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Evolving future city-based retailing via design thinking: A Chinese hybrid model approach.

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Abstract | This paper forms part of a three-year on-going research project which critically examines how design thinking is integrated into the development of city-based retail models. Through the selected three Chinese hybrid retail primary case studies, by considering the higher level of human needs and social contexts, brands could develop a sustainable core value, and it will enable brands to continue to innovate. Compared to traditional product-focused strategies and brand storytelling strategy, this research identified a full-spectrum interaction strategy which leverages the brand core values and social interactions. It allows brands to plan city-based retailing activities with careful consideration of full-range of human needs from physical, emotional, personal and social needs. Followed by the author's previous research, this paper examines design thinking methodologies into a brand analysis tool which allows key business decision-makers to plan the direction of a brand's strategic development.

KEYWORDS | DESIGN & BUSINESS INNOVATION, DESIGN THINKING, NEW RETAIL MODELS, EXPERIENCE DESIGN, CHINA RETAILING

1. Introduction

Traditionally, consumers regard the in-store environment of retailers as space which layout product or hanging on promotion materials to present "what they sell". From 2003, Apple store's provocative 'experience store' model dramatically transformed the way that a company should utilise the physical interaction with customers. The natural advantage that physical stores can compete with virtual retail environments is that they can create "full-sense" experiences (Norman, 2005) which can stimulate consumer's more in-depth responses and compelling brand associations. As one of the essential components of instore atmosphere, internal environments are attached with in-depth knowledge of the product and brand, contributing largely to consumer satisfaction (Mohan, Sivakumaran, & Sharma, 2012). The connection that a physical retail environment can create goes far beyond consumer satisfaction. Furthermore, real-life interactions dominate overall human wellbeing. Specifically, the interactions among human-human, human-social, and even human-culture that are carefully created by city-based retailers are not only can achieve the full-level of consumer satisfaction on consumption but also to the overall quality of everyday life.

The commercial decline of the city centre has forced businesses to reappraise retail trade activities; its planning seems behind the new economic era of demand (Léo & Philippe, 2002). Crawford argues in his paper 'A Brief History of Urban Form' "…*Cities have been consistently arranged around a centre hosting commercial and social activities*…" (2005). City high streets as 'systems' are directly associated with the life and death of the more extensive system of the so-called city (Dennis, Marsland, & Cockett, 2002; Hallsworth, 1995; Williams, 1996). Moreover, in competition between cities of creating their 'brands' (Coca-Stefaniak & Bagaeen, 2013), city high streets development links with secure investment and to attract and retain businesses which determines the economic success of a city (Hodgkinson, 2011). From a city planners' perspective, cities offer cultural, entertainment, healthy, social and more possibilities (Department of Communities and Local Government, 2013; Zhang, Zhu, & Ye, 2016). These should all be considered in the transition of city high street to shape future smart cities (Crawford, 2005; Fletcher, Greenhill, Griffiths, Holmes, & McLean, 2016). Regarding the specific debate about the function and the role that a store places in the city and community activities, Mary Portas, in her acclaimed review (Portas, 2011) offered a comprehensive summary. She argued, "*high streets are not just in commercial terms, but as dynamic, exciting and social places that give a sense of belonging and trust to a community, providing an important catalyst for both the investigation of and policy debate on, topics*."

How to involve social contexts into city-based retailing's sustainable business model innovation through design thinking is the key aim of this discussion. This paper questions the traditional way of product foci and brand story foci strategy and provides a full-spectrum interaction strategy could allow brands to meet the full level of latent customer needs.

2. The Evolution of City-based Retailing

2.1 Physical and social interactions

The role of a store environment and elements that can foster or sustain pleasant emotional reactions becomes strategically more important (Sherman, Mathur, & Smith, 1997). Nearly 40 years after Kotler (Kotler, 1973) noted the importance of the retail atmosphere for purchase decisions, marketing literature has affirmed the importance of a range of environmental and atmospheric variables. From the customer relationship point of view, as discussed earlier, if a brand wants to achieve full-sense of consumer experience (Norman, 2005), physical attachments are needed. The experience commonly associated with emotions. The way that our emotions' colour is strongly tied to environmental representations (Garling & Golledge, 1993; Golledge & Stimson, 1997). Furthermore, aesthetic preference represents part of the brand identity, which will automatically attract targeted audiences. Therefore, the data generated from the brand and consumer interactions in the physical space is way accurate than general online reviews. Secondly, research about retail business completed by Bell (Bell, 2014) shows that to understand consumer's activities in different types of locations (regions in the city and types of cities) will also support online business model evolution. In the same kind or regions or similar size of cities, consumers tend to behave with similar consumption patterns and preferences. This information is highly invaluable for a brand, which aims to expand the market or develop new product lines for both online and offline activities. This influence is pervasive, and sometimes counterintuitive, with implications for our lives in both worlds (both virtual and physical).

2.2 The changing status of retail strategy

Reviewing the relationship between online and offline retailing in the past decade, it has undergone three distinct phases. The first phase was Online VS Offline. It features the freshness of cross merchandise and the exaggerated convenience of online retailing. With lower start-up costs, less capital investment, and selling channels straight afforded physical retailers a heavy blow (Shackleton, 2016). While an online store can be quicker and simpler to set up than a retail business, though in terms of the allocated target market and building meaningful interactions with consumers, it is still far from satisfactory than physical retail spaces. To overcome this, the second phase was to move to Online to Offline (O2O). It is a business strategy that "draws potential customer from online channels to physical stores". The typical example of widely apply O2O is China (Pasquier, 2015), with the wide use of QR codes in local shops to make easy mobile payment and promotion coupons, branded and independent city shops achieved balanced benefits from the value of the internet.

As discussed earlier, customer journeys are increasingly complex due to multicomponent channels, online companies' disadvantages and limits were slowly magnified. Without 'touch-and-feel', brands will not be able to fulfil the full sense of shopping experience for

customers (Haims, 2017). Therefore, the third phase Online mixes Offline channels. In-store IoT (internet of things) technology and big data gives offline channels more opportunities to digitalise consumer behaviours and discover emergent business models. Overall, the image of bricks-and-mortar retailers in this research study is involved with technological tools and Omni-channel interactions; therefore, innovative business models and strategies are in urgent need of reappraisal.

Peter Drucker's definition in business model in 1994 (Jensen, 2013) was "assumptions about what a company gets paid for." Joan Magretta refined Drucker's definition and divided the meaning of business model into two parts. Part one associated with internal value proposition and capacity; part two is related to the external social and environmental context changes (Ovans, 2015). Especially to build a successful business in the Omni-channel retail era, establishing the core value proposition concerning the understanding of external context is the key to success.

2.3 Chinese 'New' Retailing: the new equilibrium

China is currently in the process of profound economic development, urbanisation acceleration and retailing evolution. The rapidly growing mobile internet market, emergent financial transaction technologies and new demographic segments afford Chinese city-based retailers both challenges and opportunities to develop new business models in achieving Omni-channel retailing and long-term survival (China International Digital Business Centre, 2017). With the support of the '13th Five-Year Plan' (2016-2020) for National Economic and Social Development, significant progress was made in transforming and upgrading the retail industry. City-based retailers are witnessing signs of recovery. China is widely recognised as one of the most competitive markets for city-based retailers. Rapid business evolution is now demanding retail enterprises to react proactively to develop innovative business models to remain competitive (Ho, Poh, Zhou, & Zisper, 2019). Traditional singular product or service-focused design strategies are no longer sufficient for city-based physical retailers to attract and retain existing consumers in the pursuit of sustained commercial success. As such, the authors are witnessing the emergence of a growing number of Chinese retail entrepreneurs leveraging the power of design and design thinking in the development of new hybrid retailing models. Through critical interrogation of the new retail landscape in China, this paper aims to discuss and reflect upon the evolution of retail design, proposing a hybrid retail model for the future development of sustainable city-based retail design activities.

3. Design Thinking for business innovation

Design has and is continuing to play an increasingly important role in delivering business value propositions; often in a variety of subtle ways. Firstly, the proposition contains elements that are highly tangible to the consumers, which are manifest in both tangible and

intangible forms. These may include built physical environments, digital applications, graphics and a wide array of supporting promotional material, physical devices and complementary packaging elements. The intangible proposition is equally as powerful, but requires far more consideration in both development and delivery due to its subtle nature; these could be achieved through the offering of memorable services, clearly defined policies and processes that are so heavily informed by and through design. Taken in entirety, the holistic application of design addresses all attributes of a product or service offering it physically or virtually or both; what is essential though, this activity has to be intelligently and carefully orchestrated at both strategic and operational levels of implementation. In essence, it could be argued that design and design thinking is the manifestation of strategic intent making the intangible values of the organisation visible to a wide variety of both internal and external audiences (Turner, 2016).

It is very hard to have a singular definition of design thinking. Looking back to the evolution of design thinking, the first strand sees design thinking as a cognitive style (Cross, 2001); the second strand defines design thinking as a general theory of design which refer as 'human action in the realm of the artificial'; and the third sees design thinking as a resource for organisations (Kimbell, 2011, 2012). Tim Brown and Roger Martin, as a way to balance organisational tensions between exploration and exploitation (Abbing, 2010; Martin, 2009) or as a loosely-structured organisational process that stimulates innovation (Brown, 2009), design thinking that is gaining legitimacy among designers, organisations, and government bodies. Regarding the focus of this research within business contexts, theories from Martin and Brown toward business practice will be taking primary consideration.

It is commonly agreed (Cooper & Press, 1995; Hands, 2017; Turner, 2016) that the role, remit and responsibility of design and its overall management have considerably changed from an early stage to maturity and wider acceptance. As such, it is now considered a vital source of competitive advantage. Design thinking is increasingly gaining more attention within the organisation and that it is becoming increasingly strategic in its role as a mechanism to envision new futures for the company. Business leaders and key decision-makers drawn from traditional non-design backgrounds are exploring the numerous opportunities and challenges of this unlikely relationship with design. Brown (2008) argues that design thinking is "…*a discipline that uses the designer's sensibility and methods to match people's needs with what is technically feasible and what business strategy can convert into customer value and market opportunities*".

Furthermore, Liedtka (2010) actively encourages organisations to engage more proactively with design arguing "…*business strategy desperately needs design*..." With this flourishing symbiotic and mutually rewarding relationship in the ascendency, designers are now extolling the benefits of design to new and traditionally highly sceptical audiences, thus developing a 'design consciousness' within the organisation and establishing design as a core competence. In conjunction with this growing recognition from and by business leaders, design and designers are increasingly well placed to initiate, develop and support business

model development, NPD (New Product Development) opportunities and wider innovation activities. A core competence has to provide a significant contribution to customer-perceived value, and indeed design has played a leading and direct role in the 'value' offerings from organisations.

4. Research Methodology

The primary research approach taken by this research study, adopted a strongly qualitative methodology to gain an in-depth analysis of the city-based retail business model innovation. The study started with a comprehensive literature review of scholarly articles focusing upon contemporary retail evolution, design thinking, and business model innovation. The developing theoretical framework is shaped and adapted to gain a detailed understanding of city retailing dynamics, social interactions and the role of design in business model development to understand the symbiotic relationship between retailers, design and the local social context in which the retailer sits.

In addition, primary research methods and tools were drawn from established social science methodologies to obtain initial insights and observations from early findings. The author conducted an initial in-depth primary research in Tier 1 and 2 Chinese cities from 2017 to 2019. Early research activities involved visiting and observing numerous city retail outlets within a real-life context to gain an initial understanding of retail dynamics and consumer behaviour patterns. In-depth interviews with retail entrepreneurs, retail professionals and interior designers helped gain a deeper understanding of city retail model evolution and future retailing developments.

A radar chart has been designed for this research which upgraded from the author's previous developed design value framework inspired by Maslow's Hierarchy of Needs (Maslow, 1943, 1998). It enabled the author to identify and illustrate the relationship between core product (and services), design, brand value propositions, and social context engagement.

In order to reflect and incorporate representativeness of Chinese retail cases, the decision also took into account data from Combined China mainstream online consumer reviews such as brands' WeChat official account and Baidu, reports from international newsagents such as Tencent and Weibo. Three cases from field research were selected, WENHEYOU (catering and cultural brand), HUANYUE Art Space (art and aesthetic education institution), and 1200bookshop (24h bookshop). All three cases have its core value, albeit with different 'experiences' designed to represent their unique brand core value and to connect consumers through multiple dimensions. The hybrid functions well-orchestrated and crafted around the essence of their brand values directed towards their local communities and targeted user groups.

5. Case Studies

5.1 WENHEYOU

Brand core value: inheritance and disseminate Changsha city Culture.

WENHEYOU is a catering company, and cultural brand which located in the city in middle south China called Changsha. The founder started his business by selling local snack nine years ago and now became a cultural-driven brand and Changsha city landmark (WENHEYOU, 2018). Compare to traditional catering development model, WENHEYOU not only expanded in size and scale in the food-related category but most importantly, build a strong link with local culture and art. Different than most of the retailers try to design a high-end and modern style to fit with young group's aesthetic values, the brand takes nostalgia as their design strategy to build a warmth and closeness atmosphere with the unique local culture. Eat and visit at brand stores; customers can feel the core spirit of Changsha city, which is welcoming and enjoying life. In 2017, the company opened an art museum in the famous tourist place Changsha ancient Taiping Street to display the works related to the development of Changsha City and its local culture. Not long after, the brand opened a Stinky Tofu Museum in the same street to show tourists the history and making process of this unique local food.

In 2018, the brand presented its iconic architecture WENHEYOU Laochangsha Lobster Restaurant. It is a place located in a shopping centre with seven-floor high; the internal design replicated a typical Chinese community in the 1980s with various life scenes, such as barbershops, people's living room, and video game room etc. (WENHEYOU, 2019). In 2019, they upgraded the space and invited many local SMEs to join the space together became 'Super WENHEYOU Community'. It is a special place that could bring older generations memories of past times and refill the curiosity of young generations of the old city view. This project won reddot design award 'Best of the Best' 2019. The development of the brand is closely integrated with the local culture and the city's characteristics, the brand has become a window and representation of Changsha city image.

Figure 1. themes involved in WENHEYOU hybrid model. Pictures of 'Super WENHEYOU community' and brand logo.

5.2 HUANYUE Art Space

Brand core value: allowing everyone to become an artist of life.

HUANYUE Art Space is located in a place surround by living community and schools in Guangzhou city, China. Space's division is relatively simple. The first floor is a combination of a bookstore and a coffee bar; the second floor is an open workshop space for handicraft and art teaching. The brand argues that the demand for art and aesthetic education should not be limited by age and occupation. They wish to create links through art education and activities to allow people in communities embracing art and joyful life. Therefore, they designed three categories of brand' offerings (HUANYUE Art Space, 2019). Firstly, provide art and handicraft experience services for the surrounding residents such as children, older adults and housewives in store. These are the groups that are commonly ignored but could benefit from art activities.

Secondly, beyond the in-store space, the brand builds cooperation with various types of institutions to promote aesthetic education (HUANYUE Art Space, 2019). For example, the team visited regional libraries, middle schools, and kindergartens carried out art classes; organise pupils to explore their living regions. Thirdly, the brand also launches social welfare services and provide art activities to support NGOs and Red cross. For example, they designed art classes suit for the Deaf-Mute group, organised book sharing and donation activities. Leading by the brand core value, community bonding and social responsibility is naturally integrated into their business model and brings the brand broader possibilities for future development.

Figure 2. themes involved in HUANYUE Art Space hybrid model. Pictures of HUANYUE Art Space store and art class for children.
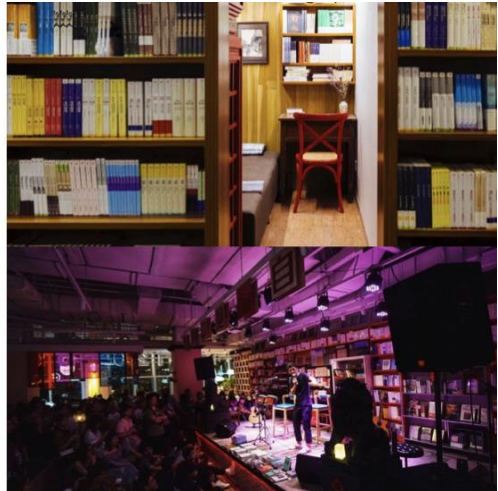
5.3 1200bookshop

Brand core value: to light a city's deep night.

1200bookshop was a start-up project after the founder travelled returned from a 1200-km round-trip in Taiwan. It is located in Guangzhou city. This 24-hour independent bookstore's characteristics are closely related to the founder's own experience and value (1200bookshop, 2016a). First of all, the founder thinks the bookstore is not only about books, but it is also about space and human spirit. For numerous reasons, there are many people still awake after midnight. Some people cannot sleep, some people nowhere to go, and some travellers waiting for their train. Therefore, the brand aims to give these people a safe and warm place to spend the night. Second, backpacker experience allows the founder understood that some travellers might not be able to pay for the hotel. Other people nicely provided a sofa for him in the past made he wants to return the kindness to society. Thus, each bookstore always has a room for people in need to stay temporarily.

Third, from years of store operation, he noticed that many people come to the bookstore reading books with a long-term study aim. One of customer explained that his daily routine occupied with work and take care of family, he wishes to have a study room for reading and personal reflection. He sees the bookstore as his unique study room and a break to find inner peace (1200bookshop, 2016b). Hence, the design of space reserved a lot of quiet seats.

Fourth, after a young man shared his story of 82 days walks to the city, a Late-night Story Sharing event has been continually held over a hundred times. Added to that, every day, store staff pick up a short in-store customer story with a paragraph post in the bookstore's

WeChat news account. More than 700 stories about ordinary people have been recorded and shared. Last but not least, deaf-mute people are welcomed to work in here, even though the bookstore is not a social enterprise, but incorporating public welfare into its brand strategy has brought them uniqueness and competitive advantages.

Figure 3. themes involved in 1200bookshop hybrid model. Pictures of a quiet space (during the night can transform to a bedroom for backpackers) in 1200bookshop and Late-night Story Sharing event.

6. Discussion

From the author's previously published research findings (see Figure 4) (Huang & Hands, 2018), it approves design could drive business innovation through different levels of human needs which based on Maslow's Hierarchy (Maslow, 1943).
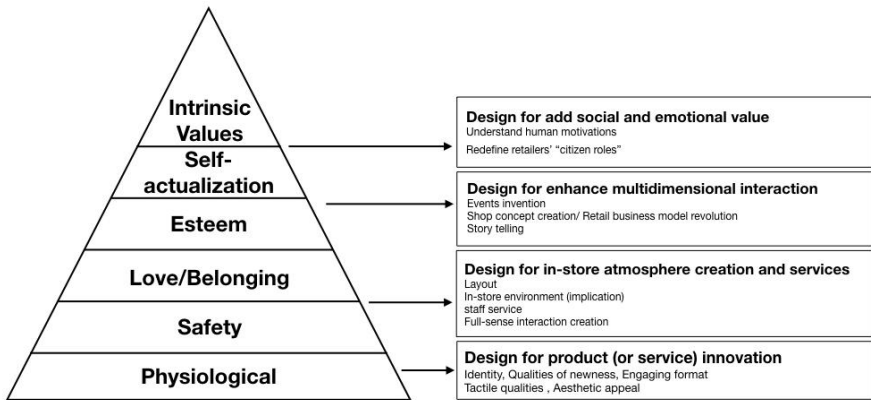
Intrinsic Values
Self-actualization
Esteem
Love/Belonging
Safety
Physiological

Design for add social and emotional value
Understand human motivations
Redefine retailers' "citizen roles"

Design for enhance multidimensional interaction
Events invention
Shop concept creation/ Retail business model revolution
Story telling

Design for in-store atmosphere creation and services
Layout
In-store environment (implication)
staff service
Full-sense interaction creation

Design for product (or service) innovation
Identity, Qualities of newness, Engaging format
Tactile qualities , Aesthetic appeal

Figure 4. author developed design drive retail innovation categories fit with Maslow's Hierarchy from previously published research.

Based on the many scholarly' articles and primary case studies of selected Chinese retail brands, this paper enhanced that by strategically planning design, including but not limited to product design, service design, in-store atmosphere design, and business model design. Retailers can achieve what business management aimed to meet consumers' emotional and social needs; what marketing talked about to identify unique selling points; and what city planning emphasised to build stronger connected local communities. With innovative design thinking, city-centre based retailers can shift their focus on selling-and-buying competition with e-retailers to explore more possibilities by redefining "citizen roles". Design can build different channels to allow brick-and-mortar stores and consumers to communicate with each other. During its process, the business model was moulded and adapted to fit new contexts of consumers' city life. The reconfigured business landscape is on its way being rediscovered, and design will keep the equilibrium between the old and the new.

Similar viewpoint from a business development perspective, the Economic Pyramid which presented in the book 'The Experience Economy' highlights that companies can experience transformation from making goods, deliver services, stage experiences, ultimately, to guide transformations (Pine & Gilmore, 2011). 'If you charge for the demonstrated outcome the customer achieves, then and only then are you in the transformations business.' which rise the necessity of business shift their way of thinking and planning business.

The research used Maslow's Hierarchy (Maslow, 1943, 1998) as a foundation to analyse the route of business development. Order and hierarchy do not affect business strategy; the design of business strategies is more likely to consider cross hierarchy. Six categories can be seen individually and combine freely to present a brand's target and focus. Figure 6 showed categories placed with different positions in each brand that emphasises with distinctive percentage. The multiple services and products which the brand added over the years have

always encircled or enhanced the core value (see Figure 5). The weakness of categorising retail types and vertical business development thinking is it could limit the brand's possibility of developing higher offering and narrow the scope of ways to approach to innovation.
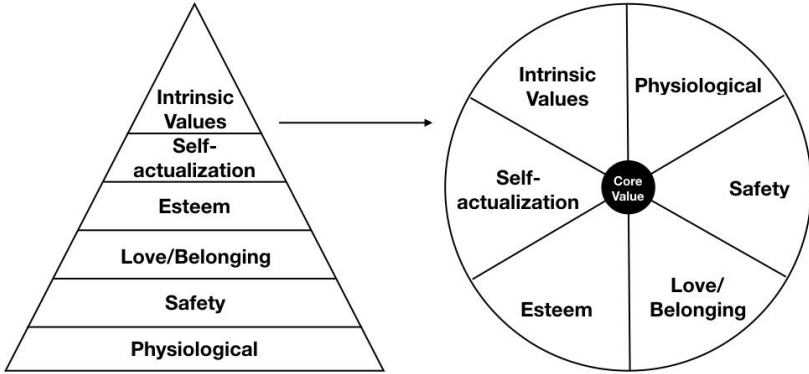

Figure 5. eliminate the hierarchy, transform the human needs into a design thinking tool for business opportunity innovation.

The Chinese-context-based case studies in this research paper provide a new perspective and development of the framework for business planning. It is evident that all three brands' offerings were mixed between different needs with clear emphases (see Figure 6). 'Super WENHEYOU community' created an integrated experience which fulfilled customers' needs of eating local snacks and a sense of belonging with nostalgia. HUANYUE designed art activities for disabled group and communities that support both esteem and intrinsic values. 1200bookshop provide safety for backpackers and midnight sleepless people and create quiet space for people who wish to find inner fulfilments.
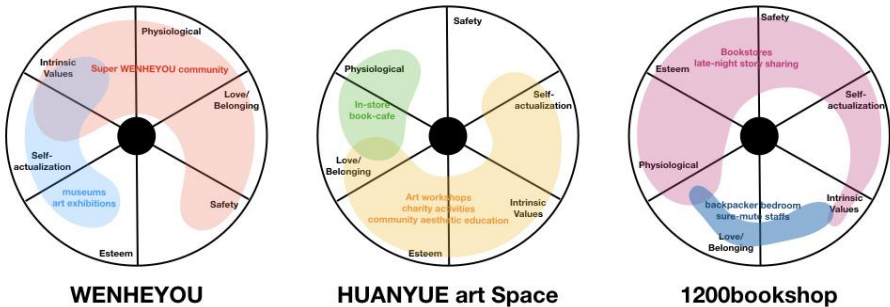

WENHEYOU   **HUANYUE art Space**   **1200bookshop**

Figure 6. based on developed radar chart, they are clearly shown three brands' hybrid model covers different needs.

Furthermore, it is demonstrable that all three brands' core value is not about what they can sell, but closely related to social contexts and personal values, this could also offer insight of how to define a brand's core value and unique selling proposition.

7. Conclusions and further research opportunities

This discussion explored the realm of design thinking for business and in particular to business model innovation for city-based retailers. Through the selected three mix-category Chinese city-based retail brands cases; research demonstrated a hybrid retail model. Which allows the retail business strategy to evolve from a foci point (traditional advertising strategy) to storyline (brand storytelling strategy), and currently towards a full-spectrum Plane (brand core value and social context interactions). Furthermore, by illustrating the values of design as a subtle mechanism to explore new business opportunities and fulfil different levels of consumers' needs, this research contributes a 'radar chart' tool for retailers to discover and refine their retail design strategies. Therefore, to foster a long-term sustainable approach to their commercial business planning activities.

As this research study only extracts limited data from three years of design for business planning activities, initial findings may not be considered 'generalisable' to a broader sample of business contexts. However, the currently prototyped hybrid-model has been developed within an experimental scope for further refinement and subsequent testing. The authors acknowledge the current limitations of the model in its current developmental form. Further studies could focus on how to apply the developed design for business innovation tools into wider business contexts that allow them to use and adapt design thinking into their business innovation processes and planning activities.

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