national markets remained intact for retail (2010, pp. 2–4), but the overall market potential has become global (Bang & Markeset, 2012, pp. 237–238). Secondly, the location effect, the individual advantages, and the disadvantages between locations have led to the global integration of value chains. Consequently, activities such as sourcing and production have been internationalized, and cost- and business environment advantages have led to significant outsourcing and offshoring of value chain processes (Bang & Markeset, 2012, p. 238). Lastly, pressure effects such as competitive pressure and market diversity have

added to increasing specialization and vertical integration of value chains (Bang & Markeset, 2012, pp. 238–239).

The knowledge about the drivers and barriers of globalization allows to understand globalization better and grasp how the measurements against the Covid-19 pandemic can impact the megatrend. It can be reasonably assumed that the Covid-19 pandemic interplays with drivers and obstacles of globalization, and thus it is plausible to expect a shift in this megatrend (Béland et al., 2020).

2.4.3. Retail Globalization

Much of the scientific literature about the globalization of retail was concerned with the drivers, processes, and best practices of international expansion. Within the concept of increasing a retailer's global footprint, numerous studies have researched why and how retailers internationalize, focusing on their sales activities. Especially sales outlets across various regions, through different market entry modes and from retail chains operating in various sectors, have been subjected to publications (N. Alexander & Myers, 2000; Burt & Carralero-Encinas, 2000; Cardinali & Gigliotti, 2012; Hutchinson et al., 2007; Lessassy & Jolibert, 2007; Myers & Alexander, 2007; Vida & Fairhurst, 1998; Wigley & Rachel Chiang, 2009). Within this field of research, one comprehensive study stands out as it encompasses a broader view of internationalization in the retail industry. Evans et al. have identified the motivators and barriers for retailers' internationalization from different sectors such as footwear or cosmetics (2008). Profit growth, capitalization on core competences, domestic market saturation, and unpredictable foreign opportunities have been found among the main drivers for retail businesses to internationalize. Other drivers that have been identified are the strategic vision, improvement of efficiencies and competition.

Additionally, the study has found that all these drivers have been employed opportunistically (Evans et al., 2008, pp. 268–270). The authors also looked at impediments to retail internationalization. They found that regulatory policy, untapped domestic market shares, a high commitment of resources such as human capital, managerial will, and high financial costs hinder retailers from internationalizing (Evans et al., 2008, pp. 270–272). In contrast, another study has found that retailer should not rely solely on internationalization to increase sales revenue but instead focus on other strategic options (Etgar & Rachman-Moore, 2008).

Next to the importance of private labels and the increasing vertical integration of the retail industry, Wortmann also described how retail internationalization experienced a boom in the 1990s in Germany. This surge in activity included domestic retailers that spread their sales activities over Europe and foreign competition, especially in clothing and innovative retailers such as IKEA or Toys R' Us, entering the European market. The explanation for the globalization of downstream value chain retail activities followed internationalization incentives such as economies of scale or host market attractiveness (Wortmann, 2003, pp. 17–19).

Focusing on the upstream value chain activities, such as sourcing, designing, production and outbound logistics (Porter, 1998, p. 37), only little literature is available about globalization in the retail industry. Wortmann identified a growth trend in globally interconnected retail supply chains. Especially larger European retailer groups have gotten increasingly involved with their own importation offices abroad. The interconnectedness among retailers, suppliers, and producers increased, and various forms of cooperation, both direct and via intermediaries, have emerged (2003, pp. 21–26). Lenknes and Carr (2004) have found that profitability and global footprint within the retail industry vary significantly. They described that there are not many truly global retailers, except in the luxury sector, and most players are either country-specific, locally- or regionally organized. They further stated that the profitability of globalization strategies differs depending on the sector a retailer operates in. For example, clothing retailers are more profitable when focusing on a small geographical footprint or expanding globally, avoiding being stuck in-between (Leknes & Carr, 2004, p. 38).

This contradicts Rugman and Girod's findings of "While [...] there is overall a new need for firms to expand abroad to generate new growth, this is not 'global' activity. Most of the international expansion is within the local home triad region of the retail MNE" (Rugman & Girod, 2003, p. 36), pointing towards a more regional set up of international retailers. Their definition of triad region includes the European Union, Northern America, and Asia (Rugman & Girod, 2003, p. 24). Furthermore, fresh food retailers such as grocery chains were unsuccessful in internationalizing and mostly remained within their home market, which encompasses a country or a slightly larger region. High fixed costs, complicated supply chains that are subjected to the perishability of food, tough competition, differences in consumer tastes, and low-profit margins are among the many reasons for the food retail sector not to further globalize (Corstjens & Lal, 2012).

Within the realm of globalized sourcing, Coe and Hess (2005) have shed light on the scarcely researched subject of the impact of retail globalization on the supply chains (2005, p. 463). In the Easter-European and East Asian regions, retail internationalization has led to increasingly centralized procurement activities and the rearrangement of value-creating activities. Sourcing was streamlined and executed through so-called distribution centers (DC), which execute procurement for predefined product ranges or entire geographical regions. It replaced a prior sourcing system based on individual stores managing their procurement themselves. The two benefits of such transformation are increased efficiency and a reduction in administrative overhead. In parallel, value-adding activities, such as processing intermediary goods into final merchandise, were increasingly outsourced as DCs became distribution transfer sites predominantly. Moreover, this unification led to a preference for mass suppliers, resulting in a consolidation of the procurement network (Coe & Hess, 2005, pp. 464–465).

To accommodate such a streamlined procurement process, globalization within retail also led to more sophisticated logistics systems. Data integration via EDI links, vendor-managed inventory (VMI), and third-party logistics providers have allowed globalized retailers to increase inventory turnover drastically (Coe & Hess, 2005, pp. 465–466). Concerning intermediaries, two trends were identified. Firstly, internationalized retailers started to directly engage in business relationships with manufacturers, cutting out wholesalers when they did not add value. Secondly, retailers engaged in business transactions with wholesalers if they delivered specific value-adding services such as quality enforcement (Coe & Hess, 2005, pp. 466–467). Coe and Hess further added that globalization of the retail supply chain led to global standardization, audits, more transparency, and formal contractual frameworks (Coe & Hess, 2005, pp. 467–469).

On the clothing retail industry example, Abecassis-Moedas (2006) researched how the design and manufacturing of products have become increasingly integrated within retail. The study's findings described either traditional manufacturers who design and produce products and subsequently sell them through retailers or manufacturers without production facilities, who act solely as designers for retail customers and subcontract the production onto specialists. Retailers tried to circumvent the latter through vertical integration of the design activity. As a reaction, manufacturers without production activities moved from pure designers to designers that sell their products through their own stores, eventually becoming specialized retail chains themselves. From a retailer's

point of view, the department stores and discounters increasingly internalized the design stage, outsourcing production to subcontractors (Abecassis-Moedas, 2006, pp. 418–421).

The operating business model of retailing has changed drastically with the emergence of globalization. Both vertical and horizontal integration along the value chain have transformed the retailing industry to distributors, designers, manufacturers, and global procurers. Globalization has allowed retailers to enlarge their global footprint and benefit from the location and scale advantage of upstream supply chain activities. Consequently, a crisis such as Covid-19 can have an immense potential impact on such interconnected and interrelated business activities. Section 2.2.2 has shown that the measurements taken by governments have led to a crisis within globalized retail value chains. Building upon RQ1, this study focuses on the consequences that the Covid-19 pandemic had on the retail industry's interconnected and globalized upstream value chains. This subject is of high interest as global sourcing, procurement, design, or distribution setups are being affected in the light of the pandemic and the uncertainty of a new status quo.

2.4.4. Porter's Value Chain

To better assess the extent of globalization within a non-food retailer's business model, Porter's value chain model offers a framework that allows to differentiate between activities of a firm and to cluster them accordingly (Bang & Markeset, 2012, p. 235).

Introduced by Michael M. Porter in 1985 (1998), the value chain view of a firm has become a standard in management teachings (Siev, 2017). Porter argued that every firm could be described as a collection of activities that are actioned to create value. Therefore, the total value a firm creates is represented by its value chain activities, divided into primary and supporting activities. While primary activities of a firm are essential for creating value, the supporting activities add to favorable circumstances and thus support the value creation (Porter, 1998, pp. 36–39). As illustrated in figure 5, the primary activities consist of inbound logistics, operations, outbound logistics, marketing & sales, and service. In contrast, the supporting activities include the firm's infrastructure, human resource management, technology development, and procurement (Porter, 1998, pp. 36–39).

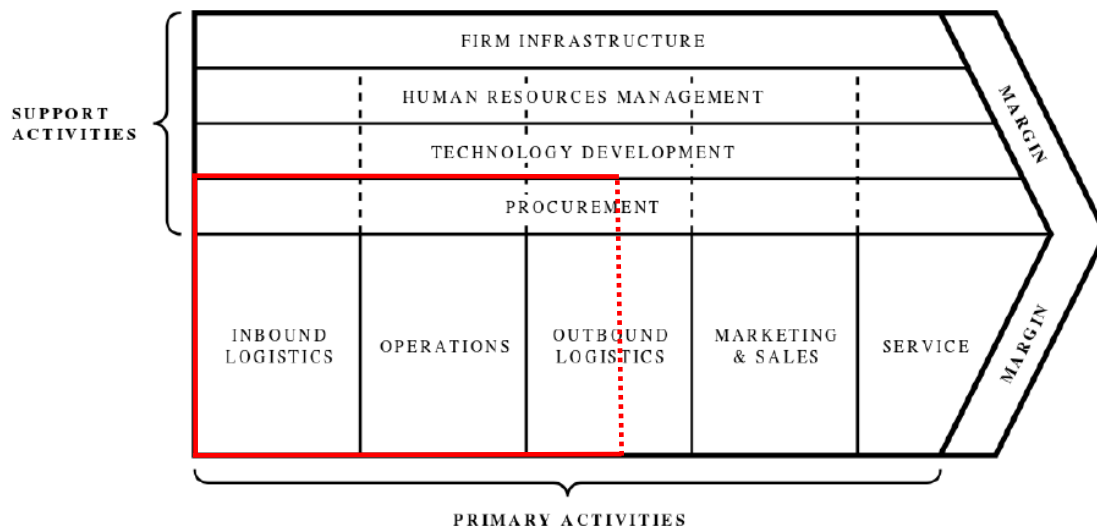


Figure 5: Porter's Value Chain (Porter, 1998, p. 37)

The value chain view of a firm is used in this thesis to better understand the degree of globalization of non-food retailers. The model allows bringing structure in retailers' vague and increasingly diluted business activities (Burt, 2010, pp. 5–6; Haas, 2019, pp. 1039–1043; Wortmann, 2003, p. 16). The author of this thesis has used the framework to direct empirical research about the globalization of the non-food retail industry and the primary and supporting activities (Gereffi et al., 2001). As this work focuses on upstream value chain activities, sourcing/procurement, logistics, and operations are activities of the value chain that are considered principally. This focus is illustrated in figure 5 by a red square.

2.5. Digitalization

This section introduces the second research stream in assessing the impact of the Covid-19 pandemic on the retail industry. Following the digital business transformation matrix (Bergamin et al., 2020), the megatrend of digitalization is further examined. First, an introduction to digitalization is given, followed by both drivers and barriers of the megatrend. Subsequently, a digitalization literature review within the retail industry is presented and the digital maturity model (Colli et al., 2018) is introduced as a framework to better analyze the digitalization of retail firms.

As one of the main drivers of globalization, technological advancement has been a source of another predominant megatrend, digitalization (Schuldt, 2021). In its pure definition, digitalization refers to the transformation of analog information to digital information.

However, a more comprehensive definition of the phenomena is used in this thesis. In this context, digitalization can be described as "...the use of digital technologies to change a business model and provide new revenue and value-producing opportunities" (Bloomberg, 2018). Consequently, the transformation of business processes is key, and several digitalization projects can lead to an overall digital transformation of a business or an industry (Bloomberg, 2018).

Bergamin et al. described the implication of digitalization in the business environment as advantages of scalability and the digital customer needs of current and emerging generations (2020, pp. 3–9). With the help of digital innovation, digitalization can then result in digital transformation, which is described as "a major organizational change driven by, built on, or enabled by digital technology, altering how business is conducted" (Osmundsen et al., 2018, p. 1). In this context, digital innovation refers to a digital technology-reliant novelty (Osmundsen et al., 2018, p. 2).

2.5.1. Drivers of Digitalization

Besides underlying technological advancement (GICA, 2017), there are several drivers for digitalization (Osmundsen et al., 2018). Understanding these drivers makes it possible to discern how the Covid-19 pandemic can impact the megatrend of digitalization and how the retail industry can be affected by such development. Osmundsen et al. define drivers as "external or internal triggers for why organizations engage in digital transformation" (Osmundsen et al., 2018, p. 5).

Customer expectations and behavior

First, changes in customer expectations and behavior have been found to impact digitalization. Hrustek et al. described how the desire of customers for digital innovation promotes digitalization within firms. It was further stated that this relationship is somewhat reciprocal. Companies add value to customers by integrating aspects of digitalization into their value proposition, which in turn fosters the customers' interest in further digital innovation (2019, p. 1306). Product and service success depends on whether a firm meets customer expectations, and Schmidt et al. have identified communication as a significant determinant of customer satisfaction. Thus, digitalized omni sales channels are important value-adding activities and have increased customer loyalty (Schmidt et al., 2017, p. 4). Osmundsen et al. confirmed that firms are required to continuously invest in digitalization to satisfy their customers' expectations (2018, p. 5).

Industrial shift towards digitalization

Second, a digital shift in the industry forces firms to keep up with the development and invest in digitalization (Osmundsen et al., 2018, pp. 4–5). Hänninen provided an example with digital platforms such as Alibaba or Amazon that pushed a digitalization trend within the retail industry. The emergence of such platforms changed the customer expectations towards more transparency and impacted how retailers' operations, such as purchasing and logistics, are coordinated. Consequently, such a digital shift forced retailers to adapt their business model to the ongoing digitalization (Hänninen et al., 2017).

Change in the competitive landscape

Third, a change in the competitive landscape fosters digitalization (Osmundsen et al., 2018, p. 5). Collin et al. (2015) described how competition promotes digital innovation and thus forces firms to follow. Moreover, digitalization has opened new forms of competition, and in return, these competitive forces drive digital integration forward themselves. An example of this is that competition grew to a global scale as web shops and e-commerce flattened the borders of retail competition significantly. Consequently, existing players are forced to invest in a digital presence to remain competitive (2015, p. 95).

Promoting regulations

Lastly, regulatory change has been found a driver for digitalization (Osmundsen et al., 2018, p. 5). A change in the regulatory environment, for example, national data security regulations, can force a firm to adapt products or value proposition and rethink its operating model with the help of digitalization (Berghaus & Back, 2017, p. 4).

2.5.2. Barriers to Digitalization

Digitalization affects many aspects of a firm, and consequently, it was not possible to outline a specific set of obstacles that need to be considered. Several studies have been conducted on digitalization within predefined applications. Galera-Zarco et al. have found that cultural barriers are among the most important impediments of digital integration within the context of the creation of organizational alliances (2020, p. 170). In the example of Germany, also technical barriers have been identified. High requirements on cybersecurity, including potential external attacks on the digital infrastructure, are a significant barrier to digitalization. This issue is expected to gain more importance with

advancing digital Integration (IHK, 2014, p. 9). Within cross-border operations, digitalization also raises legal concerns. Regulatory frameworks that are not entirely harmonized for international business conducting are hard to understand, leave loopholes, and uncertainty prevents firms from digitalizing (IHK, 2014, pp. 9–10).

Infrastructure, especially in terms of digital connectivity, also poses a significant barrier. Increasing data volume requires a more capable network of servers and the availability of a high-speed internet connection. The lack of technical standards and availability of such represents a barrier for digitalization (IHK, 2014, p. 10). Insufficient managerial and technical competences aggravate the digitalization process of a firm. The findings of the IHK showed that marketing, communication and process organization require high efforts to digitalize and can hinder companies from digitalizing successfully (2014, p. 10). Von Leipzig et al. added that managerial considerations prevented the successful initiation of digitalization and proposed an approach based on continuous improvement (2017). A recent case of a large-scale cyberattack on a software provider led to the temporary closure of over 500 stores of the Swedish retailer Coop. The news underlines the increasing concern about cyber-attacks and threats through IT security flaws. As reported, such attacks spread more easily as the supply chains become increasingly interconnected. Thus, cybersecurity concerns have been added to the obstacles of digitalization (Tidy, 2021).

Table 2 summarizes the drivers and barriers of digitalization.

Drivers of Digitalisation	Obstacles of Digitalisation
Customer expectations and behaviour	Cultural barriers
	Economic obstacles
Industrial shift towards Digitalisation	Impeding regulations
	Lack of infrastructure
Change in competitive landscape	Insufficient competencies
	Security concerns
Promoting regulations	

Table 2: Summary of Drivers and Barriers of Digitalization (own illustration)

2.5.3. Retail Digitalization

Digitalization within the retail industry has been underway for several decades. The first signs can be traced to the 1970s when the implementation of barcodes started a scalability revolution. Barcodes allowed to collect, stock, and automate data streams (Watson, 2011, p. 315). Moreover, Hagberg described how digitalization in the retail industry within the past decades has led to automated data exchange between different value chain actors, electronic cash management, and increased data collection about customers (Hagberg et al., 2016, p. 696).

In general, much literature about digitalization within the retail sector revolved around customer value creation. A comprehensive framework sorted digitalization into four distinct elements within the retail sector (Hagberg et al., 2016, pp. 698–705). First, “digitalization of exchanges” (Hagberg et al., 2016, pp. 698–700) refers to communication- and sales channels and distribution forms. Second, the “digitalization of actors” (Hagberg et al., 2016, pp. 700–702) includes various devices on which customers can be reached, the blurring of roles between consumer, and retailer and the entrance of new actors such as the consumer, in co-production roles. Third, the “digitalization of settings” (Hagberg et al., 2016, pp. 702–704) includes e-commerce development, the integration of brick-and-mortar stores with the digital sphere, and implementation of devices such as smartphones. Lastly, “digitalization of offerings” (Hagberg et al., 2016, pp. 704–705) revolves around the digital integration of production and service functions and new pricing models, such as individual promotion.

Next to this all-encompassing framework, other studies focused on more topic-specific subjects. Pousttchi and Dehnert described that digitalization considerably influenced consumer purchasing decisions in retail banking by shortening the decision-making process (2018). As mentioned previously, Hänninen et al. described that big data enabled the emergence of so-called “multi-sided platforms” (2017, p. 159) on which value is created in the interception between customers, the platform, and suppliers (Hänninen et al., 2017, p. 159). A study by Lehdonvirta assessed how digitalization changed consumption patterns. Brick and mortar stores were either replaced or augmented by digital technology. Consumers were increasingly integrated into the value proposition by participatory measures, and purely digital products have entered the mainstream as they are being perceived similarly to physical goods (2012). Eventually, Watson described how digitalization led to a rise in e-commerce and showed that “non-store retailers”

(2011, p. 320) increased market shares in the USA substantially. Furthermore, mobile commerce is expected to be the next retailing trend, and national governments will play a more critical role as moderators, and enable global competition by opening markets for trade (Watson, 2011, pp. 320–321).

Bergamin et al. researched the digitalization of the Swiss department store Coop (Bergamin et al., 2020, pp. 35–41). By optimizing the organizational structure, streamlining the operating model, centralization, and a division of operative and strategic levels, the Coop group has been consciously adapting to its ever-changing business environment. With the help of digitalization, Coop has implemented significant e-commerce activities and linked them with the traditional offline retail, leading to a strong interlinkage of internal IT systems (Bergamin et al., 2020, pp. 38–39). Moreover, voice assistance and analytics are expected to become increasingly disruptive forces in retail. However, Bergamin et al. have also emphasized the predominant positioning of tech giants such as Amazon and Google. They potentially downgrade retailers to logistics providers by becoming intermediaries between customers and retailers (2020, p. 40). Within the operating model, digitalization has introduced agile project management, agile organizational leadership, data-driven analytics, and modern ERP systems. The latter requires highly trained staff to manage the increasing volumes of data and thus leads to increase focus on digital affine personnel (Bergamin et al., 2020, p. 40).

Reinartz et al. confirmed previous findings of increasingly diluted retailing business models as “Today, manufacturers, third parties, and consumers increasingly engage in retailing functions, generating value that institutional retail has traditionally provided” (2019, p. 352). More importantly, they have researched how digitalization affects a retailer's value chain on a firm level and have identified five new ways of creating value. Automation of marketing- and customer processes enable retailers to communicate effectively and consumers to conveniently execute purchases (Reinartz et al., 2019, p. 355). Individualization is closely related to marketing data, which permits customized communication towards clientele (Reinartz et al., 2019, pp. 355–356). Moreover, digital technology allows embedding products, retail processes, and communication directly into the customer's daily life (Reinartz et al., 2019, p. 356). Additionally, communication is increasingly interactive and thus allows for more engaging customer touchpoints (Reinartz et al., 2019, p. 356). Eventually, Reinartz et al. have identified transparency as a significant contributor to superior information available to the customer (2019, p. 356).

As can be seen, the literature about digitalization towards customer value creation is plentiful, and retailers make use of the technology to offer new products, create new customer touchpoints and further streamline marketing and sales efforts. However, there is only little retail-specific research about upstream value chain or operating model digitalization. Mänenpää and Korhonen have analyzed the competitive environment of the retail industry in the age of digitalization. Next to the conclusion that digital technology acts as a source of productivity, manufacturers can easily circumvent intermediaries and address customers directly (2015, pp. 93–94). Furthermore, retail is facing increased substitution through service-only retailers such as Spotify. Digitalization has made it possible to address the consumer directly through direct-to-consumer methods (Mänenpää & Korhonen, 2015, p. 96). Thus, digitalization impacted the relationships between stakeholders and led to new possibilities for business model transformation.

Due to the limited literature about digitalization in upstream retail value chain activities, there is a significant knowledge gap to be filled. In the light of the Covid-19 pandemic, numerous publications tried to grasp a view of a possible future. One recent study looked at the medium to long-term impact of digital transformation on food retailers in Germany. While there was an intense window of e-commerce opportunity, the study found that Covid-19 did not promote any sustainable transformation beyond such time frame. Fear of infection and reduction of measurements against the pandemic led to a return to the status quo before the pandemic (Dannenberg et al., 2020).

Several consulting firms projected future trends and possible consequences to the retail industry due to digitalization. Deloitte published a retail study in 2020 that identified four major trends, including advancing technological innovations, changing customer behavior towards digital availability, increasing market competition, and regulations and a shift in the workforce towards flexibility and talent scarcity (Deloitte, 2020, pp. 10–14). PWC acknowledged trends in omni channel retailing, combining e-commerce with physical stores, decreasing brand loyalty due to sustainability concerns and more sustainable consumption, digitally integrated supply chains through autonomy, and transparency and increased focus on environmental and social governance (PWC, 2021).

The Covid-19 pandemic has exposed several weaknesses in the pre-pandemic digitalization processes (Faraj et al., 2021). Moreover, it remained unclear how the future of digitalization will look like in the retail industry. In line with the assessment by

Bergamin et al. (2020) and section 2.3.1, this thesis further focuses on the internal digitalization aspects. Consequently, based on RQ2, the question arose how the Covid-19 pandemic influenced the digitalization efforts within the upstream value chain activities of European non-food retailers.

2.5.4. Digital Maturity Model

Relevant scientific literature provided numerous digital maturity models (henceforth also referred to as DMM) to assess digitalization. Such models differ through their application, quality and are often industry-specific (Thordsen et al., 2020). The digital maturity model developed by Colli et al. has been developed with the understanding that companies need to be assessed individually, and allows to be used across any industry (Colli et al., 2018, p. 1347). Taking into account the variety of business activities within the retail industry and its diluted business model (Burt, 2010, pp. 5–6; Haas, 2019, pp. 1039–1043; Wortmann, 2003, p. 16), this digital maturity model has been chosen to provide a guideline to assess the degree of digitalization.

The DMM consists of five categories, called the digital dimensions (Colli et al., 2018, p. 1349), which capture the digital capabilities of a firm. The following description of the dimensions is based on (Colli et al., 2018, p. 1349)

- **Governance** revolves around the organizational level, including awareness and involvement across the hierarchy, organizational agility, and overall digitalization strategy.
- **Technology** is concerned with the technological infrastructure to process data, such as business intelligence tools, access to cloud computing services, and artificial intelligence.
- **Connectivity** focuses on the infrastructure to transmit and exchange data in-between different organizational units and with external stakeholders. Connectivity includes IT security setup and transmission infrastructure.
- **Value creation** is the proneness to capture value from data, such as data-driven forecasting, digitally enabled product design, and market research insights. In addition, digital products and services are included in this dimension as per Bergamin et al. (Bergamin et al., 2020, p. 19)

- **Competence** includes the skills and motivation to further promote digital transformation. Competence includes staff training, external consultation partnerships, and overall culture of curiosity.

By using this DMM, the degree of digitalization can be assessed more precisely. Figure 6 illustrates the DMM framework. The close analogy to the digital business transformation matrix by Bergamin et al. (2020, p. 16) allows the findings to be translated to the DTM. Consequently, the empirical research can be structured according to the DMM.

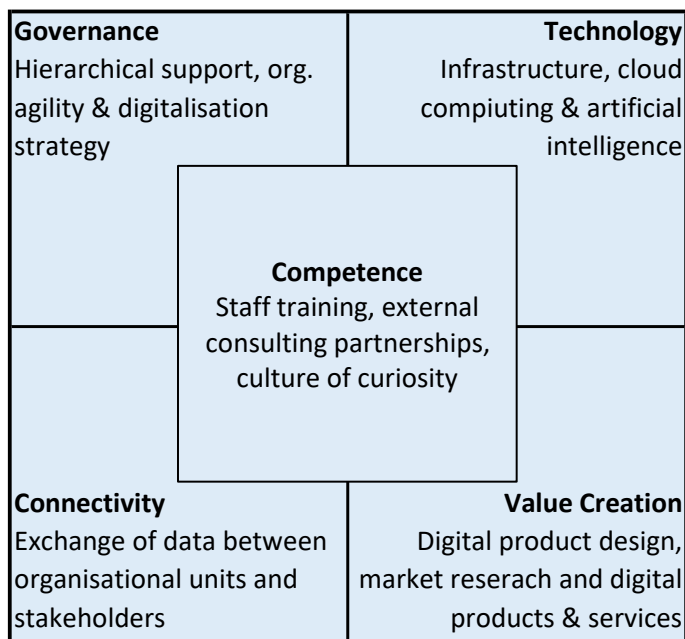


Figure 6: Digital Maturity Model (own illustration based on Colli et al., 2018)

2.6. Research Gap

In mid- 2021, the consequences of the Covid-19 pandemic on globalization and digitalization can only be estimated. While there is extensive literature about drivers and barriers of globalization in normal times, there is only little knowledge about how the recent pandemic influences this megatrend. Consequently, a research gap has been identified due to the recency of the events and the uniqueness of the Covid-19 crisis. Porter's value chain allowed to better understand the complex value chains of the retail industry but does not predict any development due to the descriptive and static nature of the model. Within the realm of digitalization, the research gap follows the same pattern. The literature about the impact of Covid-19 remains scarce due to the novelty of the subjects. The digital maturity model was used to structure empirical research accordingly to its dimension.

As presented throughout the literature review, there is a wide variety of academic research on the topics of retail development (A. Alexander et al., 2005; Burt, 2002; Gay, 2004; Stanton, 2018), vertical integration (Crewe & Davenport, 1992; Haas, 2019; Hultman et al., 2012; Wortmann, 2003) customer value proposition in various aspects (N. Alexander & Myers, 2000; Burt & Carralero-Encinas, 2000; Cardinali & Gigliotti, 2012; Copenhagen Economics, 2018; Hänninen et al., 2017; Hutchinson et al., 2007; Lehdonvirta, 2012; Lessassy & Jolibert, 2007; Myers & Alexander, 2007; Pousttchi & Dehnert, 2018; Reinartz et al., 2019; Vida & Fairhurst, 1998; Watson, 2011; Wigley & Rachel Chiang, 2009) and the retail business model (Haas, 2019; Ramos & Souza, 2020; Sorescu et al., 2011). However, the recency of Covid-19 and the complexity of the subject make it a largely unresearched field. First publications ventured for different predictions for the megatrend of globalization (Antràs, 2020; Guan et al., 2020; Harapko, 2021; Javorcik, 2020; Matthey, 2020) and digitalization (Elkjaer & Damgaard, 2018; Faraj et al., 2021; McKinsey & Company, 2020a, 2020b) but remained estimations only.

The strategic re-orientation of the retail industry in terms of globalization and digitalization after the breakout of the Covid-19 pandemic constitutes a significant research gap. Due to the recency of the subject, there is only limited research available on the consequences of the Covid-19 pandemic on the European non-food retail industry. There are some preliminary impact studies on food retail (Dannenberg et al., 2020; Goddard, 2020) and tobacco and alcohol retail (Lee et al., 2021), while others look at specific subjects such as offline store customer flows during the Covid-19 pandemic (Shumsky et al., 2021), challenges of human resource management within the retail industry (Sulaiman et al., 2020) and the impact on investors and finances in retail trade (Bing, 2021; Talwar et al., 2021).

The literature review in section 2 of this thesis has shown that the impact of Covid-19 on digitalization and globalization remained unresearched, and the future development of the retail sector within this context is unknown. While valid arguments for future development can be found, empirical confirmation thereof is lacking. This thesis aims to close this research gap by building upon the existing research from Bergamin et al. and updating the findings in mid-2021, where the vaccination campaign to combat the Covid-19 pandemic is being rolled out, and the global response is being coordinated to bring the pandemic situation to a conclusion (OECD, 2021a; World Health Organisation, 2021c). The findings of this thesis complete the current literature and add valuable insights about

the Covid-19 pandemic and its consequences for the economic world. Industry players and scholars are targeted likewise to use this knowledge and apply it to business decisions and the current body of understanding of the crisis within academics.

3. Scenarios

Building upon the literature review in section 2, this chapter presents several plausible scenarios for the development of the retail industry within the dimensions of globalization and digitalization.

3.1. Globalization Scenarios

Combining the drivers and barriers of globalization such as increasing interdependence, interconnection, cross-border business transactions with the value chain activities in the retail industry, and the measurements taken in response to the Covid-19 pandemic described in section 2.2.2, the consequences on retail globalization remains ambiguous (Altig et al., 2020). Increased administrative requirements and strict border controls (OECD, 2020b) hit tightly planned value chains hard (Harapko, 2021). Consequently, the World Trade Organisation reported that the volume of globally traded merchandise dropped by 15% in the second quarter of 2020 due to the pandemic (World Trade Organisation, 2021). Based on the previous sections of this work and on additional sources, two scenarios are presented that show plausible future globalization developments in the retail sector.

Scenario 1: Global Convergence

In this first scenario, the globally integrated retail value chains continue to internationalize after the Covid-19 pandemic will have been under relative control. In search of corrective actions, supply chain resilience and digitally facilitated transparency are recurring themes (Accenture, 2021a; Deloitte, 2021a; Harapko, 2021; Matthey, 2020; Seifert, 2021). An early study on the subject by Harvard University has found little evidence that the world will enter a period of deglobalizing value chains due to the Covid-19 pandemic (Antràs, 2020). It is plausible that this crisis strengthens retail value chains across the globe, and further internationalization occurs as a series of improvements is being implemented (Antràs, 2020). Resilience measurements and learnings from the disaster can then be applied to create even more efficient supply chains. Digitalization is a key enabler for this scenario. With the help of digital initiatives such as seamless information transfer, AI-driven forecasting, integrated planning, logistics visibility, and automation (Accenture, 2021a; Deloitte, 2021a; Schrauf & Bertram, 2017), the retail industry will be able to emerge strengthened from this pandemic.

Consequently, retailers with strong digital competences and a digital business model are at the forefront of this development and become global digital champions. In this scenario, the drivers of globalization prevail. The pandemic is expected to boost both the development and diffusion of digital technology and thus promotes globalization. Moreover, trade barriers are expected to remain only temporary and economic obstacles to ease up quickly.

Scenario 2: Deglobalization

The second scenario considers the critical voices against the currently highly globalized value chains. First studies have stated the vulnerability of global supply chains (Free & Hecimovic, 2021) or discussed the necessity for closer control thereof as global supply chains have amplified the negative consequences of the Covid-19 pandemic (Guan et al., 2020). In the light of the uncertainty, reshoring and nearshoring initiatives are assumed to be inevitable for firms to stay competitive (Consultancy, 2021; Javorcik, 2020, p. 112; McKinsey & Company, 2020a). The retail industry will increasingly diversify its supplier base towards independent, regional operations that do not translate global shocks across the entire network. Digital technology plays a smaller role in this scenario as digitalization is of less importance to reduce the complexity of such a value chain setup. This scenario is in line with predictions of changes in customer behavior that indicate consumption of more locally sourced brands (Bruce-Lockhart, 2021; European Commission, 2021b; Puttaiah et al., 2020).

Consequently, global players will reorganize, become leaner, and significantly reduce their global interconnectedness by separating regional business units. In this scenario, the barriers of globalization are predominant. Political obstacles remain present as the pandemic ceases and drivers such as transportation costs remain high. Thus, globalization is expected to develop in reverse as opposed to the last decades.

Figure 7 illustrates the two hypothetical scenarios developed in this chapter.

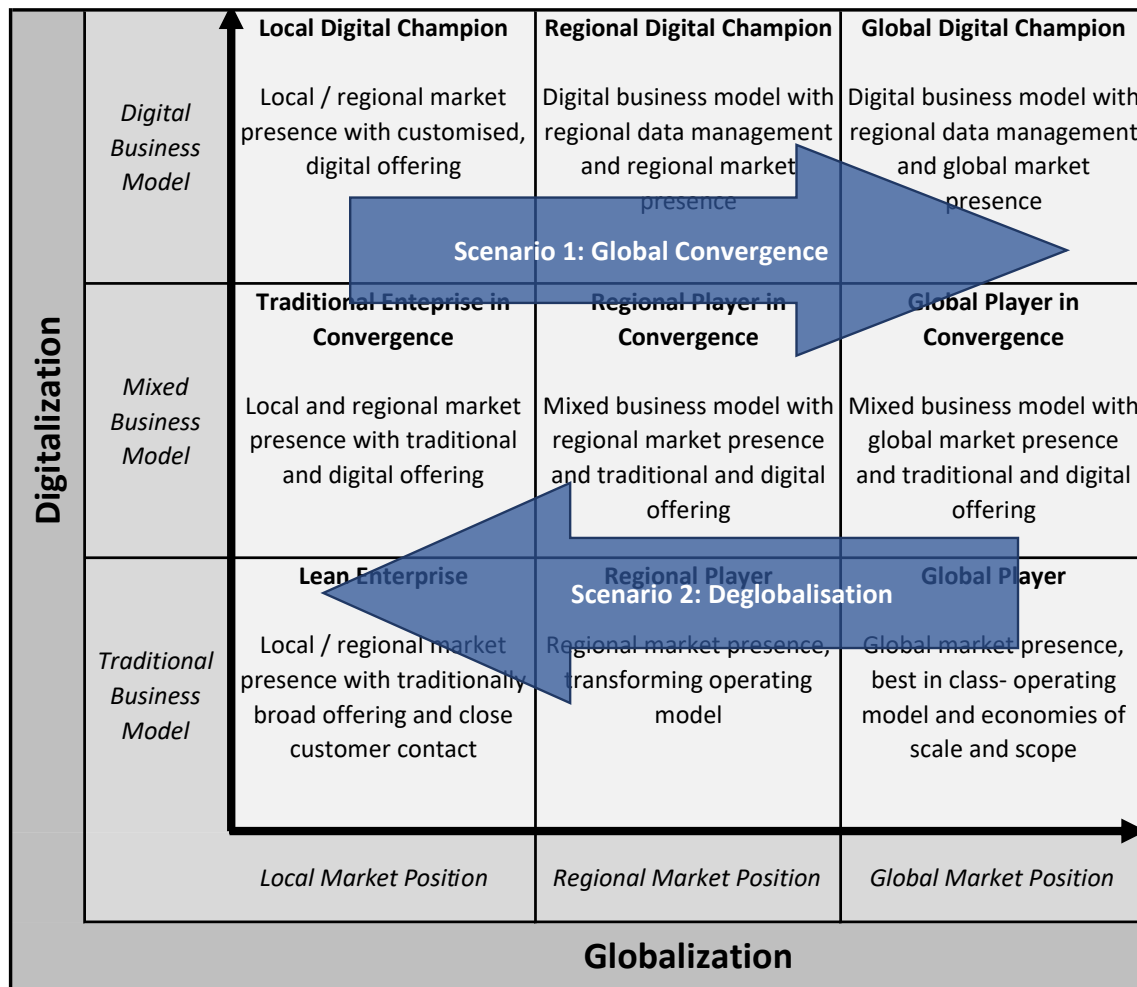


Figure 7: Scenarios for Globalization (own illustration based on Bergamin et al., 2020)

3.2. Digitalization Scenarios

Building upon the key drivers and barriers of digitalization along the value chain of non-food retailers, discoveries such as the ongoing transcendence of digital technology, changing customer expectations and continuous adaption of value proposition, and taking into consideration the measurements taken against the Covid-19 pandemic described in section 2.2.2, digitalization appears to remain an essential megatrend for the post-Covid-19 future. This section presents two plausible scenarios on how the Covid-19 pandemic could influence the digitalization journey of the retail industry within the years to come. Figure 8 illustrates the two scenarios along the digitalization axis in the Digital Business Transformation Model.

Scenario 3: According to Plan

The third scenario illustrates that digitalization will not experience a significant boom, and retailers remain less euphoric about disruptive digital change. A study by Faraj et al.

has found that the "...COVID-19 pandemic has acted as a breaching experiment and has exposed several important caveats and stubborn issues related to digitalization" (2021, p. 5). The scenario acknowledges that these issues must first be analyzed and corrected. Moreover, the available talent and resources needed are scarce, and digitalization cannot be fully integrated before all involved players have access to digital technology (Faraj et al., 2021, pp. 5–6). Consequently, it is plausible that locally and regionally operating retailers continue to slowly digitalize without significant change of their global footprint. Security concerns add to a more conservative development of the megatrend.

Furthermore, customer behavior can be expected not significantly to shift away from traditional retailing. This is shown by the return of customers to brick and mortar stores (Meisenzahl, 2022), the research online and purchase offline (ROPO) effect (Bergamin et al., 2020, p. 38; Erd, 2019, pp. 191–222), and the surge in a combination of traditional retail channels with new, digital information methods (Purcărea, 2018). The Emphasis of this scenario lies in the step-by-step adaption of digital technology with care and a slow but steady approach. Especially local and regionally organized companies can benefit from this slow down as customers can be expected to consume more locally and thus do not rely on digitally integrated and overly complex value chains (European Commission, 2021b). Insufficient competences, lack of infrastructure, cultural barriers, and security concerns are obstacles that slow down a short-term digitalization push.

Scenario 4: Digital Rocket

As reported by McKinsey and Company, "Digital adoption has taken a quantum leap at both the organizational and industry levels" (2020b). Consequently, digitalization has become a top priority for firms, and results showed that companies plan to implement digitalization initiatives up to 40 times faster than before the Covid-19 pandemic. Moreover, the digital shifts are expected to persist in the long term and drastically transform business models (McKinsey & Company, 2020b). Digitalization can be expected to be a driving force behind the recovery of the global pandemic (Chearavanont, 2020). Global organizations will increasingly developed overarching digitalization regulations as the e-commerce boom transforms the entire retail industry into an even more integrated sector (United Nations, 2021). As a primary driver of globalization (Bang & Markeset, 2012, pp. 236–237), it is plausible that digitalization promotes a global footprint of value chains and thus leads to more globalization through reciprocal effects (Elkjaer & Damgaard, 2018, p. 5).

This scenario acknowledges that Covid-19 extensively promotes digital transformation within the retail industry and thus boosts digital development and promotes globalization as a side effect. Moreover, digitally competent, and globally organized firms will better benefit from such development and thus, be more successful in this scenario. The drivers of an industry shift towards digitalization, promotion of a favorable regulatory environment, and customer expectations are the main drivers identified for this scenario.

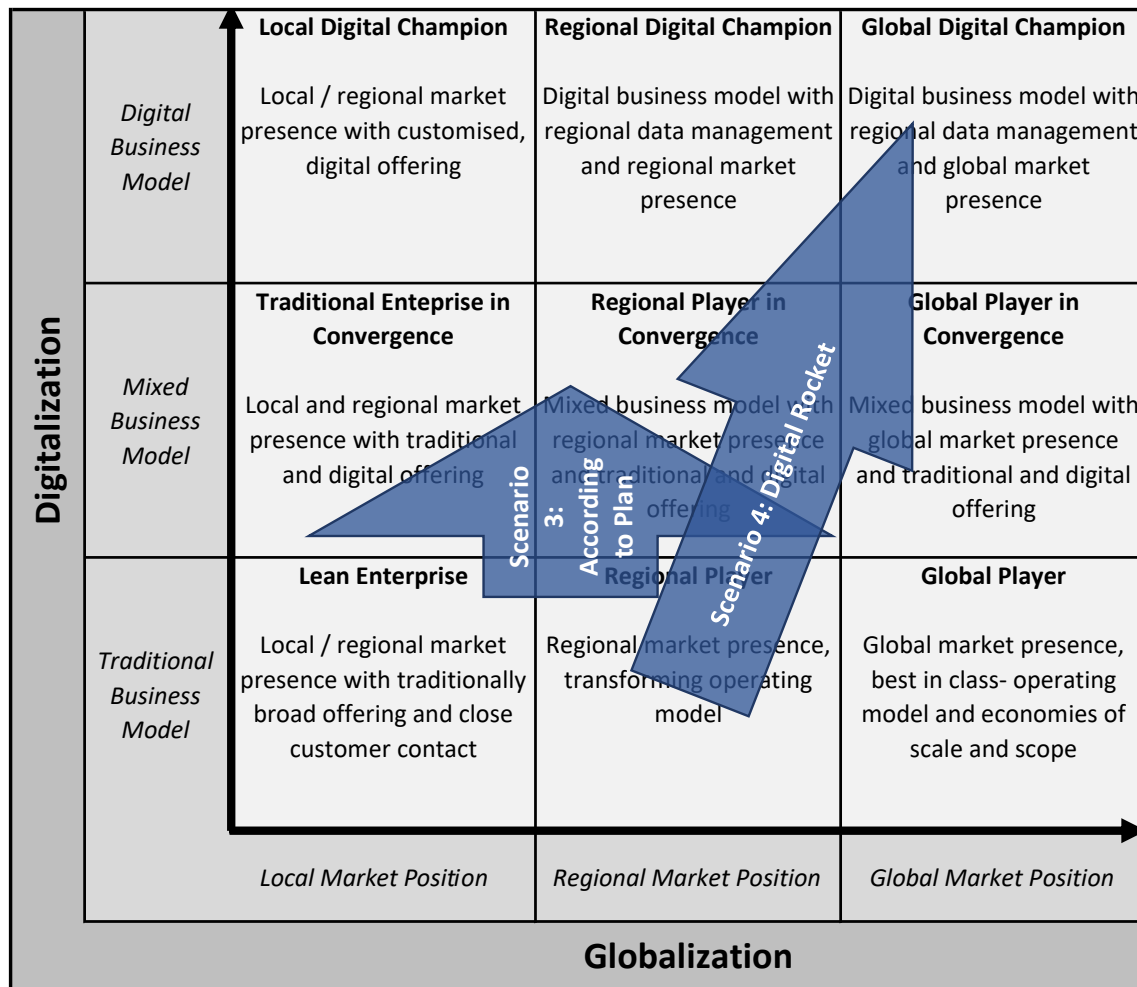


Figure 8: Scenarios for Digitalization (own illustration based on Bergamin et al., 2020a)

4. Methodology

This section describes the methodological approach in assessing the impact of the Covid-19 pandemic on the megatrends of digitalization and globalization within the global non-food retail industry. More specifically, this chapter explains how the research questions presented in section 1.4 were answered and how the research gap was filled. This thesis aimed to analyze how the Covid-19 pandemic affects the megatrends of globalization and digitalization and thus to contribute to the growing body of literature about this very recent phenomenon. Empirical research in the form of qualitative expert interviews was conducted to meet this aim.

4.1. Research Design and Approach

A qualitative research approach was employed as several characteristics make such design suitable for this thesis. Qualitative research allowed capturing a comprehensive picture of a complex issue at hand. This was especially helpful with a novel subject as the Covid-19 pandemic transcends almost any aspect of an industry. Furthermore, qualitative research can accommodate multiple data sources, such as primary and secondary data from literature review and empirical research. Moreover, the inductive research approach helped to build upon observations in the retail industry and to generate patterns for the digitalization and globalization megatrends. In this thesis, the research did not aim to generate new theory but rather to detect patterns and update existing knowledge.

Furthermore, a qualitative approach enabled the author of this study to interpret the data collected, and the emergent design accounted for unforeseen changes within the research design and thus, promoted flexibility (Creswell, 2009, pp. 174–176). In addition, qualitative research is suitable if the current literature is incomplete or the phenomenon under observation is new (Eisenhardt, 1989). As presented in the literature review, research on the topics of Covid-19 and the retail industry is scarce due to the recency of the pandemic.

The object of this research was of predictive nature. As the consequences of the Covid-19 pandemic are largely unresearched, this work sheds light on what impact the pandemic has on the retail industry. The predictive approach remains hypothetical and explains what may happen to the megatrends identified by Bergamin et al. (2020) in the light of the unexamined (Wollman, 2018). To be able to interpret qualitative data, this research followed an interpretive paradigm. Such paradigm aims to “include richness in the

insights gathered rather attempting to provide a definite and universal laws that can be generalized and applicable to everyone...” (Alharahsheh & Pius, 2020, pp. 41–42). In this work, the reality was interpreted through context and the inclusion of individuals or groups. These individuals consist of the experts that were interviewed (Alharahsheh & Pius, 2020).

4.2. Data Collection

Expert interviews have been conducted to answer the research question. This method can be used as a “stand-alone method” (Flick, 2009, p. 189) or in combination with other data sources, such as secondary research (Flick, 2009, p. 189). Expert interviews allow to explore a subject matter, gather contextual information, and consolidate the knowledge of different specialists (Flick, 2009, pp. 166–167). This thesis aimed to gain insights into the retail industry’s development. Consequently, interviewing experts from this industry or a related sector represented an appropriate primary data source. The author built upon the knowledge consolidated in the literature review and the experts’ know-how to elaborate on the impact of the pandemic. Limitations to expert interviews were the limited availability of experts, the high complexity of the interviews due to the concentration of high expertise, and hardship in identifying suitable experts for the subject matter (Flick, 2009, p. 168).

During the expert interview, semi-structured interview questions were employed. As one of the most used qualitative methods, the semi-structure lies between highly structured and unstructured formats. A semi-structured interview provides a framework that consistently leads through important subjects that need to be addressed and remains flexible to elicit information that would have been missed otherwise. Described as one of the most effective interview methods, the semi-structured expert interviews allowed the interviewer to use follow-up questions and adapt the thematic focus according to each specialist’s field of expertise (Qu & Dumay, 2011, pp. 246–247). The questions used in the semi-structured interviews were open-ended questions to allow the interviewee to add information on their own device and to express themselves in their terminology and language. Moreover, open questions did not elicit guided answers and allowed the author of this study to understand how the experts perceive their industry and its environment (Qu & Dumay, 2011, p. 246).

As suggested by Adams, an interview guide has been prepared before to the expert interviews were conducted (2015, pp. 369–373). The interview guide provided the structure of the semi-structured interview and followed the research streams of globalization and digitalization identified in the literature review of this thesis. Moreover, Porter's value chain (Porter, 1998, p. 37), the digital maturity model (Colli et al., 2018), and the digital business transformation matrix (Bergamin et al., 2020) provided the conceptual foundation for the interview guide. The complete interview guide can be found in appendix C.

At the end of each interview, the digital business transformation matrix (Bergamin et al., 2020, pp. 16–24) was presented to the interview candidates to assess the future development of the upstream value chain activities of the retail industry. They were asked to plot the current position of their organization as well as the future development for the next 10 years. In addition, the phrasing of the presented matrix has been slightly altered by the author of this thesis by replacing the wording of “markets presence” with “value chain” to focus on this question's upstream value chain scope.

4.3. Generalization and Validity

A pilot test interview has been conducted to verify the reliability and validity of the semi-structured interview questions (Imtiaz Abd Gani et al., 2020, p. 140; Majid et al., 2017). The interviewee consisted of a master's student of the International Business cohort 2020 of the ZHAW School of Management and Law. After a small introduction to the subject matter, the questions were followed through according to the interview guide. The pilot interview allowed to uncover potential flaws within the line of questioning, verify the language, check the need for explanatory details across the questionnaire and assess whether the question line would need expansion to sufficiently cover the subjects of globalization and digitalization.

As a result of the pilot interview, two modifications were made to the interview guidelines. First, the questions were shortened as the more extended phrasing of some questions did confuse the interview partner and led to biased answers. Second, the questions about globalization and digitalization were separated more clearly. Consequently, the experience profile of the experts could be taken more into consideration.

4.4. Sampling

The sampling frame for this thesis consisted of decision makers or management members, working in the retail industry or who have extensive knowledge of the retail sector. This sampling frame allowed for comprehensive findings as personal experience may differ, and thus, numerous points of view could have been considered (Flick, 2009, pp. 115–126). Additionally, such sampling considers the candidate's broad experience and thus adds to the findings' plausibility. Consequently, the sampling size has been determined as per the concept of data saturation, which describes diminishing incremental returns per additional interview partner. Sample size determination as per data saturation is widely accepted in academia for qualitative research, and a guiding range is between 5-20 candidates (Dworkin, 2012).

The sampling method used was non-probability sampling. Due to this thesis's geographical scope, experts who work for European retailers have been targeted predominantly. Moreover, convenience sampling has been employed to increase the number of potential interviewees and thus to promote diverse and deep insights into the subject matter (Flick, 2009, pp. 115–126). The expert interviews have been acquired in numerous ways, including through personal relationships and referrals, and cold calling. The primary platform for cold calls was the professional social media network Linked in. Professionals of medium to high hierarchical positions have been targeted to receive well-founded information and have an adequate rate of return. As a consequence, this sampling approach led to a strong representation of experts based in Switzerland.

In total, 75 experts have been contacted in the period between 29.06.2021 and 20.07.2021. As a result, nine suitable interview partners were found, and interviews have been conducted between 15.07.2021 and 05.08.2021. Table 3 shows the details of all interview partners, including their retail organization and position in order of the interview date. Four interviewees have asked to remain anonymous and have been labeled accordingly. All candidates have experience in non-food product categories, either through being associated with a non-food retailer or a department store that offers food and non-food products such as Migros or Coop.

Name	Organization	Position	Date	Original Language	Interview type	Lenght
Nick Baumann	Migros	Managing Director Migros' Central Procurement Hong Kong	15.07.2021	Swiss German	Phone	45min
Anonymous A	Sporting goods retailer	Logistics Director	15.07.2021	English	MS Teams	40min
Anonymous B	Furniture retailer	Head Category Management & Category Manager for Textiles, Kids & Accessories	16.07.2021	Swiss German	Phone	60min
Anonymous C	Discount department store	Global Sourcing Manager	20.07.2021	Swiss German	MS Teams	35min
Valetina Gashi	Coop	Purchasing Manager Beauty & Face Care	21.07.2021	Swiss German	Phone	35min
Peter Schuppisser	PKZ	Head of Buying & Purchasing	23.07.2021	Swiss German	Phone	30min
Christa Koch	Migros	Head of Department Hardgoods & Food, Central Procurement Hong Kong	27.07.2021	Swiss German	MS Teams	35min
Anonymous D	Travel retail	Global Head of Demand Planning and Pricing	29.07.2021	English	MS Teams	30min
Daniel Stucker	Coop	Head of Trading, Executive Member of the Borad	05.08.2021	Swiss German	MS Teams	40min

Table 3: Interview Partners

4.5. Analytical Approach

Conventional content analysis (henceforth also referred to as CCA) proved to be the most suitable analytical approach in the context of this thesis. The aim of CCA is to uncover a phenomenon, and the method proved to be highly suitable when existing literature is limited (Hsieh & Shannon, 2005, p. 1279). The Covid-19 pandemic's impact on globalization and digitalization remained largely unresearched during the composition of this thesis. Therefore, CCA approach avoided using predefined categories and let themes emerge from the data collected, contributing to a comprehensive study of the phenomenon. Conventional content analysis is also in line with semi-structured interviews and open-ended questioning.

The analytical approach began by screening all data repeatedly to gain full immersion in the subject matter. Subsequently, codes have been derived from the data and were sorted according to emerging patterns. The codes were grouped into categories, resulting in overarching themes to provide a broader understanding of the subject matter (Hsieh & Shannon, 2005, p. 1279). A recurring challenge of conventional content analysis is the failure to develop a complete understanding of context. Consequently, triangulation

through different interviewees was employed as a countermeasure and to ensure the credibility of the CCA approach (Hsieh & Shannon, 2005, pp. 1279–1281).

During the first coding cycle, two coding methods have been employed. First, attributive coding allowed the collection of descriptive data about the interviewee and the company. This way, the author of this study could detect patterns among different retail sectors and professional focus areas. Attributive coding was employed at the beginning of the dataset, rather than throughout the entire interview (Saldana, 2013, pp. 69–70). Second, to generate codes and subcategories, initial coding has been employed. Initial coding, also called open coding, "...is breaking down qualitative data into discrete parts, closely examines them, and compares them for similarities and differences." (Saldana, 2013, p. 100). This first cycle coding method aimed to remain as open as possible, and the theoretical direction was guided through the data itself. Moreover, it provided a suitable starting point to explore the data gathered through expert interviews (Saldana, 2013, pp. 100–101).

As a valid second cycle coding method for initial coding, pattern coding consolidated the material into larger concepts and explications. The method was used as the second cycle code in this study to develop major themes and to extract explanations by examining previously identified patterns (Saldana, 2013, pp. 209–213). The coding process followed the general structure of: Code method selection, code generation, listing of codes, categorization of listed codes, and development of themes (Saldana, 2013, pp. 1–41).

As the number of codes and categories depend largely on the individual study (Saldana, 2013), this thesis followed the paradigm of "as simple as possible, but not simpler" (Oxford Reference, 2021). For this thesis, a total of 464 codes have been attributed to text passages of a total of nine interviews. The coding has been done with the help of the MAX QDA software. MAX QDA is a computer-based tool that can be used to analyze qualitative data for content. The software allows gaining insights into data without anticipating a researcher's interpretation (MAX QDA, 2021).

All interviews have been translated and transcribed according to content and can be found in section 8.4. appendix D. The questions of each interview are numbered, and cross-references are identified according to the following logic: (name of interview partner, number of interview question). For example, a reference to the answer to the second question in the interview with Anonymous B is indicated as (Anonymous B, 2). If several

questions of the same interviewee are referenced at once, the different question numbers are separated by a comma. If several interviewees are referenced at once, they are separated by a semicolon as shown: (Anonymous A, 2; Anonymous B, 7).

4.6. Ethical Considerations

The direction of this thesis was repeated at the beginning of each interview, and the interview structure was presented. The interviewees were informed that the interview could be terminated at any time by request. Subsequently, the interviewees were asked for their consent to be recorded to create an interview transcript. Moreover, the interviewer asked each participant whether they wished to remain anonymous. If a candidate wished to remain anonymous, all details that could indicate the person's identity or name of the organization were anonymized. (Association of Social Anthropologists & of the UK and the Commonwealth, 1999).

5. Findings

This chapter presents the findings of the nine qualitative expert interviews with professionals from the retail industry. The findings are structured accordingly to the themes that have emerged during the coding.

5.1. Attributes

To put the interview partner's organizations into perspective, attributes that differentiate them are illustrated by table 4. All retail organizations have globally set up upstream value chains.

Name	Retail category	Product range	Price level	Target market
Nick Baumann	Department store	Broad & shallow	Medium	Switzerland
Anonymous A	Sporting goods	Narrow & deep	Low to medium	Global
Anonymous B	Furniture & Textile	Narrow & deep	Low to medium	Switzerland
Anonymous C	Discounter	Broad & shallow	Low, discount	Global
Valentina Gashi	Department store	Broad & shallow	Medium	Switzerland
Peter Schuppisser	Fashion & Clothing	Narrow & deep	High	Switzerland
Christa Koch	Department store	Broad & shallow	Medium	Switzerland
Anonymous D	Travel Retail	Narrow & shallow	Medium to high	Global
Daniel Stucker	Department store	Broad & shallow	Medium	Mostly Switzerland

Table 4: Attributes of Interview Partners

5.2. General Consequences of Covid-19

The interviewed experts have reported several general consequences of the Covid-19 pandemic. These impacts were not unique to the retail industry and could not be solely assigned to a single aspect of globalization or digitalization. Thus, they have emerged as a separate theme.

The consequence of Covid-19 mentioned most often was travel restrictions. These restrictions have led to numerous limitations within the retail organizations as well as for customers themselves (Koch, 4, 5, 8; Schuppisser, 4; Anonymous B, 6; Stucker, 2; Gashi, 7; Baumann, 2; 10). Moreover, Anonymous D described how travel restrictions impacted the travel retail as follow:

We depend on passengers traveling, and when the Covid-19 pandemic happened, the passenger streams came to an immediate halt. This was a huge impact on our business. In the beginning, there were no flights at all. As travel activities are restarting, flights are very regional or even domestic (Anonymous D, 2).

Despite the direct consequences for travel retail, the travel ban limited the retail organizations' ability to visit suppliers, stakeholders, and partners around the globe and thus impeded their ability to conduct business (Koch, 4, 5, 8; Schuppisser, 4; Anonymous B, 6; Stucker, 2; Gashi, 7; Baumann, 2; 10).

Another general consequence of Covid-19 was the lockdowns. As described by Baumann, "The travel ban had its impacts but what really stood out in terms of impact was the lockdown. Despite bare necessities, no other goods could have been sold in supermarkets" (Baumann, 11). Lockdowns did not only disturb global supply chains (Schuppisser, 2) but also led to variation in demand for several product categories (Anonymous A, 3; Anonymous B, 2; Gashi, 2; Stucker, 2), and prevented customers from accessing physical stores (Gashi, 6; Anonymous A, 2, 4; Baumann, 11).

Lastly, Gashi also described how a general atmosphere of insecurity led customers to avoid covering large distances and pushed them towards increasing e-commerce activities (Gashi, 2), which has also been confirmed by Anonymous A (Anonymous A, 3).

Table 5 summarizes the general consequences of Covid-19.

General consequences of Covid-19	Travel restrictions
	Lockdowns
	General insecurity

Table 5: General Consequences of Covid-19

5.3. Customer Behavior

Changes in customer behavior emerged as an important theme from the empirical examination of the influence of Covid-19 on digitalization and globalization. As Anonymous A stated, "The main force that manages you is your customers" (Anonymous A, 3). The importance of customer behavior and their expectations on retailers has been further mentioned by Anonymous A (Anonymous A, 7, 12), Anonymous B (Anonymous B, 3, 6), and Gashi (Gashi, 7, 13).

First, the Covid-19 pandemic impacted demand development of specific product categories strongly. The numerous lockdowns led to an explosion of demand in furniture as described by Anonymous B:

What happened then was that the rest of the world had to go on lockdown, and as everyone was at home, demand for furniture exploded. People started to redecorate and invest in their homes, and there was a boom in demand for everything that is related to furniture. For us, this was great in the first moment as revenue spiked. However, we were quickly confronted with challenges in product availability (Anonymous B, 2).

As opposed to potential impediments of supplier capacities, shortages in product availability have also been caused by an unexpected rise in demand. Another example of such change in behavior has been brought up by Gashi, who described how customers tried new products in categories such as food and makeup, leading to altered demand structures (Gashi 4, 7). Moreover, Anonymous A explained that the most significant impact of the pandemic on the global sporting goods retailer was not a direct consequence of Covid-19 on value chain activities, but rather an unprecedented growth in demand for bikes (Anonymous A, 3):

No one expected that people would avoid public transportation after the first wave of the pandemic and take the bike instead. Consequently, this impacted the demand we had to meet, and it will likely last for the next two years (Anonymous A, 3).

In other categories, the opposite development was observed. Travel retail underwent a sharp slump in demand due to the travel restrictions (Anonymous D, 2, 3). However, “From an operational perspective, the slump in production volume did not affect our business that much. While the producers could not produce, we also did not want the stock due to the lack in demand” (Anonymous D, 3). In addition, the Coop department store also underwent negative demand fluctuation during 2020 (Stucker, 2).

In this context, uncertainty about future demand development has been expressed within the categories of travel retail and furniture (Anonymous A, 3; Anonymous D, 4, 7).

Second, another change in customer behavior was that consumers tend to stay at home more often due to Covid-19. This development had several consequences for the retail industry, such as more home deliveries (Gashi, 6; Stucker, 6) and a surge in demand for home decoration, garden (Baumann, 4), and furniture product categories (Anonymous B, 2) as mentioned before. Furthermore, the pandemic has triggered an increase in online shopping. Anonymous B described how the shift to e-commerce led to higher

expectations towards online sales channel availability (Anonymous B, 5). Moreover, customer groups such as the elderly, predominantly offline shoppers, have discovered the comfort of e-commerce (Anonymous B, 5). This led to home delivery becoming a serious challenge for retailers (Baumann, 11; Gashi, 6; Stucker, 6).

To summarize, the changes in customer behavior are illustrated in Table 6.

Demand	Fluctuation in demand for specific product categories
	Uncertainty about future development of demand
Staying at home & e-commerce	Customers stay at home
	Surge in e-commerce activities
	New customer segments shop online

Table 6: Summary Customer Behavior

5.4. Sustainability

During the interviews, sustainability was a recurring subject. The Covid-19 pandemic has led to a change of mentality among customers. Baumann mentioned quickly more local consumption of food products (Baumann, 4). For non-food categories, the experts identified a similar development as expressed by Anonymous B: “I think Covid-19 has promoted the sustainability trend strongly” (Anonymous B, 3). Anonymous B further explained that the pandemic was tangible for many customers as the crisis directly affected them, and thus, Covid-19 substantially influenced customers’ mindsets (Anonymous B, 3). The promoting impact of the pandemic on sustainability and, as a result, more conscious customer decisions were generally recognized across different product categories by the retail experts (Anonymous C, 2, Gashi, 4; Schuppisser, 3; Stucker, 5).

In particular, the desire for locally sourced goods has been felt by retailers, which led to the consideration of increasingly local sourcing (Baumann, 4, Gashi, 2; Schuppisser, 3; Stucker, 5). Anonymous B further explained (Anonymous B, 3):

I am convinced that local sourcing and regionality have gained significantly in importance as customers feel like supporting local businesses and contributing to

the environment. This is an important subject in furniture and home decoration retail, but it is even more significant in the food sector. There, the local sourcing from the local farmer has been strongly promoted by the Covid-19 pandemic.

Nevertheless, there was also a green gap, which describes the difference between what customers say and how customers act in terms of sustainability. Baumann explained that such a green gap limited the sustainability trend felt by Migros (Baumann, 6):

However, there is a large discrepancy between what people say and how they act. When looking at the evaluation of customer surveys that asked whether consumers would like to pay more for sustainably sourced goods, many people answered that they are willing to pay higher prices for sustainability. But when looking at people's shopping baskets, one quickly realizes that out of the roughly 40% of customers that said they would prefer a higher-priced but sustainable product, only 20% to 25% choose such products when offered a sustainable alternative.

This green gap has been further mentioned by the Swiss furniture retailer (Anonymous B, 2) and Schuppisser, who identified younger generations as more prone to sustainability than older generations (Schuppisser, 3).

Besides the consumers' change in mentality, a shift within the retailer's perception of sustainability was identified. Anonymous A explained that the sporting goods retailer had engaged not to destroy used products anymore but to reintegrate them into the economic cycle (Anonymous A, 4). Thus, circular economy potentially constituting a new source of purchasing as Anonymous A explained: "We reinject these products back into the market and thus, also deal with used products. I do not know exactly where this will go in the future, but I know that we go into that direction" (Anonymous A, 4). Such considerations have also been mentioned by Anonymous B (Anonymous B, 4).

The significance of sustainability led to increased consideration of transparency (Baumann, 6, Schuppisser, 3, Koch, 7), the circular economy as new source for procurement (Anonymous A, 4; Anonymous B, 3), increased sourcing of sustainable product lines (Anonymous D, 4), and sustainability standards in production (Baumann, 6), such as AMFORI (Anonymous B, 4) or OEKO-TEX Standard 100 (Schuppisser, 2).

However, the Covid-19 pandemic, while being an accelerator for sustainability, has not led to a fast shift towards sustainability measures but rather to a slow transformation

(Anonymous A, 8; Anonymous C, 2; Baumann, 6). Anonymous C added that the future development of sustainability remains somewhat unclear (Anonymous C, 4), but that the pandemic's duration was long enough to have a long-lasting impact (Anonymous C, 2):

These are the moments where a crisis such as Covid-19 can lead to a change of mind and the promotion of sustainability. But such a crisis must last long enough until such changes have been made. Otherwise, we risk falling back to old patterns. Fortunately, the Covid-19 pandemic has been going on for long enough to trigger such development.

Table 7 summarizes the impact of Covid-19 on sustainability.

Sustainability trends	Increased customer consciousness
	Some discrepancy due to green gap
	Promotion of circular economy
	Increased significance of transparency

Table 7: Summary Sustainability

5.5. Value Chain Activities

The upstream value chain activities have been examined more closely with the help of expert interviews to assess the impact of the Covid-19 pandemic on globalization

Procurement

In procurement, the general importance of sourcing in the Far East has been widely acknowledged (Anonymous A, 4; Anonymous B, 2, 4; Anonymous C, 2; Baumann, 3; Koch, 3; Stucker, 2). Baumann explained that the Far Eastern region is attractive through synergy effects that arise when suppliers are located within one single cluster (Baumann, 4), and that efficiency gains force retailers to source from this region (Baumann, 3). Anonymous B also confirmed that such centralization was key prior to the pandemic to stay competitive (Anonymous B, 2). Nevertheless, the experts of Swiss department stores emphasized the importance of the home country procurement offices, which work closely with local subsidiaries and take most of the buying decisions (Anonymous B, 6; Baumann, 2; Koch, 1).

However, the sourcing region depended strongly on the category of the goods in question. While essential articles were sourced in the Far East, Migros sources seasonal articles that require short lead times in Europe (Koch, 2). Product category-specific procurement was also valid for textile, for which Turkey may be considered as sourcing region as well (Baumann, 3). Anonymous A also confirmed that only a small range of sports products was sourced outside Asia, and 95% of bikes were assembled in Europe (Anonymous A, 4). In addition, Koch explained that the order volume was a crucial factor as suppliers favor high volume orders that go beyond the capacities of smaller players such as Migros (Koch, 3). There was also an increased difficulty to close supplier contracts with small order volumes (Anonymous B, 2; Baumann, 3).

The impact of Covid-19 on procurement was ambiguous. On the one hand, several retailers did not disclose any significant direct impacts on their procurement activities. The logistics specialist of the globally operating sporting goods retailer did not report any noteworthy impact on procurement activities. This was justified with an extensive network of partners that allowed the firm to resort to during the pandemic. Moreover, the expert explained that the sporting goods retailer had been well prepared for such a crisis (Anonymous A, 3). A similar observation was made within the sourcing of the globally operating discounter. Anonymous C stated how the pandemic impacted other parts of the value chain but not the procurement itself (Anonymous C, 2).

Nevertheless, some minor challenges were acknowledged in auditing suppliers (Anonymous C, 4). For the fashion retailer PKZ, Schuppisser explained that the retailer's procurement was not directly affected either, as "...Covid-19 affected and limited our suppliers and producers predominantly. PKZ as a retailer has then been affected down the line" (Schuppisser, 2). Anonymous D also expressed a limited direct impact on the travel retail's procurement activities as the supply followed the demand curve during the pandemic in travel retail (Anonymous D, 3).

On the other hand, several negative direct impacts on procurement activities caused by the Covid-19 pandemic have been identified by other experts. First, the travel ban led to hardship in making informed purchasing decisions. Anonymous B described the issue as follows: "Suddenly, we were confronted with the challenge of how to access product information and how to efficiently communicate with our suppliers" (Anonymous B, 6). The complex procurement processes required specialist to access information and physically assess merchandise (Anonymous B, 6; Stucker, 2; Baumann, 2, 7). The

previously mentioned reliance on home country-based sourcing teams added to this issue (Anonymous B, 7; Baumann, 2; Koch, 1). Additionally, the final assessment of prototypes could not be done at a supplier's locations anymore (Baumann, 2; Stucker, 2), and workarounds included the costly and lengthy shipping of prototypes to Switzerland (Baumann, 2).

Second, the audits of suppliers have been interrupted by travel bans, factory closures, and social distancing policies (Baumann, 2; Koch, 8; Stucker, 2). Baumann described the issue as follow (Baumann, 2):

For example, supplier audits constituted a significant challenge to us as our Swiss employees could not travel anymore. We had to make sure that certifications are being adhered to and that there is no child labor. Thus, it has become necessary to cooperate with regional partners that would visit the supplier with web cameras and help us audit our business partners that way.

He emphasized later in the interview the importance of avoiding scandals due to unaudited suppliers, especially with Covid-19 related goods such as facial masks (Baumann, 5).

Third, the pandemic led to a shift of responsibility from home country procurement offices to local subsidiaries. Koch described how the Hong Kong sourcing office was given more competences to take decisions autonomously (Koch, 4), and Baumann identified the same shift in responsibility within sourcing (Baumann, 2). Moreover, a general prolongation of the sourcing process has been identified as an impact of the Covid-19 pandemic (Anonymous B, 2; Stucker, 2).

Production

The Covid-19 pandemic has also led to supply shortages. Fashion producers temporarily closed factories and skipped collections (Anonymous D, 3). As previously mentioned, Schuppisser added that the pandemic had a stronger impact on their suppliers than on PKZ itself (Schuppisser, 2). More retailers faced supply shortages as production sites closed (Anonymous B, 2; Anonymous D, 3; Gashi, 2; Stucker, 3). An aspect adding to the production capacity shortage was the shift in production activities to produce goods that were increasingly demanded due to the pandemic, such as facial masks and disinfectants (Anonymous D, 2; Gashi, 2). Gashi described the issue as follow (Gashi, 2):

It is true that during more intense phases of the pandemic, especially in the middle of last year, many suppliers changed their production capacity due to Covid-19. For example, suppliers that would produce facial wipes started to shift production focus towards disinfectants. This means that we experienced drops in revenue due to supply shortages in cosmetics.

In contrast, the discounter felt little to no merchandise shortage (Anonymous C, 2). Furthermore, Anonymous A expressed the production shortage affecting the sporting goods retailer to be caused by high demand rather than low production capabilities (Anonymous A, 3).

In one instance, the Swiss furniture retailer stated how the Covid-19 pandemic led to a closer involvement in the design of products, as explained by Anonymous B (Anonymous B, 4):

...my organization is not just reselling third-party brands but sources and sells its own designs. [...] For the future, we try to have a clearer vision of what products we want to have first and then source these products more specifically to our own ideas. This also includes cooperating more with design studios and sending our requirements to our suppliers in the Far East.

Other respondents, however, denied any impact of the pandemic on the magnitude of control over design and production (Anonymous D, 7; Gashi, 4, Koch, 4).

Logistics

Covid-19 has had severe impacts within logistics activities and disrupted the entire global transportation flows as described by Stucker:

During 2020, a general decline in demand could have been observed. Consequently, retailers have become more conservative in their orderings and both, suppliers and logistics providers had reduced their capacities to avoid unnecessary losses. As demand suddenly increased through economic expansion in Asia and the US, these previous capacity reductions dragged on, and neither production sites nor logistics partners could fulfill demands. In addition, the flows of ocean freight containers came to a halt due to the capacity reduction in logistics, and thus, their global distribution was disturbed (Stucker, 2).

The breakdown of logistics flows has been labeled the most important impact of Covid-19 on the global value chain by the discounter (Anonymous C, 2) and PKZ (Schuppisser, 2). Moreover, container shortage was a predominant concern for Migros when the pandemic hit, leading to several weeks of delays (Koch, 2). Disruption of transportation, especially ocean freight logistics, had negative impacts on the value chains of further interviewees, including sporting goods, Migros, Coop, and PKZ (Anonymous A, 4; Anonymous C, 2; Baumann, 3; Gashi, 2; Schuppisser, 2; Stucker, 2). In consequence, the pandemic led to high shipping costs (Anonymous B, 2; Anonymous C, 2; Stucker 2; Baumann, 3), up to 15 times the price of standard rates (Anonymous C, 2), and long shipping lead times (Baumann, 3; Schuppisser, 2).

Schuppisser added that the logistics issues had only a limited impact on PKZ. In fashion retail, shipping delays could hardly be felt by customers due to the market's structural oversaturation (Schuppisser, 2).

Distribution

Within distribution, the Covid-19 pandemic has affected the retail industry mainly on two levels. First, lockdowns led to store closures, which in turn resulted in congested distribution centers. Koch explained that "Theme articles, such as products related to the Easter holiday, were not distributed to the stores but held onto for the subsequent year" (Koch, 2). A similar effect has been described by Anonymous C, who made the lockdown responsible for not being allowed to sell non-food, non-essential goods in their stores (Anonymous C, 2). None of the other interview partners have mentioned issues with insufficient warehouses capacities.

Second, the pandemic led to a substantial increase in e-commerce activities. Consequently, distribution services for home delivery have been demanded much more often. Stucker described how e-commerce grew strongly during the Covid-19 pandemic and that this consisted of a huge challenge for distribution (Stucker, 6) and the industry (Baumann, 9). Moreover, bulk goods that were not suitable for postal shipping but had to be home delivered regardless of their size added to the distribution hardship (Stucker, 6).

Table 8 summarizes the impacts on the upstream value chain activities.

Significance of globalization	Challenges for informed procurement decisions
	Challenges for auditing
	Nearshoring for specific product categories
Production	Supply shortage
	Shift in production capacity
Logistics	Breakdown of logistics flow
	Higher logistics costs
	Longer transportation lead-times
Logistics	Saturation of warehouse capacity
	Home delivery excess

Table 8: Summary Value Chain

5.6. Globalization

The impacts of Covid-19 mentioned above have led to different consequences for the globalization of retail value chains.

First, several experts acknowledged the significance of diversification of globally set up value chains as well as their vulnerability (Anonymous B, 2; Anonymous C, 2; Gashi, 2; Koch, 3). Anonymous B described this as follow (Anonymous B, 2):

The impact of all of this is that value chains must be kept in check and maybe need to be even more diversified. Prior to the pandemic, the tendency was for the procurement and the upstream value chain to be oriented and consolidated in the far east due to better prices and higher volumes. We have noted a countertrend to this as the pandemic has shown us how dependent we have become.

Furthermore, several experts have emphasized the importance of having an equal balance between decentralization and centralization within the value chain. Anonymous B of a Swiss department store expressed the following point of view (Anonymous B, 2):

My personal assessment is that things will go back to normal within the next years, but I also believe that European suppliers will rise strengthened from this pandemic in contrast to the Far East. The share between European and Asian suppliers will become more balanced in the medium term.

It is anticipated that an equilibrium between cost optimization by global far shoring and customer adaptation through local near shoring would be the most efficient setup for their value chains (Anonymous A, 5; Anonymous D, 5; Gashi, 8, Koch, 3). Moreover, the right balance between globalization and localization is part of efficient risk management, including raw material prices and availability, logistics, costs, or currency exchange rates (Koch, 3).

Second, Covid-19 has led to the deglobalization of value chain activities and nearshoring in some cases. Both Anonymous B and Koch have addressed the considerations of nearshoring of some product categories due to the beforementioned increased logistics lead times and prices (Anonymous B, 2; Koch 2). Koch further explained that price advantages from Asian suppliers had been neutralized by the logistics costs, and thus, European producers have become more attractive for business. Moreover, decentralization of procurement depends strongly on the commodity and whether production capabilities are available in other regions. Seasonal goods, high-value items, and specific merchandise such as textile or furniture can be sourced in Europe (Anonymous A, 4; Anonymous B, 3; Baumann, 3; Koch, 2; Stucker, 3). Baumann also mentioned the importance of high order volumes for such endeavors. A supplier change requires a commitment to regular orders, which a smaller retailer cannot adhere to. Larger retailers that work with bulk orders are at a clear advantage in such situations (Baumann, 3).

Sustainability concerns have also been found to be a primary reason for more local sourcing of non-food products such as furniture or fashion (Anonymous B, 3; Schuppisser, 2, 3). For the premium fashion category, Schuppisser described the following (Schuppisser, 2):

...the main reason for considering moving supply from China to Turkey or Portugal is the thought of sustainability. It does make sense to source good quality products closer, and PKZ is already sourcing parts of its portfolio in Europe. To

us, it is important that we can purchase high-quality products in Europe, which is more difficult for discount retailers.

Within the realm of sustainability, circular economy, and thus, the decentralized sourcing of goods directly from the sales markets has been mentioned twice (Anonymous A, 4; Anonymous B, 3). However, circular economy is not a predominant reason for nearshoring yet as "...this will become more important in the medium-term future [...] However, retailers that operate in a medium-priced segment need to start considering subjects such as circular economy" (Anonymous B, 3).

Food products are increasingly sourced locally (Anonymous B, 4; Anonymous C, 2; Baumann, 3). While the price has been mentioned as a factor for nearshoring of food value chains (Anonymous C, 2), both Baumann and Stucker described how the changes in customer behavior, such as staying at home, the need for transparency, and more conscious consumption, have been predominant drivers of food deglobalization (Baumann, 4; Stucker, 5).

Third, the Covid-19 pandemic has also led to increased globalization of value chain activities among retailers. While the Covid-19 pandemic has led to an acknowledgment of the vulnerability of global value chains, growth in resilience could also be observed (Anonymous C, 2), as anonymous A explained (Anonymous A, 8):

It impacted us in the way that it showed us that to survive, we had to adapt ourselves very quickly in 2019. We took important decisions during this period to survive, and these measurements ended up benefitting us. I think that we would have applied these strategies and actions even if the pandemic did not hit us. But Covid-19 led to an acceleration.

Moreover, the Far East, especially China, has recovered strongly in the last months, and producers returned to previous capacity and quality standards (Anonymous B, 2; Baumann, 3).

Baumann elaborated on the location advantages of Asian clusters as they excel in price and quality, important considerations in the retail industry (Baumann, 3). Necessary price rises that follow nearshoring activities would not be tolerated by customers in most non-food categories, as explained by Baumann (Baumann, 4):

In such a category, the centralization and the globalization of sourcing will increase even more because a retailer can then offer more products for lower prices. The specific regions that are specialized in sourcing such merchandise have a lead as opposed to other procurement regions. Imagine six or seven production facilities consolidated in the same area, they all have the same suppliers themselves, and they push each other. Such clusters are the most attractive sourcing partners as you have to constantly look for efficiency gains to survive.

As previously mentioned, small order volumes bind retailers to centralized production clusters as they cannot commit to viable sourcing alternatives (Anonymous B, 2; Baumann, 3; Koch, 3). In addition, production capabilities for many product categories do not exist outside of Far Eastern clusters. Anonymous A described this as follow (Anonymous A, 4):

We need to be pragmatic as many of our other products cannot be produced in Europe since there are no such factories in this region, even if it would be beneficial to do so. Currently, the skills and factories that we need are not available everywhere, and thus, we need to concentrate our value chain in those regions that can provide these resources.

The importance of the availability of production capacity was further supported by Stucker, who explained that not only price, but also capacity considerations lead the decision to globalize procurement activities (Stucker, 3). Consequently, nearshoring of such production capabilities to another region is too time-consuming and too costly. There have been considerations of nearshoring entire production facilities due to the Covid-19 pandemic. However, it would have been unrealistic to open a factory within a viable time and move thousands of employees around the globe (Anonymous A, 4; Anonymous C; 2). Instead, Anonymous A stated that "...to develop other ways to import and to ship your products is a much more plausible solution" (Anonymous A, 4).

At one instance, the globally operating discounter further centralized its value chain by merging the raw material sourcing and intermediate material processing together at one location, which served the entire sales market structure of said discounter. The deciding factors were financial incentives from logistics and raw material prices, which have been

altered by the Covid-19 pandemic and thus made centralization the more attractive option (Anonymous C, 2).

Moreover, the travel retailer used the slump in activities during the cessation of air transportation to actively centralize procurement. This was justified with an increase in efficiency and control. While this process did start before the pandemic, Covid-19 has led to an acceleration of the centralization activities (Anonymous D, 4).

Centralized distribution activities have also been mentioned as efficiency distribution setup. National centralization of the distribution activities of a Swiss department store (Anonymous B, 5), and the continentally organized distribution center from the sporting goods retailer (Anonymous A, 6) have not been affected by Covid-19 in a way that would promote decentralization.

Table 9 summarizes the findings for globalization

Significance of globalization	Acknowledgement of importance of globalization
	Equal balance between globalization and localization
Deglobalization	Nearshoring for specific product categories
	Sustainability as localization driver
Globalization	Advantages of production clusters
	Nearshoring too time consuming and costly
	Importance of order volume

Table 9: Summary Globalization

5.7. Digitalization

The Covid-19 pandemic has been identified unanimously by experts as an accelerator of digitalization. (Anonymous A 9; Anonymous B, 6; Anonymous C, 5; Anonymous D, 6; Baumann, 7; Gashi, 7; Schuppisser, 4; Koch, 8; Stucker, 9). Baumann described this as follow (Baumann, 7):

I think the entire retail industry has realized that things could also be handled differently, more digitally and that some things just need to be tested. You could say that the shutdown of public life even helped the retail sector push forward in digitalization.

The consequences of Covid-19 have made such acceleration a necessity rather than a choice (Anonymous A, 9; Anonymous D, 6; Baumann, 8). It became necessary to quickly adapt to be able to continue business within the globalized value chains as described by Koch: “Without digitalization, the period of the pandemic would have been difficult, and I do not know how we could have handled the pandemic if it happened five years earlier” (Koch, 7).

This acceleration has also been driven by customer expectations towards digitalization and competitive forces. As Anonymous B explained, “In our sector, the customer is the most important factor. We have realized that our customers have expectations in digitalization...” (Anonymous B, 9). Further retail experts have confirmed the customer to be a driving force of digitalization (Gashi, 13; Stucker, 6). Moreover, big tech-savvy companies such as Amazon pushed the state of the art for digitalization that other retailers must keep up with to remain competitive (Anonymous A, 9; Anonymous B, 9).

Solely the globally operating discounter explained how customer expectations were not an aspect for them to accelerate digitalization:

I believe that there has not been any pressure to digitalize, even during Covid-19. We have always been known to be an offline retailer, we have never existed online, and nobody ever expected our brochure to become an app. We were lucky that no one every expected any digitalization initiatives that we have done from us (Anonymous C, 8).

The longevity of this digital acceleration has generally been acknowledged (Anonymous A, 9; Anonymous B, 11, Anonymous D, 6; Koch, 8; Schuppisser, 4; Stucker, 9). Stucker described how digitalization made a three-year progress in 2020 and that this progress will persist in the long term (Stucker, 9). Furthermore, it is expected that this evolution will persist even after the pandemic is over (Anonymous A, 9; Anonymous B, 11; Koch, 8, Stucker, 9). However, some return to previous processes was expected as explained by Schuppisser (Schuppisser, 4):

However, I also think that we will be getting back to personal contacts for some other processes. Especially within fashion retail, physical contact is of utmost importance. I believe that digitalization has received some push and that we will not revert entirely back to physical contacts for all aspects of conducting business.

Covid-19 has also caused customers to gravitate towards e-commerce due to lockdowns and general insecurity. This push towards online shopping also included customer groups that were not targeted by e-commerce (Anonymous B, 6). While Anonymous B expected brick-and-mortar stores to become increasingly insignificant (Anonymous B, 8), Baumann and Gashi only emphasized the rising importance of e-commerce (Baumann, 11; Gashi, 6). In contrast, the sporting goods retailer stated how important the use of "...physical platforms to promote their digital platforms." (Anonymous A, 9) is, and Stucker emphasized the unsuitability of bulk commodities for e-commerce (Stucker, 6). Consequently, the shift to e-commerce required internal changes to populate online sales channels with the correct product information (Anonymous B, 6; Baumann, 9) and challenged distribution logistics (Anonymous B, 6; Stucker, 6).

Digital Maturity Model

The following paragraphs present further findings for the megatrend of digitalization according to the digital maturity model presented in section 2.5.4.

During the empirical interviews, no impact of Covid-19 on **digital value creation** was found (Gashi, 11).

A significant impact of the Covid-19 pandemic has been registered in the **connectivity** within retailers as well as with external stakeholders. Baumann described this as follow:

Moreover, the coordination within the organization but also with subcontractors has increased drastically. Within sourcing, the question arose how to efficiently transfer the information that previously has been on display in a showroom within these new circumstances without pushing paperwork for hours. There, we have made huge progress (Baumann, 7).

Consequently, a major shift towards the usage of digital communication and work tools could have been identified (Anonymous B, 6; Anonymous C, 5; Anonymous D, 7; Baumann, 2; Schuppisser, 4; Koch, 5; Stucker, 2).

Especially within procurement, the travel restrictions and global distances forced retailers to implement digital solutions to conduct business with suppliers (Anonymous C, 5; Baumann, 2; Koch, 8; Stucker, 2) as explained by Anonymous C:

We still source all around the globe. There have been no more supplier visits for the last two years, and we do not travel anymore. We have switched to online and home office work, and I made all my purchases from my home. [...] However, this does not impact how globally our value chain is set up, as this did not change at all. Everyone within the organization had to learn how to negotiate via conference software and how to maintain our relationships with our partners. There is no way around that. (Anonymous C, 5).

Moreover, the pandemic also promoted the internal implementation of digital tools, which helped to better communicate between different departments, and within the same offices (Anonymous C, 6; Anonymous D, 6, 7; Gashi, 10; Stucker, 2, 6). Concludingly, the connectivity of retailers has improved due to the pandemic (Anonymous A, 12; Gashi, 6). An exception is the sporting goods retailer, who stated the firm had other priorities, such as optimizing operations than improving connectivity (Anonymous A, 12).

Investments in **digital infrastructure** followed the requirements of digitalization (Anonymous, 10; Koch, 6; Stucker, 8). Solely the Swiss department store Migros reported significant investments into their distribution and last-mile delivery infrastructure to remain competitive (Baumann, 9).

Within **digital competences**, digitalization has generally been perceived positively by the personnel (Anonymous B, 8; Anonymous C, 7; Koch, 7). Numerous experts have confirmed that digital competences were built up, and staff received training to work efficiently with beforementioned digital tools (Anonymous B, 8; Anonymous C, 6; Baumann, 9; Gashi, 12; Stucker, 9). Baumann also found an increased willingness among personnel of Migros to embrace digitalization (Baumann, 8). Moreover, Koch explained that remote work and virtual business conducting has even become acceptable in cultural regions such as Asia, where “A negative stigma of being lazy was attached to it for a long time...” (Koch, 7). Only Anonymous A reported no change within the digital culture (Anonymous A, 11).

Covid-19 only led to optimizations within **organizational governance** rather than disruptive digital strategic change (Anonymous A, 9; Anonymous B, 8; Gashi, 9;

Schuppisser, 5). Nevertheless, the pandemic has led to a period of experimentation, for example, with digital showrooms and virtual reality procurement (Baumann, 8) or for new in-store concepts (Anonymous D, 6). Another finding was the focus on short-term solutions (Stucker, 8) and that Covid-19 led to restructuring efforts (Anonymous A, 9; Baumann, 8).

Lastly, insights regarding the impact of the Covid-19 pandemic on general business model changes have been uncovered. Despite the beforementioned implications of Covid-19, the travel retailer (Anonymous D, 3), PKZ (Schuppisser, 5), and the discounter (Anonymous C, 6) have indicated that there was no significant business model change. Only Anonymous A suggested major impacts in the sporting goods retailer's business model (Anonymous 9).

Covid-19, besides its impact on globalization and digitalization, has also acted as an accelerator of strategic decision-making. Anonymous A described how non-decisive behavior would have resulted in the pandemic having a larger impact on the sporting goods retailer. This also accounts for the discounter (Anonymous C, 6) and Coop (Gashi, 3). Table 10 summarizes the key findings for digitalization.

Digitalization	Covid-19 as accelerator for digitalization
	Growing customer expectations towards digitalization
	Increase in e-commerce
Digital maturity model	No significant shift towards digital value creation
	Increasing use of digital tools for communication
	Moderate digital infrastructure development
	Building up of digital skills
	Optimization strategies
	Shortened decision process

Table 10: Summary Digitalisation

5.8. Future Development

The participants have been asked to plot the current positioning of their respective retail organization and the expected future positioning in 10 years into the digital business transformation matrix, allowing the author of this thesis to assess the future development of the European non-food retail industry value chains. However, one interview partner did not agree to plot data and terminated the interview at that point. Table 11 indicates the interview partners and the corresponding numbering on the trajectories, and figure 9 illustrates the results in the DBTM.

No	Name	Retail category	Product range	Price level	Target market
1	Nick Baumann	Department store	Broad & shallow	Medium	Switzerland
2	Anonymous A	Sporting goods	Narrow & deep	Low to medium	Global
3	Anonymous B	Furniture & Textile	Narrow & deep	Low to medium	Switzerland
4	Anonymous C	Discounter	Broad & shallow	Low, discount	Global
5	Peter Schuppisser	Fashion & Clothing	Narrow & deep	High	Switzerland
6	Christa Koch	Department store	Broad & shallow	Medium	Switzerland
7	Anonymous D	Travel Retail	Narrow & shallow	Medium to high	Global
8	Daniel Stucker	Department store	Broad & shallow	Medium	Mostly Switzerland

Table 11: DBTM plot table

All candidates have plotted their organizations to indicate a positive development within the dimension of digitalization. The length of the arrow indicates the magnitude of progress, and apart from Stucker, all candidates have plotted a relatively strong development path. Most retailers aim to transform from traditional business models towards increasingly mixed business models.

Within the dimension of globalization, Baumann and Anonymous B have plotted a moderate deglobalizing trend in their organization. In contrast, Anonymous C, Schuppisser, and Koch plotted a shift to increasing globalization, while Anonymous A, Anonymous D, and Stucker plotted only slight variation in the global footprint.

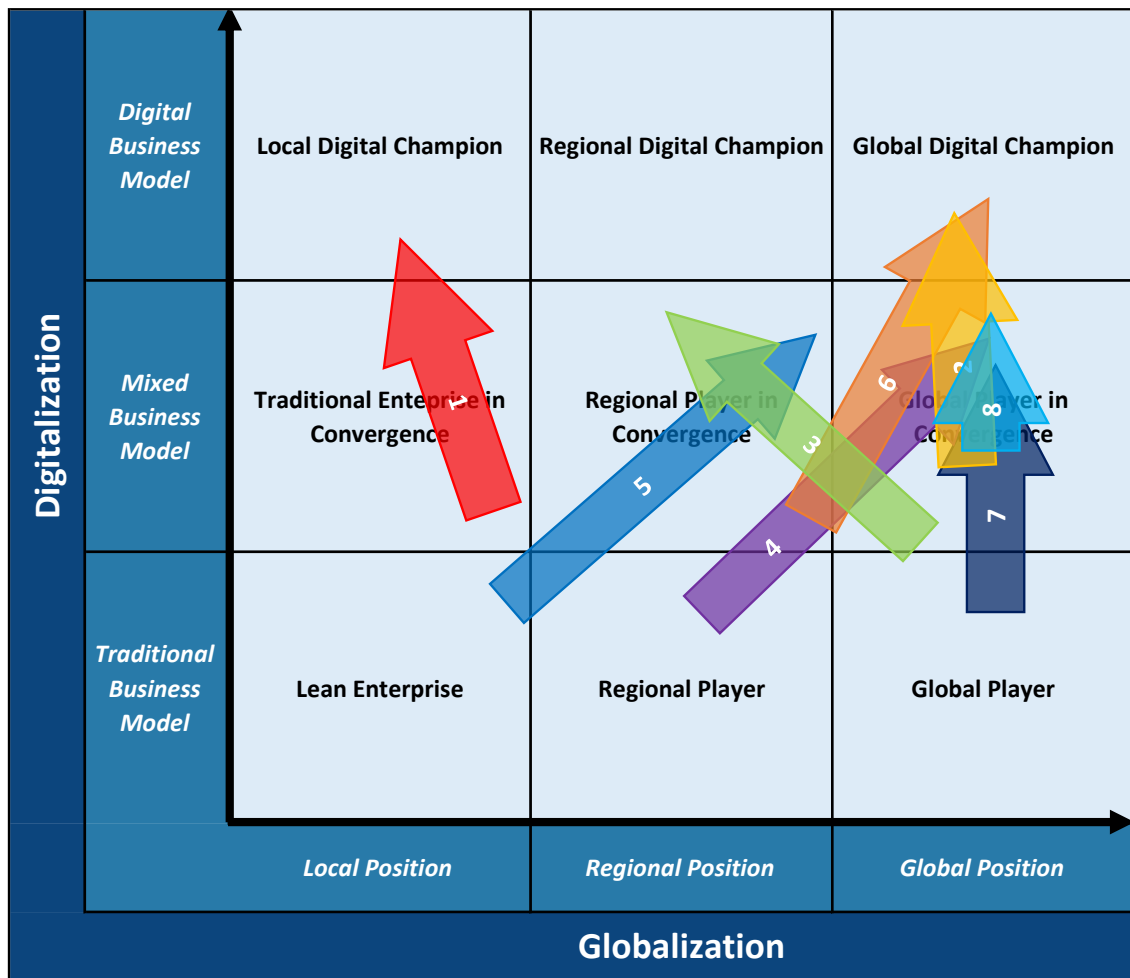


Figure 9: Digital Business Transformation Matrix Findings (own illustration)

6. Discussion

In this section of this thesis, the significance of the findings from empirical research is further explained in the light of what has already been known by the previously available literature. Moreover, this chapter answers the three research questions stated in Section 1.4 of this thesis.

The Covid-19 pandemic struck the world in 2019 with unprecedented consequences. As the virus spread rapidly across the globe, almost all regions were severely impacted. To face the pandemic, lockdowns, travel bans, and other counter measurements have been implemented by governments. Economic insecurity pushed the global economy to the brink of a recession as global value chains have been interrupted. The long-lasting megatrends of globalization and digitalization have been challenged, and the consequences for the European retail industry remained largely unresearched. This thesis uncovers the impacts of the Covid-19 pandemic on the megatrends of globalization and digitalization in the realm of the European non-food retail industry. As a result of a comprehensive literature review, the three following research questions emerged:

RQ1: How does the Covid-19 pandemic impact the global upstream value chain activities of the European non-food retail industry?

RQ2: How does the Covid-19 pandemic impact the digitalization efforts within the upstream value chains of the European non-food retail industry?

RQ3: How will the European non-food retail industry value chains develop along the dimensions of globalization and digitalization?

This discussion of this thesis is structured along the three research questions presented above. The information in the literature review did not revolve around the impacts of Covid-19 on globalization and digitalization but rather set the framework for the empirical data collection. Thus, only limited connections can be drawn to the literature review. However, the expert interviews have given in-depth details on this matter, and it comes to no surprise that the Covid-19 pandemic has significant impacts on global value chains.

6.1. Impact of the Covid-19 Pandemic on the Global Upstream Value Chain Activities of the European Non-Food Retail Industry

This section presents the answer to research question 1 by outlining the impacts of the Covid-19 pandemic on globally set up upstream value chains in the European non-food retail industry.

6.1.1. Direct Impacts

Several direct impacts on value chain activities have been identified by empirical research.

Disturbance of information flow

The impact of Covid-19 on procurement has not been consistent. All Swiss department stores reported an interruption of information flow within their procurement processes, while other retailers did not report significant impacts.

However, there has been no indication that the impact on procurement led to significant deglobalization. Literature in section 2.4.1 suggested that communication costs are an important driver for globalization. Thus, it could be argued that a disturbance in information flows must lead to deglobalization initiatives. However, increased diffusion of technology such as video conferencing and virtual showrooming compensated for this. The retailers have used digitalization and ingenuity to overcome the limitations imposed by the pandemic. Furthermore, Coe and Hess' stated in the literature review that globalization in retail led to an increasing concentration of procurement activities. The findings support this as Covid-19 has led to a consolidation of procurement in local subsidiaries that execute an increasing number of scouring tasks.

Supply shortage

Within production activities, the Covid-19 pandemic has led to supply shortfalls. This is not an unusual pattern as the literature review identified lockdowns, travel restrictions, and short-time work allocations as part of the second and third clusters of measurements taken against the Covid-19 pandemic.

Abecassis-Moedas described in section 2.4.3 an increasing involvement of manufacturing and product design in retail. Consequently, it could be expected that the Covid-19 pandemic impacted the vertical integration as a more robust vertical integration can lead

to a higher degree of control. Surprisingly, none of the experts indicated such development except for Anonymous B. In general, retailers prioritized business continuation efforts instead of time-consuming integration of adjacent value creation processes.

Interruption of logistics flows

The most significant direct impacts of Covid-19 on global value chains were detected in global logistics streams as the pandemic led to a breakdown of logistics flows.

According to the literature review, sophisticated transportation networks have become an essential pillar of globalization. Moreover, all interviewed retail organizations suffered under interruptions of transportations flows caused by the Covid-19 pandemic. Such a pattern comes to no surprise as logistics is similarly organized across retailer size, product category, and price level. Generally, European non-food retailers put significant efforts into repairing these transportation flows, making logistics an important area of impact during the Covid-19 pandemic.

Saturation of distribution

Expert findings have shown that the Covid-19 pandemic affected distribution twofold. The beforementioned disturbance of demand structures and store closures have led to seasonal goods stockpiling in the retailer's warehouses. Retailers with a broad product portfolio have been affected more by this as they tend to have many seasonal goods in their product offerings. Surprisingly, the highly seasonal fashion retail does not seem to be as impacted by distribution issues as supply and demand development canceled each other out.

Furthermore, e-commerce has received an enormous push through the pandemic, and consequently, the current home delivery infrastructure was lacking behind the increased demand for home delivery. The findings show that increasing emphasis on e-commerce will dictate the retail value chain, even after the Covid-19 pandemic.

6.1.2. Indirect Impacts

As indirect impacts, two implications in the form of changing demand structures and sustainability have been identified.

Fluctuation in demand

First, the global Covid-19 pandemic has created unusual fluctuations in demand structure. On the one hand, the pandemic has led to an explosion in demand for furniture, certain types of makeup, and sporting goods. On the other hand, travel retail and department stores have reported a sudden slump in demand.

While these fluctuations alone did not change the global setup for value chains, they put significant stress on the upstream value chain activities. The findings of this thesis complement the information retrieved through the literature review, which indicated that Covid-19 had only negative impacts on sales numbers by a positive dimension. Consequently, it can be generalized that the impact on demand fluctuations largely depends on product categories.

Promotion of sustainability

Second, the Covid-19 pandemic indirectly impacted retailers' globally set up value chains by fostering increased consciousness for sustainability. The tangibility of the Covid-19 pandemic led to a lasting influence on consumers' mindsets. Therefore, retailers must adapt their value chains to providing more locally sourced merchandise. Empirical research has identified furniture, premium fashion, and department stores as prone to localization due to sustainability consciousness.

This finding is relevant as the literature review has not exposed increased regional procurement in non-food product categories due to sustainability. However, empirical research also predicts a slow pace within this trend.

6.1.3. Impacts on Global Setup

As illustrated in section 3.1, there are many theoretical arguments for the different impacts of the Covid-19 pandemic on the globalization of value chains. Building upon the drivers of globalization and understanding the impacts on different value chain activities discussed in sections 6.1.1 and 6.1.2, it seems plausible that the pandemic leads to the deglobalization of retail value chain activities.

However, the findings lead to a more conservative conclusion. While a shift towards more regionally balanced sourcing was acknowledged, the findings have shown that value chains remain globalized or globalize even more. This development correlates with the three levels of influence of globalization identified in the literature review according to

Bang and Markeset. Covid-19 led to the increasing convergence of supply markets, high importance of location effects of the Far Eastern region, and price and quality pressure effects in retail procurement. Consequently, it comes as no surprise that global convergence will persist in the long term.

Raw material availability
Production capacity/capability
Product quality
Purchasing/production costs
Order volume
Shipping lead-time
Currency exchange rates
Seasonality
Sustainability expectations

Table 12: Product Category Criteria

A recurring argumentation for globalization was the unavailability of suitable production sites outside the Asian clusters. The economic dependence on the Far Eastern region, built by Europe over the last decades by outsourcing production, has become the most predominant reason preventing the reorganization of value chains. It can be reasonably expected that this situation is unlikely to change in the.

Patterns in retail globalization based on preconditions of individual retail organizations remain highly ambiguous as deglobalization decisions depend on more subtle criteria. These criteria are based on

commodity level and were synthesized from the empirical interviews. Table 12 illustrates the criteria.

6.1.4. Patterns in the Impact of Covid-19 on the Globalization of retail Value Chains

Several patterns in the impact of Covid-19 on globalized value chains could be derived from the findings of this thesis. First, retailers with a broad product portfolio such as Migros and Coop have been affected more by the Covid-19 Pandemic. A possible explanation is that such product portfolios include more stakeholders than retailers with a narrow product range. Consequently, such retailers are susceptible to more contact points with the pandemic.

Second, retailers that serve global sales markets and thus work with higher order volume have stronger leverage. While those retailers have also been affected by the Covid-19 pandemic, they could better circumvent the pandemics' negative implications.

Third, the most important criteria for determining the globalization of retail value chains are on the product category level. As presented in section 6.1.3, only limited statements could be made based on patterns among retailers' attributes. However, the globalization of value chains can be determined by criteria on product categories more precisely.

Lastly, the discounter that has been interviewed strongly differs from other retail business models because it is a last mover on the market and has suffered less under the impacts of the pandemic. The main reason being that customer expectations towards discounters are low and, thus, delays in product availability or product quality fluctuations are less punished by customers.

In general, it can be deduced that the Covid-19 pandemic did not lead to large-scale deglobalization of retail value chains. The main reasons are economic considerations such as price and quality, production capacities, and other advantages of Far Eastern sourcing clusters.

6.2. Impact of the Covid-19 Pandemic on the Digitalization within the Upstream Value Chains of the European Non-Food Retail Industry

This section answers research question 2 by identifying the impacts of the Covid-19 pandemic on digitalization along the global upstream value chains of the European non-food retail industry.

6.2.1. Acceleration of Digitalization

It comes as no surprise that the Covid-19 pandemic accelerated digitalization. This acceleration corresponds to the digital drivers that have been presented in section 2.5.1 of the literature review. First, an industrial shift has forced retailers to digitalize and conduct business virtually. Subsequently, the resulting dynamics within the competitive landscape put further pressure on retailers that have not yet digitalized, as confirmed by Anonymous A.

Moreover, while some return to physical tasks will be observed, the accelerated digitalization trend is expected to persist. Digitalization has become a necessity for industries beyond the retail sector.

6.2.2. Shift of Customer Expectations towards Digitalization

Unsurprisingly, the Covid-19 pandemic has promoted strong gravitation towards e-commerce. The experts explained this shift with the general insecurity, lockdowns, and travel bans. In parallel to sustainability, the tangibility of the crisis has led to a significant impact on customers. This is in line with Hrustek et al. and Osmundsen et al., who have identified changing customer expectations as a predominant driver of digitalization.

This finding is significant in the scope of upstream value chain activities as the increased emphasis on e-commerce has changed the requirements of information transmitted across the value chain. Moreover, non-food retail can be reasonably expected to experience a more sustainable shift in e-commerce than the findings from Dannenberg et al. suggested for food retail.

6.2.3. No Digital Value Creation

Surprisingly, none of the experts indicated an impact of Covid-19 on digital value creation. In contrast, section 2.5.3 of the literature implied a higher importance of big data in retail. A possible explanation for this divergence is that the Covid-19 pandemic's impacts on the value chain have not allowed for prioritization of digital value creation but rather implied a concentration on keeping underlying business processes operational and running.

6.2.4. Improvement of Digital Connectivity

All interviewed experts have reported a necessary improvement in digital connectivity as the Covid-19 pandemic forced people into using digital communication tools. Moreover, the overwhelming majority have commented on the shift towards virtual communication channels positively. This is in line with the literature as per Reinartz et al., who found that communication becomes increasingly interactive.

It is plausible that this shift will persist for the long term and has reached far more industries than retail. Moreover, the findings of this thesis confirm the prediction from Bergamin et al. who have indicated an increasing interlinkage between IT systems.

6.2.5. Moderate Investments in Digital Infrastructure & High Investments in Digital Competence

On the one hand, the findings of this thesis have shown that the investments in digital infrastructure follow the requirements of digitalization. Emphasis was laid by the experts

on distribution infrastructure as the shift towards e-commerce led to an increase in home delivery.

On the other hand, the increase in recruitment for skilled personnel to effectively use this infrastructure indicates that the digital infrastructure was already well established before the pandemic. However, the competences have not been available to take full advantage of the technology. Moreover, the findings of increased investments in digital competence correlate with Bergamin et al., who stated that employees, highly specialized in digital data management, are being increasingly sought after in retail.

6.2.6. Digital Optimization & Organizational Agility

Instead of disruptive change, the Covid-19 pandemic led to optimizations efforts in the non-food retail industry. While there was some experimentation with digital showrooms and virtual communication methods, these can mainly be interpreted as optimizations of existing processes.

Moreover, all retailers have shown organizational agility when confronted with Covid-19 as they adapted their value chain processes accordingly. Bergamin et al. have reported a similar development of agility within project management and organizational leadership.

6.2.7. Patterns in the Impact of Covid-19 on Digitalization along the Value Chain

Several general patterns regarding digitalization were synthesized from the empirical findings of this thesis. First, the Covid-19 pandemic has led to an unprecedented and sustainable acceleration of digitalization in the European retail industry. Both customer-oriented activities and internal processes had to be digitalized rapidly, and it has been widely acknowledged that this leap forward will not be reverted.

Second, digitalization acts as an enabler for globalization. As stated by several experts, digital technology made it possible to globalize retail value chains in the first place. Subsequently, digitalization helped to overcome the hardships caused by Covid-19. Therefore, reciprocity in the dynamics between globalization and digitalization can be confirmed.

Lastly, the discounter has shown strong last mover tendencies, and the interviewed expert has described no pressure to digitalize. This puts discounters in a particular field within the retail industry. Generally, it can be said that being the last mover provides some

protection from the economic impacts of the Covid-19 pandemic as neither customer expectations nor delays in logistics had significant consequences.

In conclusion, it can be said that both literature review and expert interviews suggest that Covid-19 has a positive impact on the digitalization of the upstream value chains of the retail industry.

6.3. Impact of Covid-19 on the Development of the European Non-Food Retail Industry Value Chain along the Dimensions of Globalization and Digitalization

This section answers research question 3, the by demonstrating the planned development of the interviewed retail organizations in the DBTM within the next 10 years.

First, the major pattern derived from the plotted trajectories demonstrates increased digitalization with minor movement along the globalization line. The Covid-19 pandemic has spurred a positive development towards a high degree of digitalization. In addition, this trend only shifts slightly within the magnitude of globalization. Consequently, the Covid-19 pandemic will not lead to significant deglobalization of non-food retail value chains. However, there is some variance between different retailers as some globalize even further.

Second, a smaller pattern was plotted by two of the nine experts. This trend also indicated an increase in digitalization of value chain activities. Consequently, the experts have shown that the pandemic has promoted digitalization without exception. However, this second trend demonstrates a deglobalization of retail value chains, moving from a global towards a regional or even local setup. This pattern can be explained by the importance of product categories. As presented in section 6.1.3, criteria on product level are decisive for value chain deglobalization.

The scenario analysis in section 3 has shown plausible arguments for four distinct scenarios within digitalization and globalization. The findings of this thesis confirm that the Covid-19 pandemic has promoted Scenario 4: Digital Rocket. Furthermore, most retail commodities are to undergo Scenario 1: Global Convergence, if not already done so. Only particular product categories will undergo Scenario 2: Deglobalization.

Figure 10 illustrates the impact of Covid-19 on the 10 years development of the European non-food retail industry in the DBTM.

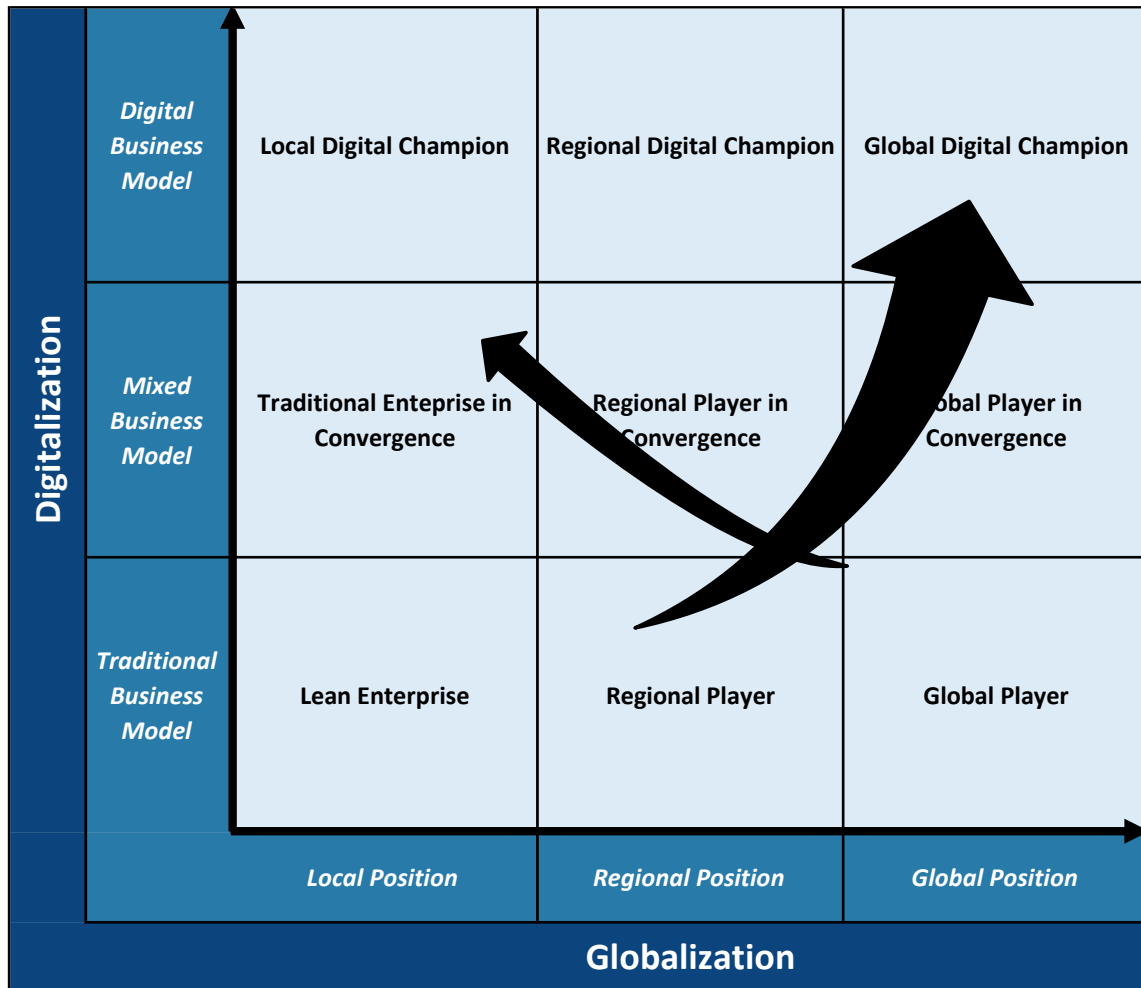


Figure 10: Patterns of the Retail Industry along the DBTM (own illustration)

7. Conclusion

This section summarizes the key points of this thesis, provides recommendations for further research, and identifies limitations to this work.

7.1. Recapitulation

The purpose of this thesis is to shed light on the impact of Covid-19 on the megatrends of globalization and digitalization within the European non-food retail industry. The focus hereby lies on the upstream value chain activities of retailers. This section summarizes the key points of each chapter.

The first chapter introduced the reader to the topic of this thesis. The retail industry and the two megatrends of globalization and digitalization were introduced and set in the larger context of the Covid-19 pandemic. Subsequently, the relevance of this research was highlighted, the problem statement placed the topic into context, and the three research questions were introduced to the reader:

- RQ1: How does the Covid-19 pandemic impact the global upstream value chain activities of the European non-food retail industry?
- RQ2: How does the Covid-19 pandemic impact the digitalization efforts within the upstream value chains of the European non-food retail industry?
- RQ3: How will the European non-food retail industry value chains develop along the dimensions of globalization and digitalization?

Eventually, the chapter defined the scope of this research and presented the structure of the thesis.

The second chapter encompassed a comprehensive literature review. Following a historical perspective of the retail industry, the literature explained how the retailers have transformed from pure resellers to increasingly integrated organizations that operate in diverse product categories and have a global footprint. Moreover, the retailer's business model was explained in two parts, including a customer value proposition and the operating model. The latter of which is being focused on in this thesis. Subsequently, the Covid-19 pandemic was introduced as well as the counter measurements taken by governments around the globe to fight the crisis. Two research streams emerged as globally interconnected value chains and digitalization trends have been impacted. This led to the underlying framework of this thesis, the digital business transformation matrix,

which allows analyzing a firm's transformations along the two dimensions of digitalization and globalization and provides a matrix to plot change trajectories.

The literature review then followed the two dimensions of the digital business transformation matrix. It introduced drivers and barriers of globalization and digitalization before elaborating on the academic literature about retail in the context of each megatrend. Within globalization, a proneness towards regionality, centralization of sourcing, and increasing vertical integration have been identified as recurrent trends in the industry. Porter's value chain model was introduced as the second framework for this thesis's empirical part, defining the upstream business activities like procurement, logistics and operations. Within digitalization, a persistent shift in customer expectations, virtual interlinkages of departments, and organizational agility have been identified. The digital maturity model was introduced as the third underlying framework for the empirical part. The model categorizes digitalization in governance, technology, connectivity, value creation, and competence. Subsequently, the research gap was identified due to the lack of specific literature about upstream value chain activities and the novelty of the covid-19 pandemic.

Chapter three presented four plausible scenarios for the retail industry's development along the dimensions of globalization and digitalization, based on the literature review: 1) In "global convergence", Covid-19 leads to increased resilience of value chains which further globalize. 2) "Deglobalization" represents the opposite development, expecting nearshoring and regionalization of the value chain as consequences of the Covid-19 pandemic. 3) "According to plan" is a scenario that acknowledges the effects of Covid-19 on digitalization to be of a limited magnitude. Thus, digitalization will continue at a similar pace as before the pandemic. Lastly, 4) the "digital rocket" emphasizes the driving force of Covid-19 on digitalization and predicts an unprecedented acceleration thereof.

The fourth chapter provided the methodological approach for the empirical research in this thesis. Semi-structured expert interviews have been conducted to answer the research questions. In addition, this thesis followed an interpretative research paradigm and inductive approach.

The findings of the empirical research were presented in chapter number five. Next to the attributes of the retail organization, six general themes have been synthesized: General consequences of Covid-19, customer behavior, sustainability, value chain activities,

globalization, and digitalization. Additionally, the experts have plotted the trajectories of a 10-year development of their retail organizations in the digital business transformation matrix.

Chapter six further discussed the findings and answered each of the research questions. Research question 1 identified the following impacts of the Covid-19 pandemic on the global upstream value chains of European non-food retailers: First, procurement suffered under the **disturbance of information flow** which impacted both the quality and pace of sourcing. Second, the pandemic negatively affected global production clusters and led to **supply shortages** due to lockdowns, short-time work, and travel restrictions. Third, **interruption of logistics flows** led to significant price appreciation and multiplied logistics lead times. Disruption in logistics has been described as one of the most critical impacts of the pandemic. Lastly, the lockdown and shift towards e-commerce, caused by Covid-19, resulted in the **saturation of distribution** networks. The pandemic has also had several indirect impacts on the value chain of non-food retail. **Fluctuation in demand** was caused by Covid-19, which put significant stress on global value chains. Moreover, the pandemic **promoted sustainability** in the medium term by tangibly affecting customers and thus, increasing conscious decision making.

The following patterns were discussed in terms of globalization: Retailers with a broad product range are more likely to be affected by the Covid-19 pandemic, high order volumes lead to stronger leverage along the value chain, and discounters are exempted from many of the impacts of Covid-19. Despite the impression that pandemic reduces the global integration of retail value chains, Covid-19 has not changed the underlying trend of increasing globalization. The pandemic led to even more resilience of interconnected setups. Moreover, the criteria to determine globalization of retail value chains are on the produce category level rather than the organizational level.

Research question 2 identified the following impacts of the Covid-19 pandemic on digitalization within the upstream value chain activities of European non-food retailers: Retailers must understand that the pandemic led to a sustainable **acceleration of digitalization**, as well as a **shift in customer expectations** towards digitalization. Thus, significant internal changes are required, and customers expect a value chain that can handle digital markets. Furthermore, retailers have prioritized their efforts on business continuity, and thus, the pandemic **did not lead to digital value creation**. These efforts included business continuity workarounds that helped to shift analog tasks within the

value chain to virtual tasks. Digital communication tools and virtual showrooms are among the most important **digital connectivity improvements**, that every retailer must be familiar with to efficiently conduct business. In addition, most retailers already dispose of **adequate digital infrastructure**. However, the pandemic has uncovered potential in the **training of digital competence** among staff and the recruitment of digital experts. Consequently, it is important that retailers have the right skills to remain competitive in the future after the Covid-19 pandemic has been overcome. Lastly, retailers' must focus on **digital optimization and organizational agility** rather than disrupting change as they would miss their objective other ways.

The following patterns have been discussed in terms of digitalization: First, The Covid-19 pandemic has led to a sustainable acceleration of digitalization that is unlikely to revert to pre-covid standards. This is significant as retailers must prepare for this future and continue optimizing their business models. Second, digitalization itself is closely connected to globalization and thus, is an enabler of globalization itself. And lastly, the discounters inhabit an exceptional position in retail as many impacts of Covid-19 do not affect discounters to the same degree as other retailers.

Research question 3 identified the impact of Covid-19 on the development of the European non-food retail industry along the dimensions of globalization and digitalization. Most retailers digitalize strongly while diverging only slightly along the globalization axis. However, there are some exceptions to this, where the global position is transformed towards a more local value chain composition. The significance of commodity-specific criteria leads to these diverging positions within the dimension of globalization.

This thesis sheds light on the impact of the highly relevant Covid-19 pandemic on the megatrend of globalization and digitalization. The research gap has been closed by providing sophisticated data for the European retail industry and thus, allowing management to predict future strategic decisions. Likewise, academia is provided with data for a largely unresearched phenomenon that is a starting point for further research. The information from the interviewed experts provides current insights into the challenges and structures of various retail organizations and updates the status quo of knowledge to mid-2021. Moreover, the findings of this thesis bring clear and practical statements to a topic whose theoretical argumentation did not allow for consistent conclusions.

7.2. Recommendations

It is recommended that the retail industry strengthens the resilience of its global value chains as they will remain largely globalized and it is not plausible to relocate entire production clusters. Consequently, it is essential to develop resilient value chains that withstand a global pandemic such as Covid-19. An important component of resilience is flexibility in sourcing and logistics. Regional risks are translated to a global level through interconnected value chains, and retailers will need to react accordingly.

Moreover, nearshoring for individual product categories should be closely examined and alternative sourcing processes implemented. Retailers are suggested to consider nearshoring based on product category criteria. Product level criteria allow the usage of the full advantages of globally and locally set up value chains.

Additionally, the digitalization trend will not revert. Thus, the retail industry is recommended to build up the right human capabilities to accommodate the current and future developments in this area. Continuous optimization efforts for both internal processes and customer experience are of utmost importance to remain competitive. However, no industry wide-digital disruption is expected from retailers in short- to medium-term.

Sudden shifts in customer behavior cannot be excluded due to the tangibility of the Covid-19 pandemic. Consequently, European retailers are recommended to monitor the customer expectations closely and to anticipate the consequences of external impacts. Therefore, the value chains can be adapted accordingly and will provide the demanded goods with the needed information at the right time to the market.

Lastly, non-food retailers should keep the sustainability concerns of their customers in mind. While there is not yet a significant willingness to pay more for locally sourced goods, this trend is expected to become more prominent in the medium- to long term.

7.3. Limitations

There are several limitations to this study. First, due to the limited time for the composition of this study, interviews could not have been led with representatives from all retail categories present in the European market. Therefore, the underrepresentation of specific product categories cannot entirely be excluded.

Second, due to the novelty of the Covid-19 pandemic, only limited literature about the impact of the Covid-19 pandemic on the non-food retail industry was available at the composition of this thesis. Consequently, besides to academic sources, economic journal articles and consultant reports have been used during the literature review.

Lastly, due to the interpretative research paradigm, full objectivity of the results cannot be ensured. Personal bias and subjective interpretation of the author could not have been completely ruled out during the coding and interpretation of the interviews. Moreover, it cannot be excluded that the context of an academic thesis has influenced the interviewees' answers. However, the chosen research method is adequate and suitable for the purpose of this thesis.

7.4. Further Research

First, this thesis focused on retail organizations that operate predominantly in the European region. As Covid-19 is a global phenomenon, further research is recommended on other regional clusters. It would be especially interesting to find out whether the impact on value chains of retailers close to predominant sourcing regions shows different patterns.

One of the major findings of this thesis is the importance of product level criteria for the localization of the value chain. Consequently, further research is recommended to build an all-encompassing catalog for any product categories to determine their influence and gain a more in-depth analysis of localization criteria.

Lastly, the predictions of the 10 years development within the retail industry can be subjected to change. Therefore, further research is recommended by recreating this study in 10 years to determine whether the predicted developments hold. Moreover, the reasons behind potential divergence could then be uncovered, adding to the body of knowledge about strategic business model change.

8. Appendix

8.1. Appendix A: Bibliography

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8.2. Appendix B: Top 30 Retailers in Europe

Rank	Retailer	Turnover	Headquarter
1	Schwarz	€ 113	Germany
2	Aldi	€ 76	Germany
3	Carrefour	€ 73	France
4	Tesco	€ 64	UK
5	Rewe	€ 63	Germany
6	Edeka	€ 56	Germany
7	Les Mousquetaires	€ 41	France
8	E.Leclerc	€ 39	France
9	Sainsbury	€ 36	UK
10	Auchan	€ 33	France
11	Amazon	€ 32	USA
12	Ikea	€ 29	Sweden
13	Coop	€ 29	Switzerland
14	Migros	€ 27	Switzerland
15	Ahold Delhaize	€ 26	Netherlands
16	Asda	€ 26	UK
17	Metro	€ 25	Germany
18	Mercadona	€ 24	Spain
19	Ceconomy	€ 22	Germany
20	SystemU	€ 21	France
21	Adeo	€ 21	France
22	Morrisons	€ 20	UK
23	Euronics	€ 19	Netherlands
24	Casino	€ 18	France
25	Inditex	€ 18	Spain
26	El Corte Ingles	€ 15	Spain
27	H&M	€ 15	Sweden
28	Kingfisher	€ 13	UK
29	Otto Group	€ 12	Germany
30	Marks & Spencer	€ 12	UK

Turnover (net sales) for 2019 in Billion €

Table 13: Top 30 Retailers in Europe (own illustration based on Retail-Index, 2021b)

8.3. Appendix C: Interview Guide

Interview Guide

Topic: The impact of the Covid-19 pandemic on the megatrends of globalization and digitalization within the European non-food retail industry

This master's thesis aims to assess the impact of the Covid-19 pandemic on the megatrends of globalization and digitalization within the retail industry. More specifically, the paper addresses the globalized and interconnected upstream value chains (design, sourcing/procurement, manufacturing/operations, distribution) and the digitalization processes within firms in the European (non-food) retail industry. As a result, the thesis will show how the Covid-19 pandemic affects the two megatrends on the example of the retail industry's future development and how retailers plan to accommodate those implications.

Ethical considerations

The interview can be terminated at any time upon request. All information will be treated solely within the purpose of this master's thesis and can be anonymized if requested. The author of this master's thesis adheres to the standards of academic research of the ZHAW School of Management and Law. The interview will be recorded and transcribed subsequently. The interview can be conducted in German, English, or French and takes place at the convenience of the interviewee either in person, over the phone, or via conference software.

General direction of questions

- Impact of Covid-19 on the globalized footprint of up-stream value chain (procurement, manufacturing, operations, and distribution)
- Impact of Covid-19 on the digitalization strategy, training, infrastructure, and value proposition.
- Assessment of most significant aspects of Covid-19 for business model change
- Analysis of future intentions to reorganize the firm within the dimensions of globalization (global footprint) and digitalization (digital transformation)

Structure of the interview

1. Introduction & Attribute

2. Globalization
3. Digitalization
4. Outlook

Interview Questions

Introduction & Attribute

1. Please describe the retail firm you are currently working for in a few phrases.
 - a. (industry, size, organization, regional footprint)
2. Please describe your job responsibilities.

Globalization

The focus lies on upstream value chain activities such as sourcing/procurement, logistics, operations/manufacturing.

3. How did Covid-19 specifically impact your business model in terms of the global footprint of the upstream value chain?
4. What possible scenario do you deem most plausible?
 - a. Deglobalization
 - i. Prudent and more locally setup value chains after the pandemic
 - b. Global Convergence
 - i. Strengthened and more globally set up value chains after the pandemic
5. How would you describe the longevity of the impact of Covid-19 on the global setup of your value chains?
6. Within the activities of R&D, sourcing/procurement, logistics, and operations/manufacturing, where did the pandemic have the most impact?

Subsequently, questions six-nine are being picked as per the answers of the candidate and the field of expertise.

7. R&D
 - a. What was the main impact that Covid-19 had on the global setup of your R&D?
 - b. Did you significantly alter your R&D processes due to the pandemic?
 - c. Current trend: Increasing integration of design activities within the business model of retailers: Please describe how Covid-19 did impact this trend?
 - d. Do you plan to change anything about how you handle your private labels?
 - e. How would you describe your globalization intention in R&D for the next 10 years?
8. Sourcing/procurement

- a. What was the main impact that Covid-19 had on the global setup of your sourcing activities?
 - b. Did you significantly alter your sourcing processes due to the pandemic?
 - c. Current trend: Centralization of sourcing activities to single clusters. Did Covid-19 and its consequences (i.e., breakdown supply chain, travel ban, vulnerability of global value chains) lead to a change in how you plan to organize your sourcing activities in terms of global setup?
 - d. Current trend: Outsourcing of value-adding activities in procurement such as processing of intermediary goods. Did Covid-19 lead to a significant change within this field?
 - e. Would you acknowledge a shift caused by Covid-19 in consumer expectations towards more sustainability, more local brands?
 - i. If yes, how do you plan to accommodate this development?
 - ii. Are you considering the increasing use of re-use of old goods (i.e., clothing), promoting circular economy?)
 - f. How would you describe your globalization intention in your sourcing for the next 10 years?
9. (inbound) logistics
- a. What was the main impact that Covid-19 had on your global logistics network?
 - b. Did you significantly alter your logistics processes due to the pandemic?
 - c. Current trends: Consolidation of logistics activities in distribution centers that serve entire regions. Has Covid-19 had an impact on how you set up your distribution in terms of its global orientation?
 - d. How would you describe your globalization intention in your logistics setup for the next 10 years?
10. Operations/manufacturing
- a. What was the main impact that Covid-19 had on your manufacturing activities in terms of global setup?
 - b. Did you significantly alter your manufacturing processes due to the pandemic?
 - c. Current trend: Purchase from manufacturing clusters, oftentimes concentrated in one single region. Did Covid-19 impact your manufacturing efforts in terms of its global setup?
 - d. Current trend: Manufacturing activities are increasingly integrated into a retailer's business model. Do you plan to change the vertical integration due to the Covid-19 pandemic and its consequences?
 - e. How would you describe your globalization intention in manufacturing for the next 10 years?
11. What aspect of Covid-19 was the largest driver for the shift in the global setup of your value chain?
12. How would you describe the overall impact of COVID-19 on your global value chain setup?
13. What role do political trade conflicts play in your globalized supply chain?

Digitalization

14. How did Covid-19 specifically impact your business model in terms of internal digitalization efforts?
15. Please describe what possible scenario you deem most plausible?
 - a. Digital Rocket
 - i. Covid-19 led to a boost in digitalization that will sustainably change a retailer's operating model.
 - b. According to Plan
 - i. Covid-19 led to a prudent and slow pace of digitalization initiatives due to the vulnerabilities it exposed.
16. How would you describe the longevity of the impact of Covid-19 on digitalization within your organization?

Subsequently, questions 15-19 are being picked as per the answers of the candidate (the theoretical base is the digital maturity model presented in the literature review of the thesis)

17. Please describe how Covid-19 changed your digital governance
 - a. What role did Covid-19 have on your agile organizational setup?
 - b. Do you follow an EXPLOIT (optimization) or EXPLORE (development of new, more disruptive business models) strategy?)
 - c. Please describe whether Covid-19 has led to changes to your internal organizational set up.
18. Please describe how Covid-19 changed your Technological/IT infrastructure in terms of digitalization efforts.
19. Please describe how Covid-19 changed your Connectivity.
20. Please describe how Covid-19 changed your digital value proposition.
 - a. In what way does Covid-19 affect consumer expectations regarding digital products & services?
21. Please describe how Covid-19 changed the way you foster the digital competence of your staff.
 - a. Is digitalization seen as an opportunity or a threat?
 - b. How do you increase your employee's willingness to take on efforts in digitalization?
22. Please describe what aspects of Covid-19 drove digitalization.
 - a. How does competition impact your digitalization efforts?
 - b. How did Covid-19 caused changes in customer behavior impact your digitalization efforts?
 - c. How does industry change impact your digitalization efforts?
 - d. How did Covid-19 cause regulatory change impact your digitalization efforts?
23. Did Covid-19 raise concerns towards digitalization in your company?
 - a. i.e., cybersecurity, knowledge, lack of infrastructure, regulations, economic obstacles

24. How did digitalization caused by Covid-19 translate to interplay with your globalized value chain?
25. What other factors drive your digitalization except for Covid-19?

Outlook

26. Are *wholesalers* still necessary, or do they become obsolete through digitalization and global integration?
27. Please describe the most important challenges for your company within globalization and digitalization within the next 10 years?
28. Is there anything else that you would like to add?

For this question, the interview candidate is asked to plot two points on an adapted version of the Digital Business Transformation Matrix. The matrix has been adapted to better represent the focus on the upstream value chain activities and not to confuse the candidate with sales or marketing-oriented aspects.

29. On the digital business transformation matrix, please plot where your retail organization is positioned today and where the organization aims to develop in 10 years.

Digitalisation	Digital Business Model	<p>Local Digital Champion</p> <p>Local / regional value chaine with strong digitalised operations & offering</p>	<p>Regional Digital Champion</p> <p>Digital business model with regional data management and regional value chain set-up</p>	<p>Global Digital Champion</p> <p>Digital business model with global data management and value chain set up</p>
	Mixed Business Model	<p>Traditional Enterprise in convergence</p> <p>Local and regional value chain with traditional and digital offering</p>	<p>Regional Player in Convergence</p> <p>Mixed business model with regional value chain and traditional and digital offering</p>	<p>Global Player in Convergence</p> <p>Mixed business model with global value chain and traditional and digital offering</p>
	Traditional Business Model	<p>Lean Enterprise</p> <p>Local / regional value chain with traditionally broad offering and close customer contact</p>	<p>Regional Player</p> <p>Regional value chain set up, transforming operating model</p>	<p>Global Player</p> <p>Global value chain, best in class- operating model and economies of scale and scope</p>
		<i>Local Position</i>	<i>Regional Position</i>	<i>Global Position</i>
Globalisation				

8.4. Appendix D: Interview Transcripts

8.4.1. Interview Transcript 1: Nick Baumann

Interview 1

Interviewer: David Hug, author

Interviewee: Nick Baumann

Position: Managing Director Migros HK, Director Food / CMO Food Manor

Organization: Migros, Manor

Date: 15.07.2021

1. Interviewer: Could you describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities you had in the industry.

Nick Baumann: I have worked for 11 years for Migros in different functions. These include both the supply chain as well as in the entire goods management within the non-food area, where CHF 2.5 billion of sales revenue are being managed. I was also the head of category management for bread, pastries, and convenience goods, where I had additional responsibilities in restructuring the organizational setup. Subsequently, I have been the managing director of the Migros purchasing office in Hong Kong. In this office, I have managed purchase operations valued at over CHF 200 million, ranging from holiday-specific goods to kitchen appliances as well as certain food products such as fish that have been purchased for our retail stores in Switzerland. For the last two months, I have been responsible for all supermarkets at Manor AG, where I am responsible for CHF 600 million of sales revenue per year.

2. Interviewer: This is very interesting; Let us start right with the topic of globalization. You have been active in retail during the Covid-19 pandemic, and the principal question that I would like to ask you is: How did Covid-19 specifically affect the business model of Migros, and to a certain extent of Manor, within its upstream value chain?

Nick Baumann: I will focus on Migros as I am not yet fully familiar with all the topics within Manor Ag. For decoration goods, for example, procurement in Switzerland had an

important role within the sourcing process. The organization is as such that the local procurement office makes a pre-selection and is involved in preparatory tasks, but the Swiss procurer still travels to the local office as that person bears the main responsibility, leads part of the negotiations, and clarifies details. This is important as the local employees are not always familiar with the preferences in the taste of Swiss customers. As Covid-19 broke out, suddenly it was no longer possible to travel. There were no longer fairs where producers presented their merchandise. Consequently, it became a challenge to visually present the goods to the procurement teams to enable them to make informed decisions. Moreover, the question arose which competences could be taken over by local procurement teams and which tasks needed to stay with the Swiss staff. In addition, there was a digitalization development in the production process. The questions arose which tasks can be dealt with online, how one can get a feeling for a market through online means, and how a procurement officer could make the right selection. Suddenly, we had to demand much more responsibility from local employees abroad. They had to finalize negotiations, complete the selection of products, and these employees had to be given the responsibility and the competences to make such decisions. Of course, it will be possible to travel again in the future, but it is important that our employees can go visit the manufacturers, can get inspired by the products offered and see what the competition is doing. This has been turned upside down by the pandemic. Now, you need different kinds of local teams that are highly agile to be able to manage the sourcing for you.

Follow up: You have mentioned the Covid-19 related travel restrictions and the difficulties for Swiss employees to correctly do their jobs. Did this lead to a change in the way the sourcing is set up? Have these restrictions been considered as long-lasting?

Nick Baumann: If you take a product, for example, a piece of clothing, where you have defined the price range and specifications with your supplier, you get sent the final prototype to Switzerland. There you do a final check, and you release the order for mass production. Due to Covid-19, this was not possible anymore as the purchasing agent had to work from the home office. We started to have the employees come into the office once a week to handle the samples and learned that it was possible to adapt to the circumstances this way. In some cases, it was possible to adapt to the impacts of Covid 19 rather easily. When we did not have the competences, we could train our employees and build up the competences. However, there are things that could not be done anymore due to the pandemic. For example, supplier audits constituted a significant challenge to

us as our Swiss employees could not travel anymore. We had to make sure that certifications are being adhered to and that there is no child labor. Thus, it has become necessary to cooperate with regional partners that would visit the supplier with web cameras and help us audit our business partners that way. This process is being tested, and we are learning what is possible in terms of reorganization and where the limits of such ideas lie. It is important to streamline and optimize our processes now, as the sudden impact of Covid-19 led to a patchwork of improvised make-do solutions.

3. Interviewer: You have mentioned the regional partners at a location, and research has shown that there was a strong trend of centralization within procurement in the last decades. Do you think the Covid-19 pandemic did uncover weaknesses and disadvantages in globally set up and interconnected value chains? What is your opinion on whether retailers are looking to decentralize their value chains and source parts of their product portfolio closer to the sales markets?

Nick Baumann: There are surely critical sectors where actors consider taking back part of the value chain from China or Taiwan to the USA or elsewhere to be able to control the value chain if a market gets cut off. But consider that much what Migros sources in China is nearly impossible to get out of this region. This is due to the advantages that manufacturers of this region bring to the table in terms of price and quality. It does, however, depend on the commodity. In Textile, for example, Migros has started to get in contact with Turkish suppliers again to look for alternative sourcing possibilities. This also allows avoiding ocean freight transportation, which has gone off the rails. The large ocean freight ports, such as Shenzhen, are completely blocked, with backlogs lasting for months. Today, you have to pay anywhere between CHF 15'000 to 18'000 per ocean freight container, as opposed to CHF 3'000 to 4'000 prior to the pandemic. Therefore, I think it is important to consider alternative sourcing strategies. But if you do so, you must commit to these other countries and regions and regularly purchase from them. This is only possible if you order in large volumes, which is a challenge to Migros as the order volumes are smaller in contrast to retailers such as Lidl or Aldi. The latter order large bulk volumes for their entire stores' network and thus can use the capacity of several factories and gain advantages. In any case, it is of utmost importance to consider the costs caused by ordering from different regions. Moreover, we have also seen that China has recovered strongly in the last months as they could reopen the country quickly, return to operating their production facilities and return to previous quality standards.

4. Interviewer: There are arguments for both decentralization and further globalization. Some sources indicate that nearshoring is being considered, and global value chains are being regionalized to make supply chains less vulnerable to global shocks. Other sources indicate that the pandemic uncovered flaws in the value chains but will eventually lead to a strengthened and even more globalized value chain setup. How would you describe the plausibility of a future scenario?

Nick Baumann: I think it is important to differentiate between product categories. We have seen in the food sector that the need for transparency has strongly increased since people stay at home, go grocery shopping, cook for themselves more often and visit fewer restaurants. This means that consumers make food purchasing decisions more conscious and that they have a strong wish for bio products and locally sourced goods, especially for fish and meat. Consequently, within this product category, retailers must strengthen their regional sourcing and clearly disclose the origin of the goods and the means of production.

In other product categories, I see a different development. For example, the pandemic has promoted the trend of people investing in their own houses and gardens. For example, they buy lounges as more time is spent at home. But the customer is not able nor willing to pay the prices that would be required when sourcing from European suppliers. In such a category, the centralization and the globalization of sourcing will increase even more because a retailer can then offer more products for lower prices. The specific regions that are specialized in sourcing such merchandise have a lead as opposed to other procurement regions. Imagine six or seven production facilities consolidated in the same area, they all have the same suppliers themselves, and they push each other. Such clusters are the most attractive sourcing partners as you have to constantly look for efficiency gains to survive. Thus, I do not believe there will be a trend of deglobalization of the value chain in such categories.

However, I believe that for critical commodities that are of political relevance and important for survival, such as the microchip industry, everyone tries to get the competences back into their country or region. I believe that no one will want to be dependent on China or Taiwan for such commodities. Car manufacturing would be another example of competences where I think actors will discuss whether deglobalization can make a lot of sense. But in the retail industry, which I am most

familiar with, the food sector will localize, and all the other non-food sectors will continue to globalize.

5. Interviewer: It is interesting that you also address the political aspects of this question. Let us change gears and talk about vertical integration within the retail industry. In the last 50 years, the retailers have evolved from pure resellers to designing and distributing private labels. Migros is a prime example of a retailer with a strong private label portfolio. Thus, the question arises, is there still a need for wholesalers?

Nick Baumann: What product categories do you have in mind?

Follow up: I am thinking about any product category that qualifies as non-food. Clothing or Textile would be a good example of such.

Nick Baumann: There are always importers or intermediaries that provide a service or deliver competences that a retailer does not have on its own. Let us take Christmas decorations as an example. Some wholesalers have their own talent scouts and designers who quickly see what happens on the market and can foresee upcoming trends. Consequently, they have a significant advantage and thus can offer the right products. This means they take over some of the work that a retailer would have to do its own, meaning to invite partners, exchange with them about needs, and send buyers to Asia that then look for the product you want. The question is who has what to offer. If an intermediary offers an additional value, such as delivering the most volume or offering important competency, he is an interesting partner for a retailer. Doing everything on your own as a retailer can become easily more expensive. As a retailer, you need to be able to create trust with your customer, regardless of whether you have non or several intermediaries. You need to provide a product that represents your values and does not become a scandal. The face masks are a perfect example of a scandal as it is a highly corrupt business. We were not the first to refuse a mask deal because we did not trust the wholesaler. We could not exclude the possibility of forced labor in the production sites. This shows that as a retailer, it is also important to have your own quality management and audit employees to guarantee the value you propagate in your advertisement and what you stand for.

The question really is what you can give to a wholesaler and what you receive. Especially in the pre-selection phase of certain product groups such as light chains, a wholesaler can have better products or is ready to ship sooner, whereas, in more basic product groups,

Migros is working less intensively with intermediaries. I think a good balance between cooperation and own efforts is the right way to go.

6. Interviewee: Coming back to the customer expectations. The literature has shown ambiguous arguments for the impact of Covid-19 on the sustainability trend. How would you describe the possibility that new forms of sourcing arise through such a sustainability trend in the form of recycling, for example?

Nick Baumann: There is a lot that is going on within Migros' upstream value chain in terms of sustainability. These measurements range from a shift towards eco-standards in production to the provision of transparency along the value chain. Migros also reduced the use of plastic as throw-away material.

However, there is a large discrepancy between what people say and how they act. When looking at the evaluation of customer surveys that asked whether consumers would like to pay more for sustainably sourced goods, many people answered that they are willing to pay higher prices for sustainability. But when looking at people's shopping baskets, one quickly realizes that out of the roughly 40% of customers that said they would prefer a higher-priced but sustainable product, only 20% to 25% choose such products when offered a sustainable alternative. The satisfaction of personal needs still is the highest priority, and thus, I do not believe there will be a fast shift within the value chain concepts due to sustainability. However, I am sure that transparency along the supply chains will become more important. Information such as origin and production details will probably be accessible via QR code on the product packaging. I think this will also become more important within non-food, but not to the extent that today's signals might indicate.

7. Interviewee: Let us use that transition to talk about digitalization. There again, the main question is how Covid-19 specifically affected digitalization within Migros. The focus hereby does not lie on marketing but on the internal upstream value chain activities of Migros.

Nick Baumann: Of course, the impact of Covid-19 on digitalization was massive. Migros benefitted enormously from the pandemic in the sense that tough and long decisions have been overcome suddenly. A great example is Amigos, the delivery service from Migros that could have been set up almost immediately due to the pressure the pandemic brought.

I think the development of the entire online segment of Migros, something that would previously first be conceptualized and tested in a lengthy process, was accelerated as

Covid-19 promoted the acceptance of a more efficient and quicker implementation. Moreover, the coordination within the organization but also with subcontractors has increased drastically. Within sourcing, the question arose how to efficiently transfer the information that previously has been on display in a showroom within these new circumstances without pushing paperwork for hours. There, we have made huge progress. We also had to experiment quite a lot to see what would be possible and what not. I think the entire retail industry has realized that things could also be handled differently, more digitally and that some things just need to be tested. You could say that the shutdown of public life even helped the retail sector push forward in digitalization.

8. Interviewer: How would you describe the effect of Covid-19 on the general digitalization strategy of your organization? Would you say that Migros followed more an optimization strategy or focused on creating new, disruptive digitalization initiatives?

Nick Baumann: I cannot answer this question in its entirety. There is still a lot of restructuring efforts in the procurement processes to better work together internally, to better consolidate work processes. There were business plans in the online food and other units with a time horizon for five to six years, and those must be overhauled now, as you can imagine.

It is impressive how quickly large teams have found together within the organizational structure and are able to work with each other. Of course, this process has not been completed yet. What we are promoting, for example, are digital showrooms. We are talking about virtual reality, where you can put on virtual glasses in Zurich and find yourself in a procurement showroom in China. We have tested such technologies in the last months. We have also tested to join trading fairs via video screen link in virtual showrooms where representatives of suppliers are available via live a connection. However, that did not work so well, as suppliers were reluctant to disclose novelties through such live streams as they cannot always know who is listening in. Internally, Migros is in a phase of experimentation, and anything might happen until final concepts arise.

Follow up: If I understand you correctly, Covid-19 has been an enabler for digitalization and gave a push into such a direction?

Nick Baumann: Of course. It helped even that people just start to consider digitalization and show a willingness to deal with it. You have to imagine that many purchasing agents

have been on their job for ten years or more and thus are quite reluctant to change. This really is also a matter of change management. Some developments are easy to implement, but others take much time. However, with Covid-19, we did not have a choice other than to digitalize, and we also did not have time to extensively test solutions. This helped to get things running quickly and without much overhead. There was a learning experience in that.

9. Interviewer: How would you then describe the impact of Covid-19 on the development of technological IT infrastructure?

Nick Baumann: The distribution on the last mile of the delivery system has seen much change here. We had to deal with how to ensure the right product descriptions, how to get the product allocation right, and where in the infrastructure the investments needed to be made. We also asked ourselves whether a central distribution center is enough or to invest in more dispersed intermediate storage facilities. Such considerations have become frequent. This has also become quite competitive, and first, retailers are being left behind by the competition on the market. The last mile distribution really is a tough place, and many actors cannot run this without a loss. In the long term, the last mile distribution will not be able to persist as we know it today, and there is a massive struggle for survival. Distribution is a top priority for most players on the market, at least in hard goods. With fresh goods, the efforts needed are much higher, and the market shares are usually low. There, the major trend is the delivery of ready meals from restaurants.

10. Interviewer: How did Covid-19 affect the digital competence and culture within your organization?

Nick Baumann: I think Migros is more advanced in this than, for example, Manor, but there are quite different roles in the organizations. Migros invested heavily in specialists that bring in online competences, such as online warehouse managers, online portfolio managers, or online content managers. These people deal with specific questions such as whether the offline offering of a product contains a different set of colors than what is offered online of the same product. Another example is to determine which information and what description needs to be added for a product on the online channels. All retailers invest heavily into such personnel who brings in these kinds of skills. At the same time, the regular personnel is also trained to better work in an increasingly digitalized environment.

11. Interviewer: Let us zoom out again. What consequences of Covid-19 really had the biggest impact on Migros? These may include border closure, economic insecurity, or regulatory changes.

Nick Baumann: The travel ban had its impact but what really stood out in terms of impact was the lockdown. Despite bare necessities, no other goods could have been sold in supermarkets. Consequently, people were forced to purchase online and came to the realization that this was not as complicated as initially thought. I think that some parts of the product offering will be exclusively ordered online because people were forced to do so through Covid-19. This opened the doors for a lucrative business for firms that were ready for such a shift at the time. In my opinion, the lockdown itself has had the largest effect on the retail industry. I believe the effects of other Covid-19 related consequences will slowly vanish.

8.4.2. Interview Transcript 2: Anonymous A

Interview 2

Interviewer: David Hug, author

Interviewee: Anonymous A

Position: Logistics Director

Organization: Sporting goods Retailer

Date: 15.07.2021

1. Interviewer: Could you describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities you had in the industry.

Anonymous A: My organization is a sports retail company that started in the 1970s, and today we are both a brand and a vendor. When we started, we were only a vendor, distributing and selling sports products through online and offline channels. However, in the last decades, we have developed private brands that we sell ourselves, but we also cooperate with other retailers if they want to offer our private labels.

Follow up: What would your exact role be in such cooperation?

Anonymous A: In a way, we develop our own stores, with our own products and our own retailer strategy. In another way, if another retailer wants to propose our own products in their shop, we cooperate with them. Currently, we are testing this in Switzerland with two major local retailers.

Follow up: May I also ask what your responsibilities are in your organization?

Anonymous A: I am the logistics manager in the firm. This means that I am responsible for the warehousing, which is subcontracted to a specialist that we supervise and manage, upstream transportation and importation to Switzerland, downstream transportation for distribution to our customers. Additionally, I also oversee e-commerce to manage the e-commerce logistics.

2. Interviewer: Let us jump into the subject of globalization. How did Covid-19 specifically impact your business model in terms of the global setup of your value stream?

Anonymous A: In the beginning, the Covid-19 pandemic affected us in a negative way. Like anyone, we had to close our stores, and our customers could not access our sites anymore. Even if we could limit the impact by switching parts of our activities online, we could not prevent all losses. And even if we had been able to react in a way that would have prevented any losses through a shift to online, it would have meant a change to our business model and thus still been an impact in that way. In the end, all our efforts went into limiting a negative impact.

3. Interviewer: How did Covid-19 impact the sourcing strategy of your organization?

Anonymous A: Covid-19 did not really have a direct impact in this regard. We have a huge partner network that allowed us to use backup plans, and we have built extensive relationships with our suppliers, as well as set up strategies to handle such crisis events.

The impact of Covid-19 on our sourcing was much more indirect. No one expected that people would avoid public transportation after the first wave of the pandemic and take the bike instead. Consequently, this impacted the demand we had to meet, and it will likely last for the next two years. However, we do not know how the situation will look like for the subsequent years. Fortunately, our value chain is resilient, and we have found solutions to accommodate this development.

Follow up: Is it correct to say that change in customer expectations through Covid-19 has really been how you felt the crisis the most?

Anonymous A: The main force that manages you is your customers. You could forecast that customers spend less due to the pandemic promoting economic prudence but eventually, they do the opposite by wanting to change their lives and thus spend more. And we must answer this rise in consumption activity.

4. Interviewer: As a transportation manager, did border closure, social distancing, or any other consequence of Covid-19 impact your organization's logistics along the value chain?

Anonymous A: Border closure did not really impact us. Switzerland kept its borders open for merchandise. However, social distancing had an impact as we had reduced customer flows and limitation in the number of clients in our stores.

The most impact we had in logistics was a shortage in ocean freight containers, which were all in the USA. In addition, the blockage of the Suez Canal made the shortage even worse.

Follow up: You just talked about a container shortage. How global is your organization's value chain set up, and where are regional clusters?

Anonymous A: A huge part of our sourcing is done in South East Asia. Another small cluster is in South America & Africa, and some specific and valuable products are sourced in Europe. We assemble 95% of our bikes in Europe, and we manage specific products in Europe like the "easy breath masks" and others. We need to be pragmatic as many of our other products cannot be produced in Europe since there are no such factories in this region, even if it would be beneficial to do so. Currently, the skills and factories that we need are not available everywhere, and thus, we need to concentrate our value chain in those regions that can provide these resources.

Follow up: As you said before, most of your sourcing is concentrated in Asia, and Covid-19 has disrupted global supply chains heavily. In consequence, do you think there will be a change to such a concentrated value chain setup? Is nearshoring considered to be a viable option?

Anonymous A: It was a discussion in the company one year ago, but I do not think that nearshoring is a viable option. I think it will be too much effort and too time-consuming. It is not possible to open a factory and to develop the necessary skills within six months to start a new production site. On the opposite, developing other ways to import and ship your products is a much more plausible solution.

I think that developing other, more sustainable business models that add same or more value with fewer products is a more likely change for us in his situation.

Follow up: Do you have an example of such a business model?

Anonymous A: An example would be to give a second life to products, to be able to rent more and pay less. The next generation is more oriented to not buy a product but rather use a product. It is not important for them to have a product standing in their garage, but they want to be able to use it when they need it. Moreover, when the product is not needed, someone else can use it.

Follow up: Would you consider such a second life concept as a new procurement source by buying back used products and reselling them?

Anonymous A: Yes, this will be the case, but I cannot estimate the magnitude of importance of such sourcing yet. In terms of mentality, things are changing. When we have a returned product from a customer, we do not destroy it. Ten years ago, we would have destroyed products that were not new anymore. My organization has taken an engagement to not needlessly destroy products just because they cannot be labeled as brand new anymore. Consequently, we reinject these products back into the market and thus, also deal with used products. I do not know exactly where this will go in the future, but I know that we go in that direction.

5. Interviewer: From a value chain perspective, my research has found arguments for several scenarios. On the one hand, there can be an increase in globalization. We had these interruptions in supply chains due to Covid-19, but we find other ways around and to strengthen these global value chains. Consequently, the global footprint will be kept or even further expanded. On the other hand, there are arguments that global value chains will be reorganized more decentralized, such as regionally separated sourcing, to gain resilience. What is your take on this?

Anonymous A: I think both will happen. You need to be global to optimize your costs. But as an opposite, customers have market-specific needs, and thus, you need to adapt to regional markets. Both need to be managed, the cost factors and individual customer group needs. This is also the way my organization works, and you could say that there is a huge highway everyone is on, but everyone is driving with an individual car.

Follow up: So, this really depends on the product itself, as some you handle more globally while others will be handled more locally?

Anonymous A: It depends on many aspects. Even for one single product, the prices are adapted to the local needs. We do not charge the same prices in Hungary as we do in Switzerland, and people also do not have the same expectations towards our pricing in the two different countries. In Switzerland, a higher price implies a better quality, for example.

6. Interviewer: Did Covid-19 have any impact on the way that your organization's distribution is set up?

Anonymous A: The more replenishment steps you have, the worse for our organization because you keep more different buffers of stock. The fewer buffers you want, the more you centralize as you can accelerate the distribution from the first to the last point.

Follow up: In what global dimension do you organize your distribution?

Anonymous A: We have regional distribution centers at the scale of a continent. Covid-19 showed us that we need to optimize but also to keep the setup as per continent. Too many Distribution centers in a small perimeter would be suboptimal.

7. Interviewer: You said earlier that you produce many of your goods yourself. Did the Covid-19 pandemic have any impact on your production value chain activities, on your integration of this activity?

Anonymous A: Covid-19 accelerated the mentality and decision of people to take care more of our production. Non-decision-taking behavior would result in Covid-19 having a direct impact.

The consequence of Covid-19 is that we act more quickly upon what has initially, and oftentimes prior to the pandemic, been planned. The pandemic had no direct impact on us but an indirect impact on our minds to act more quickly.

Follow up: Regarding this indirect optimization impact on your manufacturing activities. Did this trigger any change in the global footprint of your production? Like the question that we had before, can you see production consolidate for each continent, or in one single region for the entire organization, or do you see it become further decentralized?

Anonymous A: Currently, I cannot say where such development will head. The most important thing is still the customer needs, and customer satisfaction is the key target here.

8. Interviewer: How did the pandemic impact your customers' needs?

Anonymous A: We do not see too many sudden changes in the customer behavior itself. The change is that customers never consumed more than in this time and consequently, we have increased demand. The pandemic probably has accelerated some tendencies that were underway before.

Follow up: So, the Covid-19 did not really impact the global setup of your value chain that much. Is this correct?

Anonymous A: It impacted us in the way that it showed us that to survive, we had to adapt ourselves very quickly in 2019. We took important decisions during this period to survive, and these measurements ended up benefitting us. I think that we would have applied these strategies and actions even if the pandemic did not hit us. But Covid-19 led to an acceleration. For me, Covid-19 was a booster of strategic change, but it was not really a trigger for an entirely new thing. I know that TV magazines and books often proclaimed a disruptive change in the context of this pandemic, but this was not the reality that we have faced.

9. Interviewer: Let us talk about digitalization. Here again, the main question is how did Covid-19, or the consequences caused by Covid-19, impact your business model along the value chain in terms of digitalization?

Anonymous A: Today, digitalization is not a choice anymore, and if you lack behind this development as an organization, you will disappear. Here again, Covid-19 has been an accelerator of strategic change and adaption to customer expectations. It was a good help for us to get things going. We learned to take into consideration that through digitalization, we would not have the same business model but that we can learn it and take advantage of it.

Follow up: Do you think this digitalization acceleration is sustainable? Do you think that it is just a short-term boost that will wear off in a year or two, after which digitalization will slow down to the pace that it had prior to the pandemic? Or do you think that we see a development in the next ten years that we have not seen in the years before?

Anonymous A: It is a sustainable acceleration in digitalization that will last for the medium to long term. We are just at the beginning of it, and the firms that will not adapt will fail soon.

What was shocking to me was that a competitor to us in France did not even have a website yet. I did not think that it was possible not to have a website in the year 2021. And the priority they took when the pandemic arose was not to build a web presence but to waste time and resources to restructure processes like invoicing methods, or I do not know what. They prioritized some optimization that was the opposite of what they were supposed to do, and I do not think they will survive for much longer. We are at the beginning of a major digitalization wave, but this does not mean that the physical business is dying. You need to understand that you have to integrate digital business into all aspects

of your customer experience. However, even then, you must specialize yourself. The advantage of Amazon is its operations and the capacity of its digital platform. Nevertheless, what Amazon is missing, and what they are looking at for the last five years are physical platforms. To be more precise, physical platforms to promote their digital platforms. And this is exactly what is needed. An organization like us we have a physical platform, and we have a digital platform. We just need to accelerate the implementation of our digital platform to meet customer expectations. Both physical and digital platforms complement each other.

Follow up: Did Covid-19 affect your organization's digital governance, including digitalization strategy and organizational agility?

Anonymous A: We have multiplied our online turnover by five during the Covid-19 pandemic. Consequently, we adapted, recruited, reorganized, and developed new strategies. Covid-19 was a booster to adapting our overall strategy towards digitalization, and today, we have more personnel and capacity to do so.

Follow up: Was the strategic change focused on optimization or on exploring new, disruptive change?

Anonymous A: We could not optimize in the beginning as the pandemic wave was too high. Only now, we begin working on the optimization of our strategy. But even then, I think optimization occurs when the market is mature, and you want to gain 2 or 3% of turnover. However, we are still talking about increasing our turnover by 200 or 300% at the time.

Follow up: Do I understand you correctly that you are looking for a trigger to become disruptive?

Anonymous A: Not really. For example, most of our customers do not use online payment methods. So first, we have to conquer this kind of customer, the medium market, and to do this, we do not need any specific trigger. For me, disruption happens when the market is saturated, and you need to disrupt to go one step further. Currently, I am not sure if we need to disrupt as the market potential is still too large. There are many other things to do for my organization than to create a disruptive change. As I see it, disruption is for smaller companies that do not fit the market environment. They can then disrupt themselves to be able to adapt to the expectations of their customers.

To come back to your question, you do not need to be disruptive in the current market, as the market is still too immature. Of course, there are some innovations coming through, such as payment by phone, but most people are still paying through more traditional means.

10. Interviewer: Was there any change to your IT infrastructure due to Covid-19?

Anonymous A: The infrastructure remained largely the same.

11. Interviewer: How would you describe the impact of Covid-19 on your digital culture and internal training?

Anonymous A: Nothing special.

12. Interviewer: Did Covid-19 impact the connectivity and data-based exchange between different departments?

Anonymous A: At the moment, we do have priorities other than optimizing internal connectivity. We are still occupied with optimizing our operations, meeting the increased order volumes, and satisfying our customers' expectations.

Follow up: What are the biggest challenges to adapt the operations?

Anonymous A: The first challenge is to be able to satisfy every customer, and the second is to industrialize our processes to be efficient. For example, we try to mechanize a huge warehouse in Switzerland.

8.4.3. Interview Transcript 3: Anonymous B

Interview 3

Interviewer: David Hug, author

Interviewee: Anonymous B

Position: Head Category Management & Category Manager for textiles, kids & accessories

Organization: Swiss furniture retailer

Date: 16.07.2021

1. Interviewer: Please describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities you had in the industry.

Anonymous B: I work as head of category management, where I lead a team of 6 to 7 buyers and two juniors. In general, I cover everything that is not furniture, including textiles, kitchens, seasonal products, accessories, and kits. Kits are textile accessories and some furniture objects. Textiles include curtains, window decoration, pillows, covers, carpets, sleeping textiles, and accessories such as boxes and storage. Anything that is not pure furniture at my organization lies within my responsibility. The retailer is one of the larger players in the Swiss market, we are a full range furniture store, targeting a broad customer range, and we cover low to mid-price ranges. My organization is also part of a larger cooperative federation.

2. Interviewer: Let us start right with globalization. How did the Covid-19 pandemic specifically affect your business model in terms of the global footprint of your value chain?

Anonymous B: There were several challenges we were confronted with in our value chain after the outbreak of Covid-19. We do source a large part of our merchandise in the Far East. My organization has purchase offices in India, New Delhi, and Hong Kong, and we work together closely with these offices. Consequently, there is intense communication with these offices. In addition, our portfolio is set up as such that we also have suppliers throughout Europe and other regions.

The largest impact surely was that we have realized how vulnerable these value chains are to shocks and how much we were at its mercy. When the pandemic emerged in China, our offices in Hong Kong had to close as the whole of China closed. We did not know when our merchandise will arrive. We did not know when the Chinese factories would reopen again, and we constantly placed new orders for those suppliers. In India, the same situation arose but a little later.

China then had a hard lockdown but resumed work after that. What happened then was that the rest of the world had to go on lockdown, and as everyone was at home, demand for furniture exploded. People started to redecorate and invest in their homes, and there was a boom in demand for everything that is related to furniture. For us, this was great in the first moment as revenue spiked. However, we were quickly confronted with challenges in product availability. Moreover, container prices have multiplied and are still very high. This added to the supply issue as other regions increased their order volumes too. Unfortunately, we are not the biggest player on the global scale and thus are not prioritized by our suppliers as our order volumes are too small. Until today, we face a shortage of product availability and face very high transportation costs. We also have an increasing number of articles that we must order more than a year in advance to ensure that we get the merchandise in time.

Follow up: In your opinion, what was the most important consequence of Covid-19? Would you consider the increase in demand or the challenges you faced in logistics or production?

Anonymous B: I think it is a bit of everything. Eventually, all these aspects lead to the fact that we are confronted with higher prices. And these prices must be passed on to the customer eventually. As demand exceeded supply, the factories that could not keep up with the order backlog started to raise prices, and the logistics companies increased freight charges. Nevertheless, it was important for us to have goods to sell, and thus, we had to go along with those price developments. At one point, we lose too much profit margin and are forced to pass on these higher prices to our customers.

The impact of all of this is that value chains must be kept in check and maybe need to be even more diversified. Prior to the pandemic, the tendency was for the procurement and the upstream value chain to be oriented and consolidated in the Far East due to better

prices and higher volumes. We have noted a countertrend to this as the pandemic has shown us how dependent we have become.

Follow up: Interesting that you mention this. But as you said, in the past, the trend was about centralizing procurement in price-attractive regions such as Asia. How did Covid-19 lead to a change of mind in this? Are there specific plans to diversify, or are those only abstract ideas as of now?

Anonymous B: I have noticed how our procurement is concentrated in the Far Eastern region, and consequently, we are at its mercy. We need a backup plan, and I think it is important to have a well-balanced sourcing portfolio. India, for example, is not the cheapest sourcing region for textile anymore, and the uncertainty about delivery reliability persists. We do not know when these production sites will shut down next.

What is also important is that after the first delivery, subsequent orders can follow. It is important for us to have a supplier that can process additional orders as reliably as a first order. Oftentimes, new products are subjected to a lot of demand uncertainty, and if sales go well, we have issues with product availability due to delayed backorders. This was an issue before the pandemic, but prices have risen in India since Covid-19, and we are constantly comparing what we could get in Portugal or Turkey for the same price. I acknowledge that Turkey has become more interesting for our sourcing activities than India in the meantime. Due to the uncertainties that the pandemic caused, sourcing in the Far East has lost in attractiveness.

My personal assessment is that things will go back to normal within the next years, but I also believe that European suppliers will rise strengthened from this pandemic in contrast to the Far East. The share between European and Asian suppliers will become more balanced in the medium term.

Follow up: Do you think that decentralization of procurement will persist in the longer term?

Anonymous B: I think so. One of the big trends is what I call responsible globalization or deglobalization. The past was all about the globalization of procurement in the Far East. Covid-19 has shown us how these concentrated supply chains are highly dependent on this region. We have also realized that more and more customers question where and under what conditions a product has been produced. Made in China is being increasingly questioned. This does not hold true for all consumers, but there are two different groups.

On the one hand, there are the people for whom the price is the number one purchase criteria. But on the other hand, an increasing group of customers focuses on sustainability and the quality of a product. Regarding the value chain, regional sourcing has become more important, and “Made in Europe” has definitely gained significance within the purchase decision.

3. Interviewer: How would you describe the role of the Covid-19 pandemic on the trend towards sustainability?

Anonymous B: I think Covid-19 has promoted the sustainability trend strongly. The sustainability movement around climate change and Greta Thunberg has been existing prior to the pandemic already. However, their protests were not possible anymore due to social distance restrictions. But I think that the pandemic has influenced the consumers within their mindset. Many customers have been directly affected through the breakdown of supply chains and the resulting delivery delays. This made the crisis more tangible for many people, and they could see how vulnerable supply chains are.

Another example is the blockage in the Suez Canal in 2021 that led to huge delays in the delivery of merchandise. I am convinced that local sourcing and regionality have gained significantly in importance as customers feel like supporting local businesses and contributing to the environment. This is an important subject in furniture and home decoration retail, but it is even more significant in the food sector. There, the local sourcing from the local farmer has been strongly promoted by the Covid-19 pandemic.

Follow up: When thinking about the categories you are managing, do you think this sustainability trend uncovers new ways of sourcing? I am thinking about the recycling and reuse of old goods that could become part of the procurement process.

Anonymous B: I think this will become more important in the medium-term future. The customers will start to request such solutions in the future, and retailers that do not consider such sourcing will be affected negatively sooner or later. There are still heavily price-oriented customers, so I believe that discounters will persist. However, retailers that operate in a medium-priced segment need to start considering subjects such as the circular economy.

4. Interviewer: How would you describe the impact of Covid-19 on the product design and manufacturing activities of your value chain? I assume that parts of these activities are outsourced, has there been any change to it?

Anonymous B: We have reviewed our positioning, and I have to say that sustainability becomes an increasingly important role for my organization. The pandemic made us assess current trends in the market. Sustainable raw materials, conditions of employment, and circular economy are trends that we see as significant. Consequently, we start to assess our value chain and our suppliers regarding these trends. In the context of procurement, the Far East will remain important for us, but we are looking for more responsible globalization solutions. Therefore, we have implemented standards such as Amfori audits for working conditions to assess our suppliers more closely. We want to say that our products have been produced under fair labor conditions, despite being made in China. Another subject is to source more often in Europe and to work together with more local suppliers.

Follow up: Do I understand you correctly that you are trying to gain more control over your design and production processes?

Anonymous B: Design has always been very important in furniture retail. Moreover, my organization is not just reselling third-party brands but sources and sells its own designs. Currently, we are thinking about whether it makes sense to separate design and procurement internally even more. Until now, we have visited showrooms of our partners in the Far East, chosen products, and asked for changes such as change of colors. For the future, we try to have a clearer vision of what products we want to have first and then source these products more specifically to our own ideas. This also includes cooperating more with design studios and sending our requirements to our suppliers in the Far East. We want to get the most out of our procurement. Some producers are specialized in certain materials, such as bio textiles, or specific product categories, such as accessories, but they are not specialized in designing. I am confident that we can get more out of it if we get more involved with designing our own products.

5. Interviewer: Let us talk about logistics and distributions. My research has shown that the distribution of goods has been increasingly centralized in distribution centers that serve entire regions. Has Covid-19 led to a change of this practice in any way?

Anonymous B: We have our main distribution center in the Swiss midlands, and Covid-19 did not affect this setup. But we are experimenting with new processes to have faster distribution lead times due to the increase in e-commerce activities. For example, we are trying to make it possible to send articles that have been purchased in our online shop

directly from our stores to the customers without having to fall back on our main distribution center. We have realized that consumers purchase increasingly via digital channels and through online shops and that expectations towards availability and lead times are high. Despite such process adjustments, our distribution did not change fundamentally.

6. Interviewer: You just named the direction I wanted to take you next: Digitalization. Here again, the main question that interests me is as follows: How did Covid-19 impact your business model in terms of digitalization with the focus on the upstream value chain?

Anonymous B: Let us start quickly with the end consumer in mind. The pandemic caused online retail to advance by several years at once as the lockdown pushed people towards online retail. Additionally, customer groups, such as seniors that were previously reluctant to online shopping, have learned to appreciate the comfort of online shopping. This shift to online continues strongly, and consequently, this affects our internal processes. The procurement is less affected, but the “noline” experience has become a buzzword within my organization. No matter how and where the customer interacts with us, this can be via mobile phone, computers, in-store, or on social media. The customer always gets the same “noline” experience.

You must know that the physical stores have been our most important channels in the past and all processes were set up accordingly. An example is the layouts of the stores. A buyer purchases goods, then a visual merchandiser conceptualizes where within the stores the product will be placed. This kind of store layout is highly resource intensive. For the longest time, our online shop was a by-product of this offline store concept. This has changed now due to the pandemic, and today, it is more important for us to receive all information to populate our online store and the layout process follows afterward. I believe that our brick-and-mortar stores will continue to lose significance. This development has changed the information flow in our procurement. We now need much more product information and pictures from our suppliers upfront to put on display in our online shop.

Follow up: Does this mean that the connectivity between internal and external stakeholders has been increased due to the pandemic?

Anonymous B: The information exchange has always been intense, but our requirements on the information itself have changed. In general, digitalization has changed the way

how we procure. Due to the lockdown, we were not able to travel anymore. In the past, we went to different showrooms in various countries and to trade fairs, and this has come to a complete halt for the last one and a half years. Suddenly, we were confronted with the challenge of how to access product information and how to efficiently communicate with our suppliers. We have started to work a lot with video conferencing software, virtual showrooms, and online meetings. I am sure this way of doing business will persist and would not have taken this form without the influence of the Covid-19 pandemic. This development also has many advantages. We have become much more efficient as it is not necessary anymore to board a plane each time, we want to negotiate a product price with a supplier.

7. Interviewer: To some extent, you have already partially answered my next question, which is how digitalization changed your way of product design, market research, or forecasting. Was there a certain boost in digitalization due to the Covid-19 pandemic?

Anonymous B: Yes, of course! Before the pandemic, it was natural to lead a discussion in a personal meeting, but we realized that much of it could be done virtually. We have had quite a positive experience with the shift towards virtual communication.

8. Interviewer: Let us talk about digital governance. My research has identified two possible directions of a digital strategy. On the one hand, an organization can focus on the optimization of business models through digitalization, and on the other hand, an organization can focus on creating new, disruptive business models. How did Covid-19 influence the involvement of all hierarchical levels in digitalization, organizational agility, and the overall digital strategy?

Anonymous B: I do not think we did create something disruptive and never seen before on the market. We have focused mainly on optimization efforts, such as working on our online shop information provision. My organization has experimented with some digital projects in the past, but the pandemic did not push for more disruptive innovations. However, I think that Covid-19 set our organizational focus towards digitalization. Many initiatives that were delayed or pushed back in the past have been implemented now.

Prior to the pandemic, all products that were available in our physical stores were also available in our online store. But the evolution is as such that the online store offers our full range of products while the physical stores only display a selection thereof. Consequently, we are increasingly looking for suppliers that can deliver products directly

to our customer without us having to intermediately store in our distribution center. There is an extension of our product range that cannot be physically looked at by our customers in the store.

Follow up: Do the physical and online sales channels complement each other?

Anonymous B: They complement each other, and the physical sales channels do not offer the full product range anymore. Two years ago, we had internal discussions on whether our customers accept if not all our products cannot be found in physical stores. Since the pandemic, this is no longer an issue, and customers are now used to not looking at products instore anymore.

Follow up: Can you say that internally, your organization sees digitalization as an opportunity rather than as a threat and has a culture favorable to digitalization?

Anonymous B: We see digitalization as a huge opportunity. Our growth will come from digital sales in the next years, and we invest strongly in digital resources and human capital. We have many employees who are occupied with store layouts, and we must consider that we will need many employees to maintain and run our online shop and to provide a positive customer experience.

9. Interviewer: What aspects of Covid-19 had the most influence on digitalization in our organization? My research has identified several factors such as competitive pressure, customer expectations for digital competences, a shift in the entire industry, and change of regulatory policy.

Anonymous B: In our sector, the customer is the most important factor. We have realized that our customers have expectations in digitalization and want to have this “noline” experience. To be able to see, feel and experience a product anywhere, regardless of digital or physical channels. Customers also expect the product to be available at any time and to be delivered almost immediately, and Covid-19 has further promoted this expectation.

In addition, big market players such as Amazon implement new technologies or services that then become state of the art. The customers expect any player that wants to be taken seriously to be at the same stage of development as such big tech companies. Thus, the market moves fast and is directed by such big tech organizations. As the pandemic accelerated this shift in digitalization, the requirements skyrocketed.

10. Interviewer: At this stage of my research, there are arguments for two scenarios. First, argued that Covid-19 led to a sustainable boost in digitalization and that digitalization will advance more rapidly than ever in the next ten years. Second, other voices argue that, while there was a short-term boost in digitation, the development within the next ten years will not be quicker than it has been already prior to the pandemic. This view acknowledges the challenges of digitalization that first need to be overcome. How would you describe the plausibility of such as scenario for our organization?

Anonymous B: In my opinion, the shift towards online will persist. I look at this also from the point of view of online shopping and these virtual worlds. I am convinced that, due to Covid-19, we have leaped several years ahead and that much will become even more digitalized. Examples can be virtual meetings to virtual showroom tours, and virtual store visits. As I see the steady growth rates in our online shop, the focus will remain on digitalization. I am also convinced that in the next 8 to 10 years, many physical stores will be challenged in their existence. This digitalization megatrend has been going on well prior to Covid-19, but the pandemic spurred this development even more and acted as an accelerator. Many people have learned to use digital services and appreciate the comfort now, and the upcoming generation Z is digitally native anyways.

8.4.4. Interview Transcript 4: Anonymous C

Interview 4

Interviewer: David Hug, author

Interviewee: Anonymous C

Position: Global Sourcing Management

Organization: International discount supermarket chain

Date: 20.07.2021

1. Interviewer: Please describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities you had in the industry.

Anonymous C: As a company group, the organization is active in 11 countries, including the USA, Australia, China, and especially Western Europe. Our procurement is organized beyond this organization, and we work together with our sister company.

I started as a regional sales manager, and I moved to a global sourcing role around one year ago. Here we organize the international procurement in food, as well as other commodities. Prior to this reorganization, the firm's procurement was decentralized and organized by each country individually. Sourcing has been consolidated in the last years, and we have split the food and non-food procurement. I work for requests coming directly from the country units of my organizations. This means that a country unit can request me to buy merchandise. The only requirement is that several countries are purchasing such a product at once. Once this prerequisite is fulfilled, I come in and take care of the global procurement for this product.

2. Interviewer: Let us start with globalization first. The main question is, how did Covid-19 specifically affect your business model in terms of the global setup of your value chain?

Anonymous C: In the non-food section, we purchase most of our merchandise in Asia. Covid-19 was less of an issue than the high logistics costs, which have been a consequence. However, the goods flow itself has functioned most of the time, and our

suppliers had only briefly interrupted production. We hardly experienced any shortage of goods during the last months. But we have realized that we stuck with non-food goods that we were not allowed to sell during the lockdown restrictions, as we could not resell them later.

Still, I think that the goods flow was the issue rather than the availability of the goods. In Europe, many trucks were stopped at borders. This has led to a change in paradigm as we have realized that it is necessary to diversify our supplier base regionally to not be dependent on one global sourcing region or only one or two suppliers.

Follow up: It is interesting that you talk about the decentralization of procurement. My research has shown that there are arguments for several scenarios. Some argue for a deglobalization of the upstream value chains as single region sourcing is too high of a risk. Others argue that, while there was a shock to the supply chains due to Covid-19, the weaknesses of global value chains will be addressed now, and thus, the global interconnectedness will even further be promoted. What is your opinion on this?

Anonymous C: I do not think that it was Covid-19 that had a large impact with its subsequent lockdown. But what really bothers us are the concerns with logistics. The dependency on ocean freight can ruin a business, especially as a discounter, where the price level is crucial for success. For products people are willing to pay a little more, higher logistics prices are not that much of an issue. But for bulk businesses and discounters, it is crucial to be able to ship at low rates. Currently, an ocean freight container costs about 10 to 15 times more than the standard rates, and this has a strong leverage effect on our end-user prices. This is the biggest challenge that we face today.

The pandemic has uncovered vulnerabilities within the value chains, and I am convinced that the industry will address these issues and emerge strengthened from this crisis. But it is not that simple to sustainably improve and change those value chains for the most part. We have learned from the disaster and take several measurements, but it is impossible to just move a production factory with 5000 employees from one end of the world to the other and not have any impact on the price. In discount retail, this is simply not possible.

Follow up: If I understand you correctly, there will not be too much of a change due to Covid-19, and the sourcing activities will remain organized on a similar global scale?

Anonymous C: There were some projects that have been in place. Let us take cashew nuts as an example. These products would be harvested in Africa, then shipped to Vietnam for processing before being forwarded to Europe. There, we have realized that we do not have enough shipping containers for such transports and started to process these nuts directly in Africa. However, we needed a financial incentive for an investment into an African processing site. As the containers have become much more expensive due to the pandemic, it started to make sense to make sense for such investment to be made. I think that currently, such incentives are predominant in logistics and raw material costs. Raw materials have become quite expensive, and we try to save money at that stage of the value chain. And this also holds true for packaging optimization and reduction.

These are the moments where a crisis such as Covid-19 can lead to a change of mind and the promotion of sustainability. But such a crisis must last long enough until such changes have been made. Otherwise, we risk falling back to old patterns. Fortunately, the Covid-19 pandemic has been going on for long enough to trigger such development.

Follow up: You mentioned the production activities. Do you see that Covid-19 has brought any sustainable change in the vertical integration or outsourcing thereof?

Anonymous C: I think one needs to differentiate the normal retail industry from our organization. We are not really involved in the production of goods. We have one chocolate factory and a coffee processing plant that only operates in small volumes. We are focused on pure retailing, which cannot be compared to a Migros or a Coop who have been strongly integrating both vertically and horizontally. Consequently, there is not much change in our production processes, but rather the location where the production will take place.

Follow up: You also mentioned sustainability. Do you see any significant impact of Covid-19 on customer expectations in terms of sustainability?

Anonymous C: I believe that changing customer expectations are a global trend. For example, palm oil is being transported via ocean freight from Asia to Europe. But this again is a price driving factor, and thus, there are active efforts to adapt products for the usage of sunflower oil. This can be produced in Europe and involves less transportation costs. Consequently, these products are then sourced more regionally and thus become also more sustainable.

3. Interviewer: Please correct me if I am wrong, but the circular economy would not become a serious alternative for sourcing for you?

Anonymous C: What differentiates discounters from other retailers is that we are always last more on the market. Our organization has implemented E-mails only after any other organization has already implemented E-mail. We have used Fax until the newer E-mail technology has been perfected and became cheap to implement. It is important to understand that such a mindset has been normal for us. However, since I am in the global procurement office, I have realized that sustainability influences my daily business strongly. We have started to implement sustainable KPIs such as recyclable packaging.

Where we have room for potential is in the way that we communicate sustainably to the end-user. Any of our suppliers have an interest in being sustainable, but we could advertise this more.

4. Interviewer: As the last question for globalization, did political aspects play any role in how you set up your value chain? An example of political aspects in the context of Covid-19 could be new tensions between the US and China due to vaccination deliveries.

Anonymous C: The organization I work for refrains from getting involved in any political conflict. We do not communicate on it, but as soon as there is a political issue, we keep out of it.

However, in the last year, during the lockdown, we had tension in the Swiss retail market as Coop could continue to offer most of its in-store portfolio for sale while other retailers were not allowed to do so. I have been positively surprised that in my organization, people would strictly adhere to the rules and regulations of the government, regardless of the loss of business.

In the context of Covid-19, I do not know of any other political influence that might have impacted us.

5. Interviewer: Moving to the megatrend of digitalization, how did Covid-19 specifically affect your business model in terms of digitalization efforts along your value chain?

Anonymous C: We still source all around the globe. There have been no more supplier visits for the last two years, and we do not travel anymore. We have switched to online and home office work, and I made all my purchases from my home. Unlike before, we have also stopped using paper and work on our documents online. The organization made

a strong shift towards home office, online work, and a lot changed in the way we work internally. However, this does not impact how globally our value chain is set up, as this did not change at all. Everyone within the organization had to learn how to negotiate via conference software and how to maintain our relationships with our partners. There is no way around that. But I also feel that people want to visit suppliers again as we did before.

Follow up: Other interview partners have mentioned difficulties in assessing a sample or auditing a supplier abroad due to the travel restrictions. How did you manage this?

Anonymous C: I am not really involved with audits of our partners. We have several offices around the world, and our staff from the Hong Kong and Bangladesh offices have been visiting partners on site after the first lockdown. Nevertheless, I believe there were still challenges for those offices regarding audits. Regarding the assessment of samples, there was no issue at all as they were just sent to me.

6. Interviewer: How would you describe the influence of Covid-19 on your digital governance, your general digitalization strategy? Would you describe such change as optimization of your current business or operating model or as experimenting and creating new business models?

Anonymous C: Looking at the operational model, nothing has changed as we are extremely streamlined and lean. There might be some more potential for optimization, but we are confident to be nearly at maximum efficiency. I do not think that Covid-19 has initiated entirely new processes. However, ideas have been promoted through the pandemic that existed already before. These can be ideas such as an Online shop. We have never had one before, but suddenly, it has become a possibility. Anything that needed three years to implement prior to the pandemic can now be done within three months. These implementations are, again, driven by revenue as we do not want to miss out. We have also had internal system adaptations that we have had planned for the last five years and which were realized throughout the pandemic.

Follow up: Did the pandemic lead to any change in your IT/technological infrastructure?

Anonymous C: We have realized that the shift to home office needs some investments in our technological infrastructure. In my location in Austria, we could not go back to our offices for a very long time. During this time, we had to onboard nearly 50 new employees, and we needed cameras, screens, and the likes. We also make extensive use

of video conferencing software. Our internal systems, however, are not automatized like big tech players.

7. Interviewer: Did Covid-19 impact your internal digital culture? This may include staff training or whether your organization sees digitalization as an opportunity or a threat?

Anonymous C: In my organization, we are lucky to have many younger employees. It is easy for them to get familiarized with new systems and learn how to use them effectively. Consequently, we have a rather positive digital culture in our Austrian officers. In contrast, I think that digitalization represents more of a challenge in our national sales sites as our employees are older there. We have strongly supported these employees in learning the new digital ways of doing business and accompanied them on their first weeks of lockdown.

Interviewer: Where do you see the most important drivers for digitalization caused by Covid-19? Research has uncovered several drivers such as competition that pushes one to follow, customer expectations in digitalization, change in the entire industry, or regulatory changes in the context of digitalization.

Anonymous C: I believe that there has not been any pressure to digitalize, even during Covid-19. We have always been known to be an offline retailer, we have never existed online, and nobody ever expected our brochure to become an app. We were lucky that no one ever expected any digitalization initiatives that we have done from us. The online shop is definitively a subject worth working on, but this applies mainly to the UK. The industry also expects other implementations such as digital price labels, but this is first tested in certain countries and eventually implemented further. I have to say that there was not much pressure to digitalize, and especially the food sector is still an offline business. While non-food is a big part of our business, we are primarily a food discounter.

9. Interviewer: Is there anything that you would like to add to globalization or digitalization?

Anonymous C: I would like to add how quickly humans forget. Everything that we do not implement during this pandemic will be forgotten again soon.

Follow up: Would you then describe the longevity of the consequences of the Covid-19 pandemic on the retail industry as short or limited?

Anonymous C: Correct, I would say that the longevity of Covid-19 and its consequences are limited in their time horizon.

8.4.5. Interview Transcript 5: Valentina Gashi

Interview 5

Interviewer: David Hug, author

Interviewee: Valentina Gashi

Position: Purchasing Manager Coop

Organization: Coop

Date: 21.07.2021

1. Interviewer: Could you describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and your fields of responsibility.

Valentina Gashi: Coop is much more than just a retailer. The organization is also active in wholesale such as B2B gastronomy, with the subsidiary Transgourmet. Coop has roughly 80'000 employees in Switzerland, including all non-food subsidiaries like Fust, Interdiscount, and many others. I am part of the management team of the marketing and procurement business unit, and I am responsible for the sourcing of beauty products and cosmetics. I deal mainly with large suppliers that are active all around the globe, and my responsibilities include leading negotiations and more.

2. Interviewer: Let us start with the megatrend of globalization. The main question that really interests me is how Covid-19 impacted your business model in terms of the global orientation of your upstream value chain. These activities include purchasing but also design, manufacturing, and distribution of products.

Valentina Gashi: It is true that during more intense phases of the pandemic, especially in the middle of last year, many suppliers changed their production capacity due to Covid-19. For example, suppliers that would produce facial wipes started to shift production focus towards disinfectants. This means that we experienced drops in revenue due to supply shortages in cosmetics.

Another impact was that during the lockdown, specific product categories had seen a surge in demand. One example would be a rush on toilet paper, which has been covered

by the media extensively. Based on the increase in demand for certain products, it has become extremely important that logistics and the supply chain are resilient and remain functional. It was important to prioritize and see, on the one hand, which articles needed to be focused on in purchasing and, on the other hand, what articles can be temporarily left out. This has been a huge challenge to us and an impressive achievement of our logistics department.

Follow up: How were you organized in your beauty procurement department prior to the pandemic in terms of global footprint? Did you source locally, or have you focused on a globally centralized procurement setup?

Valentina Gashi: In Coop, the sourcing setup covers a wide geographical variety. We have local suppliers in Switzerland as well as global suppliers that process large volumes on an international scale. The spread between local and global procurement is quite even.

3. Interviewer: Did the consequences of the Covid-19 pandemic, such as lockdowns, breakdowns of supply chains, or multiplication of transportation costs, impact this sourcing setup?

Valentina Gashi: Clearly, the pandemic led to a shortening of decision making processes as it has become important to react quickly. All involved departments, for example, category management or logistics, have started to look for ways to become more agile and to find solutions to issues more quickly. This has led to internal changes.

Follow up: Based on your answer above, would you say then that there was no change to the geographical footprint of your upstream value chain activities?

Valentina Gashi: Unfortunately, I cannot answer this question.

4. Interviewer: Let us move on then. Did you perceive a shift in customer expectations due to Covid-19?

Valentina Gashi: Of course. In my department, makeup, lip glosses, and other cosmetics have been less demanded due to people wearing masks over their noses and mouth. In contrast, eye makeup products have experienced much stronger sales figures.

Follow up: A subject that has gained traction in terms of customer expectations in the last decades is sustainability. How would you describe the impact of Covid-19 on the sustainability expectations of your customers? I am focusing specifically on your

sourcing activities. What is your opinion about the circular economy and the re-usage of used products becoming new ways of sourcing for you?

Valentina Gashi: Coop clearly is the most sustainable retail channel in Switzerland for the consumer. We also have our own brand, the natura line, which stands for sustainability. In my opinion, consumers pay more attention to sustainability and local brands now. Because restaurants had to close last year, people also started to cook more at home. It was especially important that cooking ingredients come from sustainable sources and regional suppliers.

Follow up: You mentioned earlier that you have private labels, such as the natural line. Did Covid-19 have any impact on the design and production activities of the value chain of Coop?

Valentina Gashi: No, we have always been strongly involved with the design and production of our goods. There are strict requirements that a partner needs to fulfill to be able to be our supplier. I do not think that Covid-19 had any impact on this as we were already working with the highest standards and strong involvement.

5. Interviewer: Coming back to the distribution and logistics activities. During my research, I have found the long-lasting trend of retailers increasingly consolidating their distribution activities for entire regions or even continents into a few distribution centers. How would you describe a change in your distribution setup due to Covid-19 and its implications in the last year and a half?

Valentina Gashi: I do not think that I know the answer to that question.

6. Interviewer: Let us shift gears then. What aspect driven by Covid-19 did impact your value chain the most?

Valentina Gashi: E-commerce has experienced a tremendous boost due to Covid-19. Online shopping but also home delivery has certainly been pushed extremely.

Follow up: Would you define this as being impacted on the one hand by measurements taken by the government, such as store closure, and on the other hand by new customer expectations that gotten used to online shopping?

Valentina Gashi: I think that the general insecurity of people about the Covid-19 pandemic played a role. There was a lockdown, and customers did not want to go large distances and to be exposed to pandemic risks. Consequently, they fell back on the

comfortable and safe home delivery offering, for which we also have a broad product offering.

7. Interviewer: How would you describe the longevity of the consequences of Covid-19 on your internal value chain? Do you think that the effects of the pandemic on your business bring long-lasting consequences or are of short-term nature?

Valentina Gashi: It is clear to me that this pandemic has brought long-lasting change that will persist in the future. For some aspects, it is likely to fall back into old routines. For example, I think that personal contact in business will become more important again than it has been in the last year. However, there also will be more online meetings and fewer business travels. The entire business world will be changed sustainably by the pandemic.

Follow up: Is it correct then that you think activities around the value chain, such as traveling or online communication, will be sustainably changed. However, are the core activities of the value chain less prone to be influenced by the pandemic in this regard?

Valentina Gashi: I believe that some products have been requested much more during the pandemic and people also tried new things such as cooking at home or using different makeup. Once people realize that some things can be done differently, they might not go back to how it was done before. And I think this also has a sustainable influence on our value chain.

8. Interviewer: During my research, I have found arguments for two scenarios. On the one hand, arguments indicate a deglobalization as global value chains have been disrupted substantially and actors start to think increasingly about nearshoring and dispersion of sourcing activities. On the other hand, the pandemic has uncovered weaknesses in global value chains that are being addressed in the future, and thus, the global interconnectedness increases even more. What is your opinion about these two scenarios?

Valentina Gashi: It is difficult to say as Coop is involved in both scenarios. We have a strong regional focus on one side and strong and long-lasting relationships with international and globally operating partners. I think it is important that globalization continues, but I also think it is very important to support and work with regional partners.

9. Interviewer: Let us shift gears and come to the topic of digitalization. The main question here is how Covid-19 specifically affected the business model of Coop in the context of digitalization within the upstream value chain.

Valentina Gashi: It is difficult to say as I only see a small part of the organization. But what I can say is that prior to the pandemic, the business contacts with suppliers took place in person and on location. Suddenly, all involved parties had to switch to an online format for business dealings. Today, most of your business contacts are being held online, which has not been done before the pandemic. Business conducting through online means includes both internal and external stakeholders.

Follow up: Do you have a practical example for this? In other interviews, the usage of virtual reality in showrooming has been mentioned. Also, the nature of data that is needed in online communication methods has been addressed.

Valentina Gashi: Such experiments have not yet been relevant for Coop; these are projects for the future to come. We have focused mainly on adapting to online meeting and communication tools and to digitalizing personal contacts. This already makes things very easy for us.

10. Interviewer: In your opinion, did Covid-19 influence your digital governance at Coop? This may include the overall digitalization strategy but also the involvement of all levels of hierarchy.

Valentina Gashi: In our department, we did focus on information flow between our employees and communication with other departments. The human resources department would be better suited to answer this question in its entirety, as I really do not have the overall perspective on this on a company level.

Follow up: No problem at all. May I ask how Covid-19 did affect the development of the overall IT infrastructure you are working with?

Valentina Gashi: We have gotten diverse tools. Unfortunately, I am not sure whether I can disclose what exact digital tools we have received. The main difference is that we use these tools now to 99%, as opposed to using the phone or falling back on personal contact prior to the pandemic.

Follow up: Would you then describe that such tools have led to a change in the connectivity between the different departments in the way they communicate with each other?

Valentina Gashi: Yes, I think so. Through the shift to online, much of the communication is now being held through virtual channels.

11. Interviewer: Did Covid-19 also lead you to source more products that have a digital component or value proposition?

Valentina Gashi: No, there has been no change.

12. Interviewer: As a last question to the internal digitalization, how would you assess the digital culture within Coop? Do you see digitalization as an opportunity or as a threat? How did Coop start to foster the digital skills of employees?

Valentina Gashi: We have regular employee training, and digitalization is important for us. The training includes all sorts of job profiles and hierarchical levels.

13. Interviewer: During my research, I have identified several indirect drivers of digitalization affected by Covid-19. The competition may put pressure on an organization, rising customer expectations for firms to have digital capabilities, there may be a general digitalization shift within the entire industry or regulatory change that impacts digitalization. Out of these four drivers, which one do you deem most important for your organization?

Valentina Gashi: Every part has surely influenced us. But from my point of view, I cannot really identify a specific driver as I do not see what the underlying forces that driver this development are. I personally think that the customer expectations are important and that a seamless digitalization of the customer journey is important.

8.4.6. Interview Transcript 6: Peter Schuppisser

Interview 6

Interviewer: David Hug, author

Interviewee: Peter Schuppisser

Position: Head of Buying & Purchasing

Organization: PKZ

Date: 23.07.2021

1. Interviewer: Could you describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities you had in the industry.

Peter Schuppisser: PKZ is a premium segment fashion retailer in Switzerland, and we just had our 140th years anniversary this year. PKZ offers premium clothing and accessories such as shoes. The organization is 100% family-owned, and there are five persons on the board of management, of which I am also part. I am responsible for the product range concepts and procurement for our 41 brick and mortar stores as well as for our online store. I have spent my entire career in retail and have been with Jelmoli and Globus prior to my engagement with PKZ. This has given me extensive experience in both the Swiss national market but also overseas procurement activities.

2. Interviewer: Let us start with globalization focusing on the upstream value chain activities such as procurement, design, manufacturing, and distribution. The main question here is, how did Covid-19 specifically affect your business model in terms of the global footprint of your upstream value chain activities?

Peter Schuppisser: Regarding our supply chain, Covid-19 affected and limited our suppliers and producers predominantly. PKZ as a retailer has then been affected down the line. The main issues for us were delays in delivery and reduction of the volumes when the merchandise was delivered to us. In addition, lockdowns that were implemented to fight Covid-19 at different periods all around the globe disturbed our supply chains. To summarize, we did not have enough containers in China as they have gotten stuck in south America. The limited available shipping capacities led to massive delays in the

transportation from goods from Asia to us. Goods arrived either not at all, in insufficient volume, or heavily delayed. I do not think that the end-user really noticed this as the retail textile market is usually flooded with products. From a customer's perspective, there was only a slight shortage of products, as opposed to toilet paper, for example, which has run out of stock completely. In addition, air transportation as a potential alternative was not viable as most airline travel has been restricted, and many planes were grounded.

Of course, there were other impacts, such as production sites that could not run at full capacities, but as previously mentioned, we have not felt this as much.

Follow up: With impact on the procurement and logistics, I hear two key terms. A trend in the last decades within retail was the centralization of global procurement activities in specific regions. How is your procurement organized in terms of global footprint?

Peter Schuppisser: We are a specialized, high-priced retailer. We sell roughly 85% of foreign brands in our portfolio. This means that we purchase these brands and resell them later. Consequently, we are not deeply involved in providing these products as this lies with the producers and wholesalers of those brands. A smaller part of private labels of PKZ is being purchased directly at the production facilities in China, Bulgaria, or Italy. Of course, we have also felt a strong impact on the side of these private labels as they are being shipped through the same means as external brands.

Follow up: Did Covid-19 lead to a change in the selection of your suppliers in terms of geographical proximity?

Peter Schuppisser: This subject has been discussed within our organization for quite some time now. However, Covid-19 was not the initiator but the sustainability concerns. The pandemic did lead to more thoughts in this direction as local supply can be an additional added value if value chains should be disrupted in the future. But the main reason for considering moving supply from China to Turkey or Portugal is the thought of sustainability. It does make sense to source good quality products closer, and PKZ is already sourcing parts of its portfolio in Europe. To us, it is important that we can purchase high-quality products in Europe, which is more difficult for discount retailers. We also want to make sure that our products are produced in compliance with sustainability standards. One example is the OEKO-TEX standard 100, which is against the usage of harmful substances in production. Many partners in Europe can guarantee compliance to this standard, which makes them attractive.

3. Interviewer: You just mentioned sustainability. Would you describe any impact of Covid-19 on the customers' expectations towards sustainability?

Peter Schuppisser: Sustainability has been an important topic for a long time and has had several waves of popularity in the past. The Covid-19 pandemic promoted customers to think more locally and to prefer the local retailer. We also have increasing requests from customers for information about the products' origin, or the materials they are produced of. This is due to us actively promoting and communicating our sustainability strategy since this year. I can say that the customer is more interested in sustainability in our segment, but in general, the interest remains somewhat limited. Especially younger customers have the tendency to be more interested in sustainability.

Follow up: Coming to the second keyword: logistics. You have already talked about the disruption of the global logistics flows. Did these consequences in logistics cause any changes to the global setup of your value chain? Or do you consider these issues to be temporary and to overcome them without sustainable changes in your value chain?

Peter Schuppisser: This is clearly a concept for the products that we source and procure ourselves. Sustainability and globalization motivate us to consider producing more locally and, consequently, to also be quicker in our production processes.

Moreover, I notice that the external brands themselves assess their value chains. This helps to avoid single-sourcing traps, as well as to engage in sustainability measures. Certification of suppliers also determines the choice of external brand's sourcing decisions, and I think that Covid-19 has accelerated such development.

4. Interviewer: Let us change gears and head to the megatrend of digitalization. How did Covid-19 specifically impact your business model in terms of the internal digitalization efforts of your value chain?

Peter Schuppisser: Digitalization has helped us to overcome the travel restrictions that were a consequence of Covid-19 by using remote communication. Large, international suppliers have started to digitalize well before the pandemic. This means that we can buy merchandise via virtual showrooms and digital platforms. What Covid-19 triggered was that other, smaller suppliers also started to invest in such digital and virtual solutions to be able to continue doing business with us. This is where much of the digitalization happened, and we could use virtual showrooms almost everywhere.

Follow up: During my research, I have found arguments for two scenarios. First, Covid-19 has caused a sustainable boost in digitalization that will continue at such a pace for the next years. Second, Covid-19 has only led to a short-term boost in digitalization and uncovered weaknesses in the processes. Consequently, digitalization will be going on more prudently and slowly in the coming years. What is your take on this?

Peter Schuppisser: I think the possibilities of video conferencing have brought benefits to our organization. It is not necessary to meet in person for every discussion. But I also think it depends on what retail sector one is operating in. As we are active in clothing, forms and fits of products cannot be assessed online. We will surely be going back to physical meetings and product selection processes.

In general, I think that many processes can be digitalized and that there is a gain in efficiency. However, I also think that we will be getting back to personal contacts for some other processes. Especially within fashion retail, physical contact is of utmost importance. I believe that digitalization has received some push and that we will not revert entirely back to physical contacts for all aspects of conducting business.

5. Interviewer: Is the overall digital strategy at PKZ based on optimizing existing processes or experimenting with disruptive, new processes and innovations?

Peter Schuppisser: I would say that digitalization at PKZ is closely related to the business model of e-commerce. We are investing a lot into e-commerce as this business has gained in importance. These investments lead to the optimization of the business model. In other units of the organization, we are not very digitalized yet. This is due to cost consciousness from our side as we only invest where we can see a return on investments. Nevertheless, we do regularly look at processes and see if it makes sense to digitalize. Sometimes digitalization is nice to have as it looks nice and is contemporary. But when there is no real benefit to it, we do not digitalize.

8.4.7. Interview Transcript 7: Chista Koch

Interview 7**Interviewer:** David Hug, author**Interviewee:** Christa Koch**Position:** Head of department Hardgoods & Food**Organization:** Migros Hong Kong ltd.**Date:** 27.07.2021

1. Interviewer: Could you describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities you had in the industry.

Christa Koch: I am part of the Asian office in Hong Kong. The retail organization I work for has two sourcing offices in Hong Kong and in India, which are an extension of the procurement department in Switzerland. We receive briefings from Zurich, and we then execute the sourcing in all of South East Asia and the Indian subcontinent. Among our tasks are price negotiations, product development, quality control, and shipping. In Hong Kong, we are roughly 90 persons in different units. I am the head of the Hardgoods department, but there are also food and textile departments, as well as supporting functions such as human resources, finance, quality control, administration, social compliance, and sustainability.

The Indian office is smaller with personnel of 25, and there is also an office in Shenzhen, which focuses on quality control.

2. Interviewer: Let us start right with globalization. The focus hereby lies on the upstream value chain activities such as sourcing, design, production, and distribution. How did Covid-19 specifically impact your business model regarding the global orientation of these activities?

Christa Koch: We have gone through different phases of the pandemic. When the pandemic first started in China, our priorities were to get all goods out of the country in time and to find enough space on cargo ships. The pressure to get our merchandise out of

China was immense, but thanks to our excellent business relations with our suppliers, we succeeded and incurred only an average of two weeks of delays. We overcame this first phase very well.

Things became more difficult for us in the second phase when the virus evolved into a global pandemic that hit Europe. As stores were closed in Switzerland, we had a backlog in our warehouses. Theme articles, such as products related to the Easter holiday, were not distributed to the stores but held onto for the subsequent years. This impacted our revenue as theme products were not purchased again for the following year, but the stock in our warehouses was used. Right from the start, we have decided to be fair business partners and that we would not cancel orders. More so, we accept all merchandise that we ordered. Where possible, we did try to delay the delivery of our orders, but in general, we have accepted 95% of all ordered goods.

Moreover, due to the pandemic, logistics problems have appeared that persist up until today. The logistics problems had the largest impact on our business as we are currently facing 4-6 weeks delays in transportation lead times due to container shortage and delays at harbors. In addition, the logistics costs have multiplied up to ten times more than before the pandemic. Consequently, nearshoring has become much more interesting as we lose the price advantage that we usually have with Asian procurement due to the high logistics costs. Of course, it depends on the specific commodity, but in general, European productions have become more attractive again in terms of pricing and lead times. This means that we can observe the market much longer and delay our orders, which minimizes our risk.

Follow up: You just mentioned nearshoring. Did the pandemic lead to a sustainable change of mind as opposed to the consolidation trend of procurement activities in Asia?

Christa Koch: We have had risk management well prior to the pandemic, and procurement was separated. Basic articles were sourced in the Far East due to price advantages, and seasonal articles were sourced in Europe due to the short lead time. Such a system that differentiates between nearshoring and sourcing in the Far East, based on the category of merchandise, has existed forever. Due to the pandemic, the percentual share of nearshoring has risen. In retail, the price to quality balance is the most predominant factor in the value chain, and the question is now how the logistics costs and currency exchange rates will develop in the future.

At the moment, the winners of the pandemic are the European suppliers. There, one needs to differentiate between producers with factories in Europe or agents and importers that also purchase in the Far Eastern Region and add certain value.

Follow up: If I understand you correctly, your focus in nearshoring lies on the producers themselves and not on intermediaries?

Christa Koch: That is correct. Intermediaries face the same issues as we do in direct sourcing. The difference is that the impact on them is delayed as most of them have warehouses in Europe. Consequently, they could offer their products for a longer time to the standard prices, but their new orders in Asia are also affected by the pandemic.

3. Interviewer: In the context of nearshoring, my research has uncovered two streams of arguments. First, some arguments advocate for a deglobalization due to too much concentration of value chains on single regions and the resulting vulnerability. Second, the pandemic has uncovered certain weaknesses in globalization, but global supply chains are being improved and thus become even more globalized and interconnected. What is your take on this?

Christa Koch: I do not see this in black or white. In my opinion, it is important to find the right balance between local sourcing and Far Eastern procurement. For us, risk management is the most important aspect, and single sourcing bears the most risk. There are so many factors that play a role, such as raw material prices, availability of raw material, logistics costs, currency rates, and political topics. Myanmar has become an increasingly attractive country, and many larger retailers have sourced their textile products there. However, due to the political conflicts, this has come to a complete standstill. Similarly, it has become nearly impossible to get goods out of Vietnam due to the lockdown. These examples show me how important it is not to rely on a single partner or source.

Migros has always focused on China due to our lower order volume compared to other players. We simply have been too small for countries such as Myanmar, Indonesia, and Vietnam, but we have realized that our portfolio needs to be diversified in terms of production partners.

4. Interviewer: As your organization is known for its extensive portfolio of private labels, did Covid-19 impact how you handle those?

Christa Koch: We had to look for new ways to manage our private labels as no one from our office could visit the showrooms of our Chinese suppliers anymore. Everything had to be done virtually. We have started to visit showrooms and trade fairs virtually. For us, it is not the same as if we were on location, but we can deal with it. In the whole process, we have taken on more responsibility here in Hong Kong. Due to Covid-19, we can take decisions much more freely, without relying on our office in Zurich as the world has become much larger. We have changed our process according to this new situation.

Follow up: Would you say then that your organization brought product design activities increasingly under its own control? Different retailers have demonstrated a wide range of magnitude of involvement in their private labels. For example, Marks & Spencer is known to control its private labels strongly.

Christa Koch: No. There are product categories where we develop products with a designer, and this has remained unchanged. The biggest challenge was in what we call “picking”, where we go into a showroom and pick out the private label products we want. Customized picking refers to changes of some aspects of the picked product, such as its color. In hardgoods, we currently move away from product development towards customized picking to be faster at the market and to be less expensive. Own product development is especially costly, and our order volumes are very small in comparison to the world market.

5. Interviewer: Let us talk about digitalization. Here again, the main question is how did Covid-19 specifically influence your business model in terms of digitalization efforts along the upstream value chain?

Christa Koch: I think without Office 365, we would have been lost. The tool allowed us to remain in contact with our head office in Zurich as it was no longer possible to travel. We did everything online and started to work from home here in Hong Kong. This would not have been possible without the comprehensive Office 365 package. Our old structures were not set up to work remotely and to exchange files between different offices. Before the implementation of Office 365, it was next to impossible to access files in Zurich, and workarounds were very complicated. Speaking about the order follow-up of our processes, we were already quite digital as everything we did was system-based.

6. Interviewer: Did Covid-19 affect your digital governance, such as hierarchical involvement, organizational agility, and general digital strategy?

Christa Koch: Luckily, we are part of the IT organization in Zurich. Consequently, servers were merged, and we are no longer isolated from a technological point of view. Our Indian offices have always been part of the Zurich IT as well. This merger happened before the pandemic, and I believe if we would have encountered even more challenges during Covid-19 if this did not happen. However, I cannot tell you anything about the IT strategy in Zurich, but I would say that we try to always be up to date. Nevertheless, there is this project that aims to implement all different entities and units of our organization into one umbrella system.

Follow up: I also hear that there are quite some investments in the organization's IT infrastructure then?

Christa Koch: Yes, that is true.

7. Interviewer: How did Covid-19 influence the digital culture in your organization? This could include employee training, the view of digitalization as a threat or opportunity, or promoting employees' willingness to be part of digitalization initiatives.

Christa Koch: For us, digitalization is a blessing. Without digitalization, the period of the pandemic would have been difficult, and I do not know how we could have handled the pandemic if it happened five years earlier. There was also an adjustment in Asia as work from home was culturally not accepted prior to the pandemic. A negative stigma of being lazy was attached to it for a long time, but we now know that working at home functions very well in Asia. I hope that digitalization will continue along the entire value chain and that the process from the raw material to the presentation in stores is being digitalized. We also want to deliver full transparency to our customers and to foster our sustainability with the help of digitalization.

8. Interviewer: What aspect of Covid-19 did have the strongest impact in terms of digitalization? For example, there could be the pressure of digitalizing competition, customer expectations for transparent value chains to promote digitalization, or did a lockdown push you to transfer your processes to the virtual sphere?

Christa Koch: The first two aspects, digitalizing competition and customer expectations, might be subjects for our departments in Zurich. For us here in Hong Kong, distance was the main aspect. Suddenly, we were forced to work through digital means, and we are much further away from our customers in Switzerland to our suppliers in China and South East Asia.

We could no longer visit showrooms and discuss business with our customers, but we had to be able to access showrooms remotely. This also includes our audits that required new solutions. We have implemented a remote inspection process where the auditor can do an inspection remotely via a mobile camera. Processes like this will continue to be promoted in the future, even after the pandemic is over, as costs can be reduced, and the environment can be protected. The pandemic has led to an acceleration of digitalization.

8.4.8. Interview Transcript 8: Anonymous D

Interview 8

Interviewer: David Hug, author

Interviewee: Anonymous D

Position: Global Head of Demand Planning and Pricing, fashion & luxury

Organization: Travel Retail

Date: 29.07.2021

1. Interviewer: Could you describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities you had in the industry.

Anonymous D: The organization I work for is specialized in travel retail. We operate around 65 duty-free stores all over the world, and we are the largest international duty-free retailer. Within this organization, I work on a global scope, managing stores from North America to Australia. As you can see, we are a very international company with a very large geographical footprint. Within duty-free stores in airports, fashion shops include clothing, luxury accessories, watches, and jewelry. While we partner with the different luxury brands, the stores are owned and operated by ourselves.

In my position, I am responsible for the fashion and luxury segments, and I look after the duty-free shops in this category. I lead the strategic planning for these shops. You must know that in the fashion industry, we work in collections. There are spring, summer, autumn, and winter collections and we need to buy these collections six to nine months in advance. This means that we go to the brand, arrange the assortment, and place our orders. With my team, we look at the trends, try to forecast the demand in six- or nine-months' time, and place our orders accordingly. Obviously, this is a very sensitive and seasonal business. The shelf life of fashion products is very short-lived, and consequently, we take care of the procurement, and manage the day-to-day business as well.

2. Interviewer: Thank you for that introduction and let us start with globalization. How did COVID-19 specifically impact your business model regarding the global setup or global footprint of your upstream value chain activities?

Anonymous D: We are a completely global business in the way our organization is structured as well as in our activities. We depend on passengers traveling, and when the Covid-19 pandemic happened, the passenger streams came to an immediate halt. This was a huge impact on our business. In the beginning, there were no flights at all. As travel activities are restarting, flights are very regional or even domestic. While people are traveling in Europe, there are no Chinese customers, for example. And that changed the dynamics of our business quite a lot. From a business perspective, we are dependent on such international customer flows. From a supply chain and logistics perspective, we depend on the brands to produce and distribute their merchandise as we are a retailer, and thus, we position ourselves at the end of the supply chain. In fashion, I have seen that brands reduced their collections due to the pandemic. Traditionally, there is a pre-collection preceding the transition to a new main collection, and many brands have left out much of these classic collection cycles due to the pandemic. We have experienced not only demand issues but also issues in availability and supply. Many of our brands closed their factories, skipped collections, or even had issues fulfilling the assortment. We are now seeing a shift in how brands produce and in the number of collections they produce. I suspect this will go back to normal when demand rises again, but there is certainly an impact currently.

In terms of logistics and supply chain, every link was impacted through reduced resources availability. Many countries' policymakers supported people through short-time work regulations, and productivity has been scaled down. Consequently, this impacted the production in our category as fashion and luxury are not essential products. On the other side, we have seen that many brands and suppliers have shifting capacity towards the production of hygiene products and masks. Suddenly everyone came out with their own version of masks, gloves, and disinfectants.

As we are at the end of the supply chain, we are buying less. However, brands are producing less as well because they do not have the capacity to produce much more than in the last year. However, I think things are slowly turning around now. We see some sort of return to normality even though the last year had a big impact on business.

3. Interviewer: You just talked about the production and the fact that you would receive fewer goods due to the producers being limited in their production capabilities. Did this change the way that you integrate the production in your business model? Have these

circumstances led to the consideration to be more involved in private labels or to gain additional control to become more resilient during such a crisis?

Anonymous D: Yes and no. Our main proposition is to sell big brands. To sell a, let us say Hermes bag, or produce the bag ourselves is a very different to thing. For one, there is the brand proposition that we have, and we will never be able to compete with luxury brands. From an operational perspective, the slump in production volume did not affect our business that much. While the producers could not produce, we also did not want the stock due to the lack of demand.

Then, private labels have definitely been a topic. Instead of buying a mask from Hugo Boss, we also thought about introducing masks ourselves. Covid-19 has triggered those kinds of ideas. However, the pandemic did not promote a shift in our core business, because ultimately, we are a retailer. We want to retail, and that is our specialty. We do not produce, but we are selling brands, and we do not want to get involved in the production.

4. Interviewer: That does make sense. Coming back to your procurement, one current trend that my research uncovered was a centralization in procurement actives, usually in one region. Even more so, procurement for an entire global network of stores has often been consolidated in one single cluster. Since the pandemic arose, some retailers have become motivated to split up procurement to make it more resilient. What is your take on how Covid-19 impacted your procurement setup?

Anonymous D: When the normal day-to-day business was slower during the last year, we have taken the opportunity to try and centralize as much of our procurement as possible. Of course, you can never fully centralize and globalize as there will always be exceptions. For example, regions or markets with different legislation, diverging customs, and specific logistical reasons cannot be fully consolidated. But as far as possible, we are trying to centralize procurement. I think there are a lot of benefits of centralization such as efficiency, control and especially in this climate now, also from a resource point of view. Many companies that the pandemic has impacted had to reduce their resources by simplifying processes, and for that, you need central control over your processes. We have already started the centralization process prior to Covid-19, but we have not done it on the level of categories yet. The pandemic acted as some sort of accelerator for us.

From a resource and control point of view, we have been centralizing. From a procurement point of view, there has also been a cost-saving exercise. We asked ourselves how to use economies of scale to get better conditions when purchasing branded articles. Non-retail material, such as posters and in-store furniture, has also been included in this cost-saving consolidation effort.

We are also thinking about what consumers will be looking for in the future and what the demand will look like. This approach also started prior to the Covid-19 pandemic but is even more relevant now. I am talking about sustainable products and how we can get them into our stores. For example, there are sustainable lines for sunglasses, and we are evaluating how we can get such products more display in our stores.

I am convinced there is this trend of increasingly sustainable, fair-traded, and ecological products coming up, which is changing the way brands are presenting their products and what we buy into. Three years ago, we did not have sustainable goods in our duty-free stores, but now we are actively looking for such products.

5. Interviewer: During my research, I found arguments for two globalization scenarios. One consists of deglobalization, where many companies have realized how vulnerable their supply- and value chains are. Consequently, they want to become more resilient and have a more decentralized value chain set up. The other scenario consists of global convergence. Covid-19 uncovered weaknesses in the global value chains that are now being addressed. Consequently, value chains become even more globalized and efficient through a central organization. What is your take on this?

Anonymous D: I think it depends on your starting point. In the fashion category, we were very decentralized and thus saw the benefit of centralizing to a certain magnitude. As I said before, this does not mean that we completely centralize. There are various reasons for keeping certain aspects decentralized. For example, we are buying Havaianas from Brazil, and there are no reasons to centralize this in Europe. Again, I think it depends on where you are coming from. If you were completely centralized prior to the pandemic, you would probably see benefits in decentralizing parts of your value chain. I think, however, that neither 100% decentralization nor 100% centralization does make sense.

6. Interviewer: Let us switch gear and move to digitalization. How did Covid-19 specifically impact your business model in terms of the internal digitalization efforts along the value chain?

Anonymous D: I think we are probably not the only ones that can say that Covid-19 has accelerated the whole digitalization process. Much of what we have only been thinking about in the past has now made real progress. This affects the way we work and how we function internally. From my day-to-day work point of view, I have less personal contact with stores, suppliers, and people in general, and I really use virtual programs much more often.

In terms of the digitalization of our retail business model, we are trying to do a lot more on the retail floor. One concern is that people are more hygiene conscious, and going forward, we do not know whether people still want to try on products that have been tried on by other people before. To avoid these kinds of concerns, we are thinking about installing virtual mirrors that help customers to try on products without touching them. All of this has already been in the works for years before the pandemic, but it has come to the forefront due to the pandemic. Before, it was nice to have, now it is something that has become much more necessary. We do not know exactly how the shopping behavior will change, but we must be prepared. We are happy to explore any tools that brands and suppliers offer us. We are also exploring a new retail store concept and try to find out how the shop of the future will look like. There will be a lot more digitalization in the way people shop, which is the big shift that I have seen.

Even in the way the industry itself is working, digitalization has made its entry. We normally have fashion shows where collections are presented for the next year. Now, these collections are being presented digitally as well. Instead of going to a market and see the products, the fashion shows are being transferred to a virtual space. I believe that this is going to be the way of the future.

Follow up: Do you think this digital acceleration that Covid-19 triggered is more of a short-term phenomenon that will wear off soon, or do you think that this acceleration will continue for many years to come?

Anonymous D: I do not think it is just a short-term development. As I said, we were anyways moving towards such development. We have seen over the years how online retail has boomed and how technology has advanced. There is no backing down on this, as a lot of this was already happening before. I do not see this digitalization trend dying out soon. Will we not solely see digital fashion shows, but if you can manage to do it digitally, it will probably witness a hybrid model in the future.

7. Interviewer: Has Covid-19 impacted the digital governance in your organization? That includes the involvement across hierarchy, organizational agility, and the general digital strategy. If yes, does the digital strategy focuses on optimizing existing processes or on creating new, disruptive innovations?

Anonymous D: It has changed things. We were a global company anyways, and we were used to working with people all around the world. The digital trend has made this much easier for us as we also use new virtual communication tools and the likes. From a store point of view, digitalization has promoted many new tools that help us capture what happens on the shop floor and how shelves and stock are equipped. We can better interact with our frontline workers too, and we can capture what is going on.

We have also launched an internal digital platform that acts as an intranet. On there, we can communicate well in between departments. It helped to create some sort of online community feeling as many employees feel the lack of interaction caused by the pandemic. The way of interaction has changed. We have also moved on to MS Teams for virtual conferencing, and IT security has become an internal priority. I even think that security concerns caused our change from skype to MS Teams.

Follow up: Do I also hear that there is a shift in how you approached the digital competence of your employees? This could be through training but also a promotion of a digital culture that sees digitalization as an opportunity rather than a threat.

Anonymous D: To be honest, it has become more of a necessity now, more than anything else. We need to update our tools and to be able to carry on doing what we were doing before as the pandemic created new circumstances. Consequently, I would say it was not so much a threat or an opportunity but a necessity.

8.4.9. Interview Transcript 9: Daniel Stucker

Interview 9

Interviewer: David Hug, author

Interviewee: Daniel Stucker

Position: Head of trading, executive member of the board

Organization: Coop Group

Date: 05.08.2021

1. Interviewer: Could you describe the retail organization you are working in and where you draw your experience from in a few short sentences? Please also quickly describe the roles and responsibilities in the industry.

Daniel Stucker: My name is Daniel Stucker; I am part of the executive board of Coop, and I am responsible for the trading division. The trading division encompasses all non-food subsidiaries of Coop, including Coop City, Bau + Hobby, Interdiscount, Microspot, Fust, Nettoshop, Livique, Lumimart, Import Parfümerie, Christ, The Body Shop, and Coop vitality. The Coop group generates an approximate annual revenue of CHF 30 billion and employs roughly 90'000 employees. From a strategic perspective, we are organized into two business lines: retail and wholesale/production. In retail, we operate exclusively in Switzerland through supermarkets and other activities. In wholesale and production, we operate on an international scale. Our main subsidiary in this field is Transgourmet, which focuses on wholesale, foodservice, and cash & carry markets for the hotel and gastronomy industries. Activities of Transgourmet are clustered in Switzerland, France, Germany, Poland, Romania, Austria, Russian, and Spain as the latest entry through a recent acquisition. Within production, we have a majority holding in Bell. Furthermore, we have wholly owned production sites such as water sources, flour mills, rice production as well as bakeries.

2. Interviewer: Thank you for that introduction. Let us start with the megatrend of globalization. The main question that interests me is as follows: How did Covid-19 specifically impact your business model regarding the global orientation of the upstream value chain activities such as procurement, operations, production, and distribution?

Daniel Stucker: There are several aspects to this in non-food retail. Within the distribution and sales activities, we are only operating in Switzerland. However, we are active on a global scale in sourcing and procurement. We have a procurement subsidiary called Eurogroup in Hong Kong that sources both food and non-food articles in Asia as well as in Europe and South America. Moreover, we use extensive production resources for non-food merchandise in Asia, and especially in China, and Covid-19 has led to a shutdown of production capacity in this region. This is relevant for both our private labels as well as branded products as both categories are being produced in the same factories.

Furthermore, the pandemic has led to a travel ban for our teams around the globe. This is especially important in procurement as it is not really viable to simply shop around in a catalog. Our procurement team needs to be able to evaluate the quality of the products and to select accordingly. We must audit our suppliers in terms of sustainability, work conditions, and so on. This cannot be done remotely, and we need to have people on location for these jobs. In addition, when sourcing new products, interaction on location with our partners is equally important. Oftentimes, there are product adjustments to be discussed and prototypes to be inspected. A physical assessment in person is simply more effective and efficient.

The pandemic put a halt to all of this, and we have tried to circumvent the travel barriers via video conferencing. For example, our procurement teams in Asia have joined the suppliers via video, and the latter led them through their showroom with a video camera. Such a process is extremely complex and does not allow for the same quality level as opposed to being on location and being able to physically inspect the merchandise.

A similar impact was felt in our internal structures. Usually, our buyers from Switzerland travel to Asia for a purchasing tour once or twice a year. In preparation, requirements are shared with our offices abroad, who arrange samples and pre-select suppliers. Once on location, our Swiss team then assesses the merchandise and agrees on further steps with our teams abroad. Due to the pandemic, this process had to be shifted to online as well. Hence, Eurogroup created an online catalog with all-encompassing information to accommodate for the loss of personal interaction due to the travel ban.

Another consequence of the pandemic was that more prototypes had to be sent to Switzerland. These shipments had been stopped in the past due to time and cost constraints, but they have since become necessary again. Consequently, our entire

procurement process has been prolonged, and it has become difficult to retain a consistent quality level.

In summary, the adaption of our selection and sourcing process has become more time-consuming and costly, but we were able to arrange ourselves and find workarounds.

Delays also occurred in production due to the closure of production sites and shortfall of logistics. Our teams in Asia had to monitor which factories are not shut down and which ones still have capacity left. Within logistics, the main issue occurred in the form of the availability of ocean freight containers. This problem has become even more accentuated in the beginning of 2021. During 2020, a general decline in demand could have been observed. Consequently, retailers have become more conservative in their orderings and both, suppliers and logistics providers had reduced their capacities to avoid unnecessary losses. As demand suddenly increased through economic expansion in Asia and the US, these previous capacity reductions dragged on, and neither production sites nor logistics partners could fulfill demands. In addition, the flows of ocean freight containers came to a halt due to the capacity reduction in logistics, and thus, their global distribution was disturbed.

It will take some time to synchronize these transportation flows again. and as a result, the logistics prices multiplied by several times. Moreover, the capacity issues not only affect containers but vessels too. We took matters into our own hands and chartered entire ships to ensure the delivery of our containers. This has led to a certain relaxation of the situation, but some of our subsidiaries still incurred critical delays in merchandise deliveries. The issue requires quite some flexibility.

3. Interviewer: Following the numerous consequences of the Covid-19 pandemic, such as high transportation costs or production shutdowns, did the pandemic lead to considerations of setting up the value chain more regionally to avoid the transcendence of global issues through global interconnectedness? Or has this been less of a concern for you? How would you describe this matter?

Daniel Stucker: Nearshoring in Eastern- and Southern Europe has been a frequent consideration for us well prior to the pandemic. Currently, we source certain products in Europe, but we cannot change the location of the large production clusters. It is not only a question of prices, but we must consider where the capacities to produce our orders are located. Such considerations are part of our daily business, and we act upon opportunities

to source elsewhere. Advantages of European suppliers are quality, lower transportation costs, which play a minor role compared to production costs, and short-notice order requirements. In the case a product sells out too quickly, we rely on receiving follow-up orders fast. This is not possible with Asian suppliers who usually work with 3 to 6 months lead times.

Follow up: Would you then say that covid-19 had a short-term impact on your value chain but will not lead to a global or local reorganization in the longer term?

Daniel Stucker: Yes, that is correct.

4. Interviewer: As Coop has strong private labels, the question arises how Covid-19 impacted the magnitude of your vertical integration. On the one hand, one could argue that more private labels allow for closer control of your value chain. On the other hand, one could argue that less control over private labels allows for certain issues to be outsourced to external partners. What is your take on this?

Daniel Stucker: Our strategy regarding our private labels has not been affected by Covid-19. You have to see that the pandemic affected branded products and private labels in equal terms. Our procurement offices abroad work flexibly, and this setup has stood the test of time.

5. Interviewer: Let us talk about sustainability. How would you describe a change in customer expectations following the Covid-19 pandemic?

Daniel Stucker: Sustainability is pivotal for Coop, and as a pioneer in this field, it is part of our DNA. We are constantly extending our offering, and we are generating over CHF 5 billion of revenue with sustainable products. The demand for sustainable products increases year by year, but I do not believe that the Covid-19 pandemic is the reason for this continuous development. Naturally, the desire has emerged to eat more consciously and to consume more locally. There was surely a shift from restaurant towards cooking at home, and I think this led to an increase in demand for bio products. In conclusion, there is a continuous rise in demand for sustainable goods in food but also in non-food merchandise, and we are frequently expanding our offering.

6. Interviewer: Let us shift gears and talk about digitalization. How did Covid-19 specifically impact your business model in terms of digitalization efforts within your upstream value chain activities?

Daniel Stucker: For one, there is online shopping. We have seen a constant increase in e-commerce traffic in the past, but there was a sudden jump of 3 years' worth of growth in 2020. This is an average figure, so the growth in some categories was even more impressive. The surge in online shopping activities has been a huge challenge to us, especially within logistics. However, not all products that we sell are suited for shipping. The lockdown hit when the gardening season started, and bulky goods such as garden mold were highly demanded. It does not make much sense to deliver such commodities to our customers, but at the time, it was the only possibility. This has shown us that brick-and-mortar stores will always be necessary, even though there is a general increase in online shopping.

Another aspect of digitalization is the adaption of video conferencing, online catalogs, and more within our procurement. Internally, home office and remote work have become widely accepted. However, I think a good mixture between online work and physical presence is necessary, but I believe that this shift towards digitalization will persist in the long term and change the way we communicate without stakeholders. In addition, we have started to implement virtual sales processes where an employee connects through video with a customer and assists the client that way. This was one of many initiatives that we implemented to accommodate for the pandemic.

7. Interviewer: Did the Covid-19 pandemic impact your digital governance, including the involvement across the hierarchy and the overall digitalization strategy?

Daniel Stucker: Not to a large extent. What changed for us was the increased use of video conferencing as a tool, but it did not affect the fundamental ways we work internally.

8. Interviewer: Did Covid-19 impact your value proposition? For example, this could lead to a digital component of a product or a digital service for your private brands.

Daniel Stucker: For once, we are continuously expanding our online product offering and provide more detailed information via our online shops. The pandemic has been some sort of confirmation that this was the right thing to do and has pushed us to accelerate these efforts. Moreover, we have started to create short-term solutions with the help of digitalization. For example, we were not able to meet the demand in food home deliveries as we were already running at full capacity with our distribution centers. We have then started to look for additional solutions to resolve this issue, and we opened a new logistics

platform in cooperation with a transportation partner for our top 100 most demanded products. In the meantime, this offering has been disbanded again as planned.

Follow up: I suppose that the IT infrastructure has also followed this trend of continuous development?

Daniel Stucker: This is correct.

9. Interviewer: Did Covid-19 impact the digital culture of Coop? This can include the training of employees and whether digitalization is seen as an opportunity or threat.

Daniel Stucker: We do all our employee training online, which was already established prior to the pandemic. However, there was an acceleration in online training, and this acceleration will persist. There again, a good mixture between digital and personal exchange is important.

Follow up: As you just mentioned, the persistence of this digital acceleration. How would you assess the longevity of this digitalization boost? This could be a short-term boost that will not continue more than a year or two, or a long-lasting development for the next 10 years.

Daniel Stucker: In 2020, we made three years of progress in digitalization and I believe this progress will persist in the long term. We will not back down from this level anymore as even digital skeptics have realized the possibilities of digitalization and see no way around it. However, I do not think that the pace of digitalization will be the same as during Covid-19.