The Promise of Digital Technology in Brick and Mortar Retail

By

José P. Chan

Master of Business Administration, Finance
University of Rochester, 2003

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Signature of Author: ______________________
MIT Sloan School of Management
May 10, 2013

Certified By: ______________________
Vivek F. Farias
Robert N. Noyce Career Development Professor
Associate Professor of Operations Management
Thesis Supervisor

Accepted By: ______________________
Stephen J. Sacca
Director, MIT Sloan Fellows Program in Innovation and Global Leadership
MIT Sloan School of Management

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ABSTRACT

In this thesis we discuss the profound impact that technology is having on brick-and-mortar fashion retail. Retailers that (i) understand the implications of these changes and (ii) can adapt their retail business models to the new paradigm of the marketplace will be successful. Most retail research concentrates on online retail. Instead this research discusses how technology can add value to brick-and-mortar retail. Retail is a crucial component of the U.S. economy. U.S. retail sales in the United States were $4.36 trillion USD in 2012. The greatest portion of retail sales growth has come from online sales, which is 5.2% of total retail sales. The line between brick-and-mortar and online retail is beginning to blur. At the same time retailers are trying to ensure that the overall consumer experience is seamless at all customer touch-points. This is becoming more difficult, since the Internet and Smartphones have changed the way in which consumers and retailers interact. Therefore, when addressing the Omni-channel retailers must frame this as an organizational change process, since this piece of the equation is just as important as the technological component. Additionally, we consider how the retail selling process might translate into digital retail. Lastly, this paper examines the explosive growth of the mobile app industry and how the fashion retail industry can benefit from this.

Thesis Supervisor: Vivek F. Farias
Title: Robert N. Noyce Career Development Professor
Associate Professor of Operations Management

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1. Introduction

"Our industry is backwards. We need to partner up with Technologists more ... The future of retail is in the Global Marketplace, as well as the Digital Space."

-Andrew Rosen, President and Founder of Theory (Rosen, April 2013)

This statement succinctly summarizes the seismic changes that are dramatically changing the retail industry and specifically the fashion segment of the retail industry. This powerful statement was made by Andrew Rosen, one of the Keynote Speakers at the *7th Annual Retail & Luxury Goods conference* at Columbia Business School. He is the President and Founder of Theory, a company with estimated sales of $700 million USD in 2012. (Levine, 2012) A third generation apparel industry titan, Rosen is considered a fashion industry visionary. He founded Theory with Elie Tahari in 1997 and eventually sold his share of the business to Link Theory Holdings, Theory's Japanese Licensee, which is owned by Fast Retailing.

1.1 Change and Adapt: The New Status Quo

The fashion retail industry is undergoing profound changes, which are being driven by technological forces. Although, the industry is accustomed to living in a constant state of change, it is not fully equipped to seize the current challenges and opportunities it faces. The fashion retail industry has lagged behind other industries that have been forced to adapt to technological change. Although the fashion retail sector is considered innovative, innovation has traditionally come in the form of product design, textile engineering and logistics. Moreover, there is little internal technical know-how in the fashion retail sector, as it relates to technology. Therefore, there is great promise in this sector.

Like in any game, there will be winners and losers. The winners will be retailers that (i) understand the importance of these changes (ii) can adapt their retail business models to the new paradigm of the marketplace. In this thesis we will discuss the effect that technology is having on brick-and-mortar retail. We will also examine the overall changes that are occurring in the industry, since the line between the offline (brick-and-mortar) and online (digital) world are beginning to blur.

1.2 Thesis Organization

In crafting this thesis I have tried to build a narrative from articles, conferences, corporate websites, coursework (Harvard University, Massachusetts Institute of Technology), presentations, (Columbia University, Harvard University and Massachusetts Institute of Technology), research studies, as well as knowledge gained in the fashion retail industry over the last twenty years. The thesis organized in 8 major sections: i) Introduction, ii) Retail and the Economy, iii) Merging the Offline and Digital world, iv) Omni-channel Challenges v), The Retail Selling Process vi) The Digital World vii) The Mobile Future and viii) Conclusion.

2. Retail and the Economy

2.1 What is Retailing?

Retailing encompasses all of the activities involved in selling a good or service to an end consumer for individual consumption. Therefore, retail is defined as the sale of a good or service to an end consumer for individual consumption. In other words, a retail sale is purchased for personal or family use. Any sale that is not made directly to a consumer is not considered a retail sale. (Levy & Weitz, 2009) Now that we have defined retailing, let us examine the importance of retail in relation to the U.S. economy.

2.2 U.S. Retail Sales

Retail sales are an extremely important component of the U.S. economy. Therefore, the U.S. government on a monthly, quarterly and annual basis measures retail sales. It takes a while before the prior year's annual data is audited and revised. However, recent monthly data is always readily available. One can always compute annual data figures by aggregating the monthly data in order to get a sense of the overall sales trends.

North American Industry Classification System – Major Retail Classifications

NAICS Code	Type of Business
441	Motor vehicle and parts dealers
442	Furniture and home furnishings stores
443	Electronics and appliance stores
444	Building mat. and garden equip. and supplies dealers
445	Food and beverage stores
446	Health and personal care stores
447	Gasoline stations
448	Clothing and clothing access. stores
451	Sporting goods, hobby, book, and music stores
452	General merchandise stores
453	Miscellaneous store retailers
454	Nonstore retailers
722	Food services and drinking places

(U.S. department of commerce.2013)

The table above shows us a condensed version the U.S. NAICS classification for retail companies. NAICS is the acronym for the North American Industry Classification System. The complete NAICS table can be found in the appendix. NAICS is used in the United States as one of the ways to track the U.S. economy. Retail is only one sector of the U.S. economy that is tracked and analyzed. Each sector is assigned a three-digit number and components of that particular sector have more digits attached. The retail trade sector is classified as 44 and 45. However, 722 Food Services (a subset of 72 -Accommodation & Food Services) is also used in the retail statistics, since food services are also sold to the end consumer.

Retail Sales as a Percentage of U.S. GDP

	US GDP*	Retail Sales^	% Total
2012	$13,593,200	$4,355,734	32.04%
2011	$13,299,100	$4,157,173	31.26%

**2005 Chained Dollars*
^Adjusted Figures (excluding Food Services)

(Bureau of economic analysis.2013)

In order to contextualize the importance of retailing, 2012 U.S. retail sales were equivalent to about 32.0% of U.S. GDP, where 2011 U.S. retail sales were equivalent to about 31.2% of U.S. GDP. This can be seen in the Table above.

E-Commerce Sales as a Percentage of Total Retail Sales

	Retail Sales^	E-Commerce Sales	% Total
2012	$4,355,734	$224,606	5.2%
2011	$4,157,173	$193,722	4.7%

^Adjusted Figures (excluding Food Services)

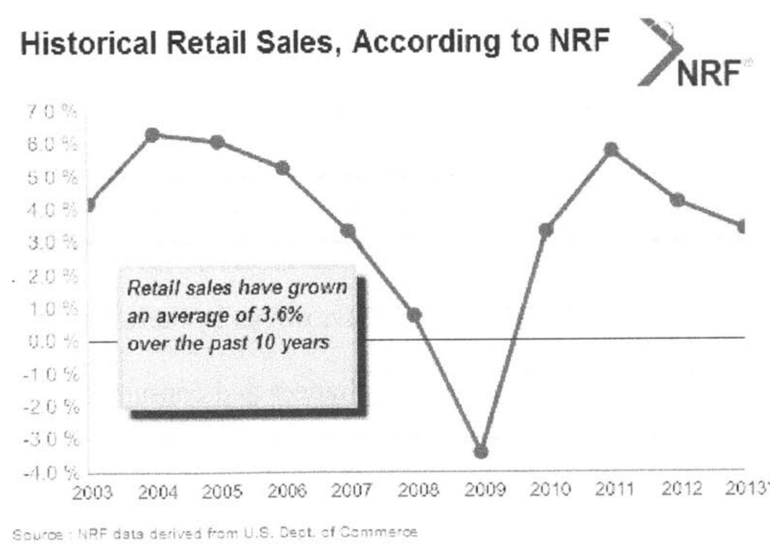
(U.S. department of commerce.2013)

According to the U.S. Department of Commerce, 2012 retail sales (excluding Food Services) in the United States were $4.36 trillion USD. The amount in 2011 (excluding Food Services) was $4.16 trillion USD. This represents a 4.8% increase in 2012 versus 2011. Moreover, e-commerce grew 15.9% in 2012 when compared to 2011. In 2012 e-commerce sales were about $224.61 million USD vs. $193.72 million USD in 2011. Lastly, e-commerce was 5.2% of retail sales in 2012 and 4.7% of retail sales in 2011 as shown in the Table above.(U.S. department of commerce.2013)

2.3 Retail Growth Trends

In January 2013, the National Retail Federation (NRF) prognosticated a 3.4% increase in retail sales and a 9% - 12% growth in e-commerce sales. (National retail federation.2013) The U.S. retail industry contracted greatly after the 2008 American Financial crisis. However, the sector has shown great resiliency. Below is the growth trend from 2003 - 2013.

NRF Historic Retail Sales 2003 - 2013



(U.S. department of commerce.2013)

2.4 All Retailers Are Not The Same

We can reason that many retailers have similar operating structures. This may be true at the most basic level, but the simple fact is that retailers are not all alike. We must comprehend these nuances. Whole Foods, Best Buy, and J. Crew are all retailers. However, when operating a retail company like J. Crew, one must take into consideration factors such as fashion trends, apparel design, and seasonality. This becomes a little more complex when we consider both the offline and online. Fashion retailing has a fair degree of complexity. There are many types of retailers. We will focus on what the NAICS refers to as General Merchandise Stores (NAICS 452) and Non-Store Retailers (NAICS 454).

2.5 General Merchandise Stores (NAICS 452)

General Merchandise Stores (GMS) carry a broad selection of merchandise. In 2011, GMS made up 13.5% of total retail U.S. sales, representing approximately $629 billion USD. (U.S. department of commerce.2013) Below are the major types of retailers that comprise GMS. Some relate more to fashion retailing than others. However, it is important to understand the general retail landscape before really focusing on fashion retailing. GMS sell a mixture of soft goods and hard goods. Soft Goods are defined as merchandise with a short life span, which implies that these goods are consumed quickly. Also known as Nondurable Goods, they include apparel, accessories, shoes, and cosmetics. Hard Goods, also known as Durable Goods, include goods that last for many years; examples include home appliances and consumer electronics.

2.5.1 Department Stores

Department Stores generally sell a broad selection of merchandise and usually include soft goods and hard goods. The service level and prices varies from moderate to high. Department stores can be categorized into Good, Better, and Best stores. This is based on the type of merchandise the store carries. Below are examples of each type of store.

- Good: Caters to price-conscious end consumers. – J.C. Penney, Sears
- Better: This segment sells products with better workmanship than stores in the Good category, therefore prices are higher. – Lord & Taylor, Macy's
- Best: Consumers in this segment are willing to pay a premium for the best products on the market. – Neiman Marcus, Saks Fifth Avenue

2.5.2 Specialty Stores

Specialty Stores, like their name implies, specialize in specific types of merchandise. They generally carry a narrow selection of merchandise and are smaller than department stores. They can be segmented by product or lifestyle and specialize in either soft goods or hard goods. The service level is generally high, which is reflected in the pricing. Examples include Crate & Barrel, J. Crew, Tiffany & Co., and Victoria's Secret.

2.5.3 Category Killers

Category Killers, also known as Category Specialists, carry a narrow selection of merchandise at a low price. This combination of merchandise and low prices gives this segment an advantage over competitors. This segment can sell either soft goods or hard goods. The service levels vary in this segment. Examples of Category Killers are Barnes & Noble, IKEA, Home Depot, and Toys "R" Us.

2.5.4 Discount Stores

Discount Stores carry a broad selection of merchandise at low prices. They generally have low service levels. These stores sell both soft goods and hard goods. In the United States there are three main players in this space: Walmart, Target, and Kmart

2.5.5 Off-Price Stores

Off-Price Stores generally sell branded merchandise at low prices. They sell leftovers from prior seasons or overstocks. The service level is generally low. This type of store specializes in a combination of soft goods or hard goods. Outlet Stores are a subset of this category. GMS or manufacturers own outlet stores. Below are examples of each.

- Off-Price Stores: TJX Companies (T.J. Maxx, Marshalls), Loehmann's
- Outlet Stores: Crate & Barrel Outlet, Prada Outlet, Saks Off 5th

2.6 Non-Store Retailers (NAICS 454)

As the name implies, Non-Store Retailers generate consumer sales outside of a retail store. In 2011, Non-Store Retailers made up 8.5% of total retail U.S. sales and represented approximately $394 billion USD. (U.S. department of commerce.2013) This is an extremely important segment because it includes e-commerce - the largest growing segment of retail. Non-Store Retailers sell a mixture of soft goods and hard goods.

2.6.1 Catalogues

Catalogues generally sell a wide variety of merchandise, carrying the merchandise assortments sold by the parent company. The pricing is the same as that of the parent company. Catalogues specialize in a combination of soft goods or hard goods. Catalogues sometimes act as advertisements; as a result, customers might decide to purchase directly in store or online. Some examples of catalogue retailers are Crate & Barrel, Victoria's Secret, and Land's End.

2.6.2 Digital Commerce

Digital Commerce refers to online retail transactions. This exciting segment of retail is the fastest growing retail segment. Because so many transactions are now conducted online, many companies are expanding and upgrading this segment of their business. Additionally, there are many retailers that only exist online; these are known as Pure Play E-tailers.

- M-Commerce: Transactions conducted on Mobile phones or Tablets
- E-Commerce (E-Tailing): Macys.com, Paulsmith.co.uk, Shop.nordstrom.com
- E-Commerce Pure Play: Amazon.com, Bluefly.com, Net-a-porter.com

2.6.3 Television

Like catalogues, a wide variety of merchandise can be sold on television. According to the Pareto ("80/20") principle, most sales are made to a small proportion of customers - in this case, viewers of these TV shows. Many celebrity apparel and jewelry designers have opted to sell limited types of merchandise on TV. QVC and HSN are two channels selling products in this retail channel.

3. Merging the Offline and Digital world

3.1 Blurring the Lines

As discussed earlier, the line between the traditional offline retailers and the online or digital world is blurring. Online retailers are moving into the offline world. Pure-play retailers are going offline. In the process they are adapting their practices and capabilities to the offline world. This is occurring at various degrees. For example, Pure-play retailers like Amazon, Bonobos and Warby Parker sold exclusively online. However, this is changing. Up until the late 20th century the major retail sales channels in fashion retail included Brick-and-Mortar stores, Catalogues and E-Commerce. E-Commerce quickly evolved and soon we had M-Commerce, which had the retail industry in flux again. Brick-and-Mortar retailers first sold merchandise in their stores and later sold via catalogues. Then, in the 1990's they began to sell merchandise directly through their own Internet sites or via other Internet sites.

3.2 Online to offline: Amazon, Bonobos and Warby Parker

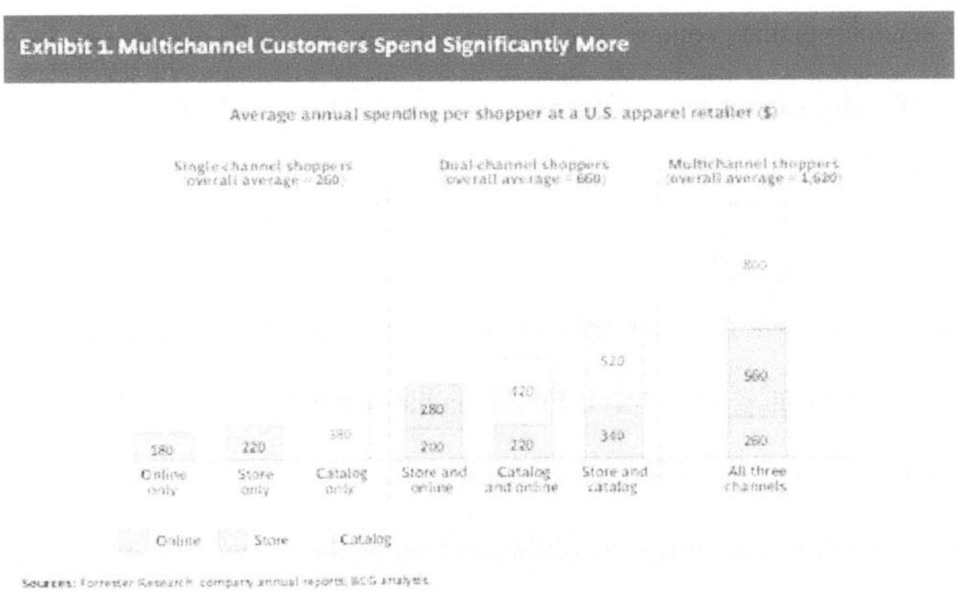
For many years Amazon has talked about selling offline. It has slowly started doing so by shipping merchandise to physical lockers for consumers to pick up at their convenience. It does this in lieu of shipping to homes, as this helps avoid missed or misplaced deliveries to customers. This trend seems to be catching on, as Wal-Mart announced in March 2013 that it would also offer this same service. (Olanoff, 2013) Bonobos, a men's brand, has taken this one step further. It changed its pure-play model when it chose to open Brick-and-Mortar stores that do not carry stock. About half of its potential customers wanted to feel the merchandise before they purchased online. Their solution was to open showroom stores, where customers could view and feel their products. Customers make an appointment in order to obtain personalized service. During this process they could simply place their orders online, while in the store shopping. (Petro, 2013) Lastly, Warby Parker, an eyewear retailer, accidentally started on its offline path. Due to an overwhelming flood of orders, customers could not participate in the eyeglass try-on program, which allowed customers try-on glasses before ordering them. Therefore, some customers were allowed to go to the apartment of Neil Blumenthal, one of the four co-founders of Warby Parker. Blumenthal was concerned that this would not be a good experience for customers, "But something magical happened, and we were able to build this really intimate relationship with the customer." (Lapowsky, 2012) Eventually they put a showroom in their office and opened shop-in-shops at various retailers across the country i.e. Confederacy - Los Angeles, Art in the Age – Philadelphia. A shop-in-shop is a branded selling area that is located within a multi-brand retailer. Additionally, they have experimented with *Warby Parker Class Trip*, a yellow school bus that promotes the brand image and also sells eyeglasses. In April 2013, Warby Parker officially announced its first retail store in SoHo, New York with Boston rumored to be the next city. (Empson, 2013)

These pure-play retailers will use their online technology in the offline world. They will better understand how retailers shop. With this information they can better understand store traffic, traffic flow, shopper loyalty, preferences and metrics that they deem important. Additionally, they may be better equipped to merge the offline and online data, since they do not have the organizational issues that traditional offline retailers have. Moreover, based on pure economics they cannot afford to not pay attention to the offline world. If e-commerce sales constituted 5% of total retail sales in 2012, (U.S. department of commerce.2013) pure-play retailers stand to gain more if they made a successful transition to offline. That is, they could also capture a portion of the 95% in offline sales. We will elaborate on these issues in subsequent sections.

3.3 The Multichannel / Omni-Channel

In early 21st century retailers began discussing Multichannel Retailing. This evolved from the customer centric model that became popular in 1990's. *Multichannel Retailing* allows retailers to view and manage customers in a coordinated way among different sales channels (Griffiths & Howard, 2008). This concept made sense when the retail industry was more clearly defined. However, there are many more touch points that are both quantitative and qualitative in nature. Therefore, a channel definition is not enough to help us make sense of spending. However, it is a good point from which to start.

Average Annual U.S. Apparel Multi-Channel Spending



(DasGupta, Journo, Loftus, & Tardyd, 2009)

Studies have shown that the more distribution channels retailers have, the higher the average spend by a consumer. The above BCG Study shows how customer spending increased more than six times if a retailer had online, brick-and-mortar and catalogue channels when compared to a single distribution channel. Another Mckinsey & Co. study revealed that customers spend four times more per year if they shop in more than one channel, when compared to customers that shop in a single channel. (Noble, Shenkan, & Christiana, 2009) Providing consumers with more options by making shopping more convenient allows retailers to positively impact its sales. This is not enough. In today's economic climate, retailers must get the customer experience right. Savvy retailers that are able to do this will be able to reap the benefits.

The Multichannel concept evolved into the Omni-channel, and the fashion retail industry is finding ways to address this. Omni-Channel retailing is ensuring that the consumer experience is seamless at all customer touch points or point of contact a consumer has with a firm. The Omni-Channel is broadly comprised of three main components i) *Sales Channels*: brick-and-mortar store, catalogue, Internet, smartphone, tablet and television ii) *Social Media*: blogs, digital video/photography, Internet forums, podcasts, Q&A sites, review sites and social networks iii) *Other Engagement Points*: call center, interactive advertising and websites. There should be no obstacles, overlaps, or gaps between the various channels. To be successful in the Omni-channel retailers must learn to successfully harness technology in order to create new internal organizational capabilities through new processes. Currently, all of the channels are not as seamless as they should be. Whether consumers purchase or engage with the retailer in any mode, the experience should be well-scripted and synchronized at all touch points. But this is not always the case—yet. For example, if customers purchase offline from X retailer in Bal Harbour, purchase on the retail Internet site, use their mobile apps, follow their tweets, join and post on their Facebook page and post their favorite personal or aspirational items from them on Pinterest, the retailer should have a complete record of this.

Retailers are trying to eliminate coordination and communication problems between channels. Their efforts are driven by the fact that end consumers are looking for consistency in pricing, branding, as well as a more integrated and personalized customer experience across all touch points. Few, fashion retailers have been able to craft and execute a compelling Omni-channel strategy. The defacto model and benchmark has been Apple. It is interesting that a consumer electronics company that was founded in 1976 has been successful in crafting an experience online and offline. Currently, retailers are in the process of developing better ways to enhance the experience for end-consumers. Providing seamless connections between channels is one of those ways. Retailers can begin to bridge the Omni-Channel gap by mapping the ways in which customers interact and purchase from them. In this way retailers can start putting the pieces of the puzzle together.

The difficulty in achieving Omni-channel nirvana is that this requires significant investment in technological infrastructure along with organizational change. With so much data to sift through it is critical to have proper reporting that can give retailers a sophisticated 360-degree view of a given customer. In order to have seamless front-end consumer engagement, the back-end integration needs to be seamless. This is a tall order for retailers to execute, since they may not have the in-house know-how to pull this off. However, I do not want to push forward an argument that only ties the success of an Omni-channel philosophy to technology. We must also consider the organizational structure and incentives in place at a given retailer, as this will determine whether this endeavor will be successful. We will elaborate on this further in the *Omni Channel Challenges* section.

3.4 Disruptive Innovation in Retail

Digital technology is transforming our industry. Currently, digital retailing is moving forward at an unprecedented pace. So much is occurring in this space that the story of digital retailing is still is unfolding. Digital retailing has resulted in more data. With a richness of data from in-store transactions and online sales, retailers are analyzing this data in order to better understand and address specific retail issues. As mentioned earlier, with the advent of the Internet at the turn of the century, the retail industry underwent a dramatic transformation. Prior to the Internet, retailers had to manage two major channels: brick-and-mortar retail and catalogues. However, online retail created a disruptive innovation that forever changed the way in which retailers conduct business. A *Disruptive Innovation*, a term created by Clay Christensen, begins at the bottom of a market and displaces incumbent competitors by quickly moving up market. (*Disruptive innovation explained.* 2012)

3.5 E-Commerce – Digital Disruption 1.0

First, retailers sold their merchandise in stores. Then, they sold it via catalogues. This was the predominant model. Then, Online changed the retail game. Many brick-and-mortar retailers were slow to adapt to this new model, as they were unsure of how to integrate this model into their existing business. Brick-and-mortar retailers eventually made the foray into the e-commerce sales channel. Some did so more quickly and successfully than others. For example, Prada had a website that has existed since the late 1990s. But for many years, if a shopper tried to explore the site, the homepage simply presented a visual of the company's most recent advertising campaign—and that was it. It was not until 2007 that the site provided greater functionality to consumers. It now has an e-store where a customer can purchase items directly. Prada is an extreme example, but why were they and other brick-and-mortar retailers slow to adapt? Retailers had little experience and lacked in-house technical skills to create a new business model to address this new sales channel. We will discuss this further in the online retail section.

Online retail moved up-market and has displaced competitors that were used to the standard Brick-and-Mortar way of doing business. For example, in its first iteration Amazon specialized as a bookseller, which changed the way in which consumers shopped. It caused many large brick-and-mortar chains to rethink their business models (e.g. Barnes & Noble) and some to ultimately shutter their doors (e.g. Waldenbooks and subsidiary Borders). Booksellers could not i) compete with the breadth of inventory managed by Amazon ii) compete with customer service iii) continuously innovate its business as Amazon did. Although it was only founded in 1995, according to its most recent 10K report, Amazon had revenues of $61 billion USD in 2012.

Neiman Marcus Group Comp Store Sales Growth

Neiman Marcus Group 2013				
	Total Sales	Comparable Store Sales (% change)		
		Specialty Retail	Online	Total
1st Quarter^	$1,069	3.5%	13.5%	5.4%
2nd Quarter^	$1,362	2.0%	17.9%	5.3%

^Sales in Millions

(The neiman marcus group investor relations.2013)

In fashion retail, e-commerce is a growing proportion of retail sales and has been for more than a decade, as we saw in an earlier section. E-Commerce is expected to grow between 9-12% in 2013 vs. 3.4% for brick-and-mortar retail. For example, Neiman Marcus Direct, formed in 1999, is the online division of the Neiman Marcus group. The Neiman Marcus Group major holdings include: Neiman Marcus Stores, Last Call outlets, Bergdorf Goodman and CUSP. In the 1st Quarter of 2013, its comp store sales grew 3.5% for Specialty Retail (Brick-and-Mortar Retail) and 13.5% for Online (e-commerce). In the 2nd Quarter of 2013, its comp store sales grew 2.0% for Specialty Retail (Brick-and-Mortar Retail) and 17.9% for Online (e-commerce). The presence of this channel has helped retailers grow more than they otherwise would have had they not had this channel. However, we have to keep in mind that there has been revenue cannibalization. To some extent online sales have cannibalized brick-and-mortar sales. Customers that normally would have purchased items offline now purchase online. Therefore, although we see growth, the revenue is not purely incremental.

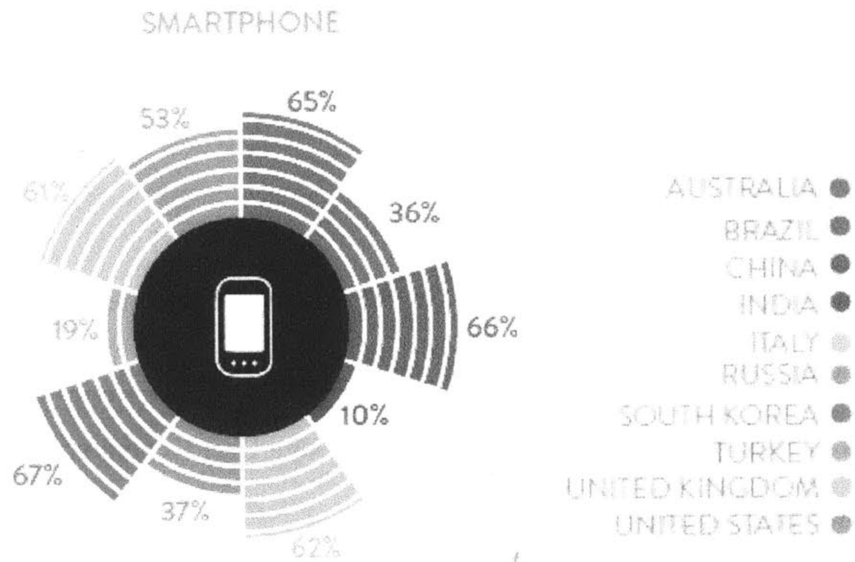
Net-a-Porter a pure-play fashion retailer without a brick-and-mortar presence has changed the way that high-end women's apparel is sold. It presented seasonal fashion looks in a magazine style layout with crisp photography. Natalie Massenet founded Net-a-Porter in June 2000. She sold her remaining share of the firm to Compagnie Financière Richemont SA, in April 2010 for £50 million, when company revenues were estimated at £350. (Topping, 2010) According to the Net-a-Porter website, the pure-play retailer currently ships to 170 countries worldwide from London and New York. When compared to other high-end brick-and-mortar retailers, Net-a-Porter is i) not constrained by its physical location ii) does not have to deal with the legal or infrastructure costs associated with operating physical stores in 170 international locations.

Another example is Gilt Groupe, a flash site that was founded in 2007. They had estimated revenues of $600 million in 2012 from apparel, trips and home décor. (Helm, 2013) In sum, e-commerce has allowed retailers to further grow their business, as this segment is providing retailers with a growing share of revenue. Crucial to this growth, is their ability to engage customers by provided them with a rich consumer experience. Retailers that survive this century must be well positioned in this channel.

3.6 M-Commerce – Digital Disruption 2.0

The Internet added a third important retailing channel, which brick-and-mortar retailers had to adapt to. However, as retailers were still becoming comfortable with this channel, the cellphone began to take the limelight as another disruptive innovation. As it evolved, it would change the way in which consumers would interact with retailers. At first cellphones began replacing traditional landline telephony. Their penetration rates increased, as is the case with any new technology. Then, cellular phones went from making simple phone calls to having other functions i.e. text messaging, music playing, picture taking etc. Mobile phones then became more sophisticated as they were given more functionality and applications. A mobile phone with capabilities other than simple calling features became known as a smartphone.

Smartphone Penetration



(*The mobile consumer: A global snapshot.*2013)

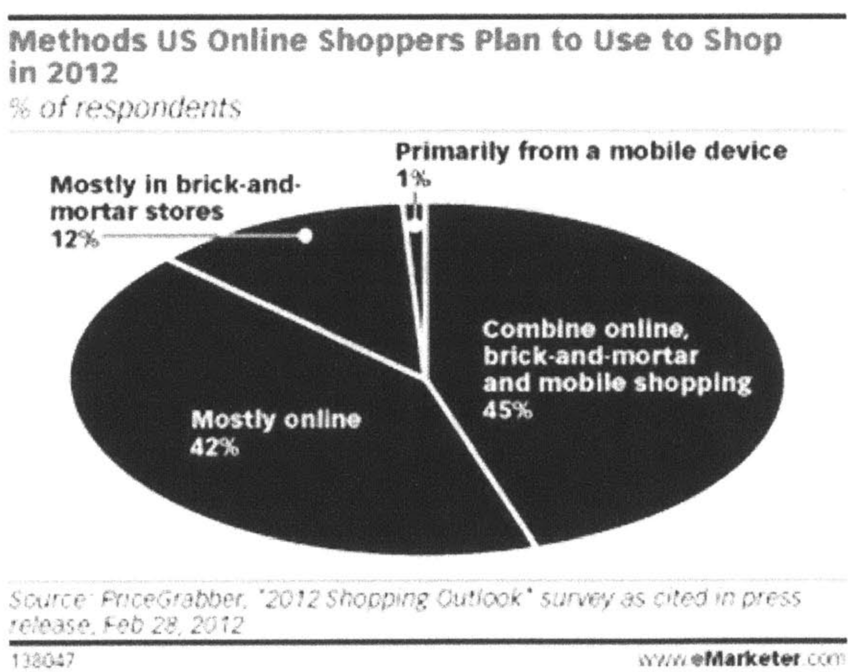
According to a February 2013 Nielsen study, smartphone penetration in the United States stands at 53%. It is lower than Korea (67%), China (66%), Australia (65%), Italy (62%) and the United Kingdom (61%). Additionally, about 17% of Americans own more than one mobile phone. (*The mobile consumer: A global snapshot.*2013) Assuming 312 million Americans, about 165.4 million Americans own a smartphone and 53 million own more than one mobile phone.

The birth of smartphone applications once again changed the ways in which consumers and retailers interact with end-consumers. This has changed the relationship between consumers and retailers, as there has been a fundamental shift in the power dynamic between the two. Consumers can easily check product reviews, compare prices, and look for coupons while making in-store purchases. Therefore, retailers must continue to become comfortable with technology and leverage the smartphone to their advantage, since consumers have more power at their fingertips than ever before. We will go into more detail in the mobile section.

3.7 The Power of the Consumer

Technology has facilitated a tectonic power shift from retailers to consumers. Retailers are recognizing that power has shifted to the end-consumer and they are trying to adapt. In the digital age, more purchasing options and transparency through User Generated Content translates into a more empowered consumer.

Omni-channel Shopping



(Solmssen, 2012)

The chart above clearly shows how technology has shifted the power to consumers as they have more purchasing possibilities. In other words, retailers are taking the lead from consumers rather than consumers taking the lead from retailers. Product information, ratings, pricing, and distribution are all accessible digitally on smartphones, tablets or the Internet. This means that consumers can easily make comparisons and make a purchasing decision more quickly than before. The chart above gives us a clearer snapshot of how customers are engaging the Omni-channel. 45% of consumers surveyed are using a mixture of brick-and-mortar, Internet and mobile channels to purchase. Contrasted with 12% of customers that plan to purchase mostly in brick-and-mortar stores, we quickly see the importance of the Omni-channel. Currently, 1% primarily will most likely purchase from a mobile device. However, this number will certainly increase. This only speaks to purchasing, since we must also consider the power given to consumers via User Generated Content.

User Generated Content is content created by individuals rather than by firms or paid professionals. (PCMag.com encyclopedia: Definition of: User generated content.2013) Digital media such as: blogging, digital video/photography, Internet forums, podcasting, Q&A sites, review sites, social media and social networks are examples of User Generated Content. The use of User Generated Content lends authenticity to a site, but some retailers have been slower to adopt User Generated Content on their Internet sites or mobile apps since they cannot control the overall message, as was the case in the past. Unlike traditional content, digital content is immediate, frequent, and easily retrievable.

Lastly, consumer demand is driving fashion retail more than ever before. Retailers like Zara, H&M, and Topshop have commoditized fashion through a speed-to-market model (*fast fashion*), giving consumers more say. It parallels the trend in technology and the need for immediate gratification. For example, Zara can design and deliver product to its retail stores in as little as 10 days, whereas the traditional design to retail cycle takes almost a year. In the past, designers dictated what the customer should wear. This is no longer the case. Customers now dictate what styles best fit their individuality, as is the case with Zara. Small batches of clothing are produced based on sales data and store manager feedback. The manager feedback is based on qualitative information obtained from customer interactions and observations. With Technology at their fingertips consumers will continue to expect even more from brick-and-mortar retailers.

4. Omni-Channel Challenges

"*Our customer is multi-dimensional. She is busy at work and out with friends. She always has her mobile device in her hand. She's active on Facebook and Twitter and YouTube and a dozen other social media sites...It makes no difference to us whether she buys something in our store or online... or whether she is shopping from her desktop computer or her Droid or her iPad. Macy's best customers are those who shop us in-stores and online... We strive to have a 360-degree view of the customer.*" (Davis, 2010)

-Terry Lundgren, CEO, Chairman of the Board and President of Macy's

4.1 Organizational Change and Technology

Although, digital technology has been a game-changer in many industries, the fashion retail industry has embraced the power of digital technology more slowly than other industries. In fashion retail it is crucial to intimately understand the end-consumer, since a business is built the old fashioned way – one sale at a time. With all of the rich data available, retailers have no excuse to not understand their consumers and have a single view of them. As more consumers continue to embrace the Omni-channel, astute retailers can use technology as a differentiator. That is, retailers can create a meaningful Competitive Advantage by enhancing the overall user experience with the aid of technology. In order to create a Competitive Advantage, a company's products or processes must either be unique or cost less than competitors and also be sustainable relative to the competition. With this in mind a customer shopping with a given retailer must have unique and lasting positive experiences at all touch points.

Terry Lundgren's description of the Macy's *multi-dimensional* customer captures the essence of the Omni-channel at the front-end, but what about the back-end? Getting this customer engagement right becomes a tall order, since the Omni-channel challenge is not purely about technology implementation, but also in large part about organizational change, process integration and the alignment of behaviors towards one goal. Often we associate technology with hardware and software and forget about the most important component that will dictate the success or failure of a given technology or process – People. In the abstract, organizations are monolithic in nature, but in reality are made up of individuals and teams with common or divergent interests. Therefore, when striving for Omni-channel nirvana, retailers must remember to frame this as both an organizational and technological challenge.

4.2 Organizational Barriers

When thinking about the success of the Omni-channel in retail, we need to consider three major issues i) organizational structure ii) organizational coordination iii) technical knowledge and investment. Retailers have fragmented sales channels that need coordination. Moreover, they must consider the cost of attracting talent with technical knowledge and the additional investment in IT infrastructure. If they do not address these issues retailers will not unlock the full potential of the Omni-channel and achieve the objective of a meaningful consistent brand experience for end-consumers.

4.2.1 Organizational structure

Although inroads have been into the Omni-channel, retail companies were not originally organized to capture consumer data in a single repository, synchronize it and have a single view of their customers at the back-end. Currently, this is why the consumer retail brand experience is sometimes disjointed at the front-end. As discussed in earlier sections, the Omni-channel is a relatively new concept that evolved from Multichannel retailing. Recall that the separate sales channels i.e. brick-and-mortar, catalogue, Internet were organized as separate sales channels. For example, The Neiman Marcus Group Specialty Retail Stores division houses Neiman Marcus Stores and the online division. (The neiman marcus group investor relations.2013) In practice this means that there are separate buying teams for the retail stores and the online division (Neiman Marcus Direct). This tells us that a macro level Neiman Marcus is organized in silos based on sales channels. Neiman Marcus is only one data point, as many retailers face this same issue.

4.2.2 Organizational coordination

The silos make it complex for retailers to have continuous retail time data and provide a seamless experience for end-consumers. As we said, organizations are made up of individuals that may have similar or competing interests. The individuals themselves do not necessarily create these competing interests, although they may do so. Rather the organizational silos and the manner in which organizational incentives and rewards are aligned are sometimes to blame. Given this context, coordination within retailers needs to take hold in order to have a unified front. This implies that new processes need to shape place within the organization, as a natural outcome of coordination. The questions we need to ask are: How do we share the single view of the customer across the organization? How do I combine my various departments across silos? How do we build bridges between the offline and online segments, since they are essentially two different cultures? Is IT coordinating with Marketing? Are my Sales Associates properly incentivized to provide us with accurate actionable data? These are difficult questions. The solutions for these business dilemmas are not clear and simple. Nevertheless, as Senior Management we need to address these questions and champion the change that will best serve our customers.

4.2.3 Technological knowledge and investment

The digital world of retail changed the skill sets that were needed in order to be successful in this segment. The internal technical knowledge that is needed for retailers to succeed in the brick-and-mortar world is very different from the internal technical knowledge needed in the digital world, since we are taking about two different ways of interacting with customers. Although there may be transferable skills between the offline and online world, digital retail needs engineers and computer scientists that can manage analytics, hardware, operations, software development and user experience to cite a few major areas. These skills are in high demand. If we use 2012 MIT employment statistics for undergraduates and graduate students as a quick temperature check, we can quickly see the firms that are attracting graduates with these coveted skill sets: Amazon, Apple, Google, Microsoft, Oracle, as well as top-tier consulting firms and banks. (MIT students after graduation.2013) These companies or firms similar to these are recruiting comparable graduates from other university engineering and computer science programs. This competitive environment raises the cost of technical personnel recruitment in retail. Moreover, IT infrastructure investment increases if a retailer wants to be truly effective in the Omni-channel. There is a cost for building and maintaining an e-commerce or mobile platform and division, as well as a cost in terms of overall IT integration with existing retail legacy systems. In sum, the Omni-Channel requires new internal skill sets and the willingness of retailers to invest in personnel and IT infrastructure.

4.3 Model for Organizational Change

In order for an Omni-channel strategy to be a successful, the existing culture of a given retailer must be changed over time so that everyone is aligned with a single vision. This will facilitate systematic integration and coordination within the organizational architecture of the firm. Moreover, if this is a clear strategic objective, financial investments can be made to recruit personnel with technical knowledge and to develop and strengthen IT infrastructure. With this in mind, we can use a model developed by Professor Rosabeth Moss Kanter from Harvard Business School. It is called *The Change Wheel.* According to Professor Moss Kanter, "…A single intervention in a dysfunctional system won't change the outcomes unless the underlying design is addressed." (Moss Kanter, 2011) Below we will describe the ten major elements of the model in more detail and also discuss how it is applicable in retail.

A Model for Organizational Change: The Change Wheel

(Moss Kanter, 2011)

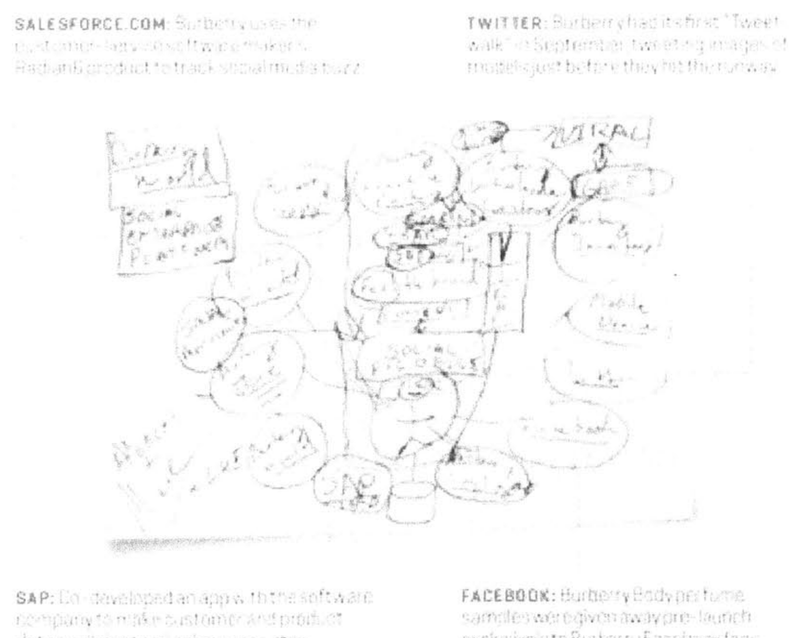
In order for change to be successful, the CEO must embrace the vision and have a top-down, bottom-up approach and facilitate change across the entire organization. The ten elements are all aligned to the goal in the center. By using this tool one can measure the cultural and performance progress to the desired state of a system or organization. As with any organizational change process, this can take years and there will most likely be setbacks. However, our job as Senior Executives is to come up with creative solutions to these setbacks. Also, it is important to note that given actions, programs, policies or initiatives cannot always be neatly compartmentalized in one single element, as it may fit in other elements. The 10 elements of change must be take place in order (clockwise) for the change process to properly take hold. It begins with a Common Theme, Shared Vision and then continues with Symbols and Signals and continues clockwise to ultimately end with reward and recognition. (Moss Kanter, 2011) Let us use Burberry Group PLC as an example of how this model might be applied in retail, since it has adopted a digital Omni-Channel strategy. This 7-year transformation began when Angela Ahrendts became CEO in 2006.

4.4 Digital Change at Burberry

"I've seen what has happened to brands like Kodak that did not keep up with digital change…That's a lesson in what to avoid."

-Angela Ahrendts, CEO Burberry (Burberry goes digital.2013)

Salesforce.com CEO Marc Benioff's Sketch: The Burberry "Social Enterprise,"



- *Common theme, shared vision:* The change message is internalized and continually communicated. When Angela Ahrendts took over Burberry 2006 she decided to grow the business with millennials, as 60% of the world's population was under 30. (Easton, 2012) Ahrendts asked, "What is their language? And that's when we looked at each other and said, It's digital." (Kowitt, 2012)

- *Symbols and Signals:* Leaders must authentically signal that they are serious about actions as words are linked to actions. From 2006 on Ahrendts continuously added new technology that embraced the digital goal: Enhanced e-commerce site, in-store iPads, Burberry Chat (Salesforce's Chatter platform), Customer 360 (digital customer profile).

- *Governance and Accountability Structure:* A separate group comprised by the board and top management should guide the process. She has the backing of the Board and has Senior Management help guide the process. She pulled together 100 managers when she first started to help chart a new course for the brand. "I work through teams. It's the only way I know how to work." (Easton, 2012)

- *Education, Training and Action Tools:* Education is necessary to communicate the goal and rationale so that people understand what is expected. They have monthly webcasts, videos and preview ad campaigns with all Sales Associates in the 500 worldwide stores. "Knowledge is power…Everyone talks about building a relationship with your customer. I think you build one with your employees first." (Easton, 2012)

- *Champions and Sponsors:* Champions lead the initiative, whereas Sponsors are senior leaders that ensure that those with power properly back the change. As the CEO Ahrendts leads the charge along with Christopher Bailey the Chief Creative Officer. They handle the monthly webcasts, which started off as quarterly webcasts. The have been working on this initiative, along with 100 other senior managers since 2006

- *Quick Wins and Local Innovations:* Early successes provide momentum for the change. The artofthetrench.com was first launched in November 2009. Customers were able to upload photographs of themselves in Burberry trench coats. Users could comment and share photos. A year after the launch of the site their Facebook fan base grew to over 1 million users. The site was the largest conduit of click-throughs to the Burberry e-commerce website. The campaign was extremely successful. (Grieve, Idiculla, & Tobias, 2013)

- *Communications, Best Practice Exchange:* Top leaders need to be abreast of what is occurring and local units need to see the success of the test case. Ahrendts practices "MBFA" (Management By Flying Around), a term often used by Professor Moss Kanter. Moreover, innovation begins at the Burberry headquarters - Horseferry House, which is located in the Westminster section of London. The digital innovation conceived at HQ is tested in the London Flagship, fine-tuned and then rolled out worldwide.

- *Policy, Procedures and System Alignment:* Rules and processes need to be aligned to support the new direction. According to a Burberry store Sales Associate in New York, they are encouraged to use the iPads in the store. Since the digital vision began in 2006, we can assume that overall organization or system policies have been aligned so that employees can embrace the new technology. In 2012, 70% of Burberry employees were under 30 in Horseferry House. (Easton, 2012)

- *Measures, Milestones and Feedback:* Proper feedback loops that measure milestones and progress help keep the change on track. The change seems to be on track as Burberry has reported in April 2013 that its 4th quarter beat analyst estimates, which increased its share price. It had a tough 2nd quarter in 2012, which was pinned on a slowdown in Asia. Burberry's has its share of critics that think that it is not focusing on its core fashion business. However, it seems that the strategy has generally resonated with its target market. Here is a snapshot of other measures: 14 million Facebook fans, since joining in 2009, 1.3 million Twitter, 564,000 Instagram, 17,000 Pinterest and 46,000 YouTube followers and almost 11 million fans on its four Chinese social networks (Sina Weibo, Kaixin001, Douban and YouKu). (Cronin, 2012)

- *Reward and Recognition:* Financial compensation and non-financial recognition point-out who is doing the right things for change. The Fashion Retail industry has recognized Burberry as leader in Digital technology. Numerous articles in international business and trade publications have been written, highlighting the strides that Burberry has made in the Omni-channel, since 2006. Probably the highest praise that it has received comes in the form of employees that it has attracted. Due to the success of its digital strategy, it has attracted employees from Nokia and Microsoft. (Kowitt, 2012)

5. The Retail Selling Process

5.1 Barney's New York: The Retail Selling Floor as a Laboratory

Barney Pressman founded Barneys New York in 1923. Currently, it is majority owned by the hedge fund Perry Capital Management, (Horyn, 2012) The original New York location, now housing a Loehmann's discount store, is located at 101 Seventh Avenue in Manhattan. Barneys was owned by three generations of the Pressman family until it eventually changed hands. Fred Pressman, the son of Barney Pressman, was largely credited with turning the Men's discount suit retailer into a purveyor of designer apparel. He was a true Merchant in the old world retail sense of the word. A Merchant in retail is someone that not only understands product, but also is well versed in the nuts and bolts of running the business. "Understanding Product" entails understanding the consumer, which means that spending time on the sales floor is crucial. Fred Pressman knew the importance of this. He required all of his executives to spend time on the sales floor at least twice a month. He was once quoted as saying that retailing was about, "products and merchandise, not merchandising from ledger books, but from the feel of fabric and instinct...The best value you can offer a customer is personal attention to every detail, and they will return again and again." (Steinhauer, 1996)

Clearly, one has to understand the technical aspects that go into creating a garment. For example, it is important to know the style, fabric content, make, cut, fit, and trim details that may be important to a consumer. By having knowledgeable sales staff the overall customer experience is enhanced. This is only the beginning. On the sales floor, one has to gauge what if any of these factors is important to a customer. Having spent countless hours on the sales floor, I can attest to the fact that the apparel purchase process can be very emotional for an end-consumer. I was a Buyer and a General Manager of a retail store chain. This is part of what Barney Pressman was referring to. In addition, this is where theory meets practice, which is why the sales floor is a laboratory where one can see in real-time what works and what does not work. It is one thing to see garments on fit models in a showroom when purchasing a collection for the imagined end-consumers in a store. However, it is something completely different to actually see a customer comment and try on garments in the store. Customer feedback is critical, as it allows us to continuously improve our craft. This Merchant role has been lost, as retailers try to stay afloat. Many Executives and Buyers do not spend time on the sales floor as they are too busy in meetings or are crunching numbers in offices rather than sales.

5.2 Loro Piana: Merging Quantitative and Qualitative Data

In the apparel retail sector, I have found that there is often a battle between these the quantitative and qualitative sides of a business. Rather than co-existing and integrating in ways that could yield organizational innovation, one side almost always seems to overpower the other. More often than not it is the quantitative side that overpowers the qualitative side. When this happens to a retail company, we know that the magic that made a retailer is in short supply.

What intrigues me about this process is that in a retail apparel business, the quantitative aspects of the business are often what guide us. Our metrics are biased towards quantitative measures, which weaken much of the rich qualitative elements inherent in the business. For example, indicators such as Comparable Store Sales, Conversion Rate, Gross Margin, Inventory Turnover and Return on Assets are standard metrics that we use in the retail sector. These indicators only capture the results that can be generated by the qualitative components of the business. In the fashion retail industry, innovations in Product Design, Textile Engineering, Logistics and the online world provide customers with a reason to purchase season after season.

Many years ago when I first started purchasing apparel for the Loro Piana apparel retail division, our divisional head could not understand why we were successful in our Palm Beach store in terms of revenue generation, but not as successful in our Coral Gables store. These stores were both in the state of Florida and were roughly 64 miles apart. My first step was to review the quantitative data for these two stores. The historical data from these stores only provided me with a limited view of our potential customer issue. We knew how much we sold, what styles we sold, what colors we sold, what sizes we sold, when we sold our merchandise and where we sold it by location. However, this was not enough to help us answer why one store was doing better than the other store. We were missing the following parts of the equation – who did we sell it to and why did they purchase it? Therefore, the next step was to spend time in each store. My predecessor had purchased the identical product assortment for both stores. Bright colored apparel and lightweight cashmere sweaters and accessories, the specialty of the maison, was purchased for both stores. After all, two stores representing the same brand this close together should not be that different right?

Like a good merchant, I spent two days at each store in order to observe, talk to the sales staff and talk to customers. Even though the stores were close in terms of location, they could not have been further apart. What we learned was that our customers in Palm Beach were mostly American. They had 2nd or 3rd homes in the area and did not need to go to the office on a daily basis. With this we would ask the question that Clay Christensen, a Professor at Harvard Business School, often asks – "What job did these customers hire this product to do?" (Christensen, Cook, & Hall, 2012) Essentially, the clients at the Palm Beach store wanted the clothing to make them look tasteful, fashionable and conservative, while entertaining friends or attending charity events. Therefore, they purchased clothing that was brighter. The traditional colors in this part of the nation are pink and green. This made sense, as normally one tends to wear brighter colors in a resort town. What about Coral Gables? Can you take a guess?

The majority of our customers in our Coral Gables store were from Latin America. They were from México, Brazil, Argentina and most every country in between. They had 2nd homes in the Miami area or were visiting on business. Thus, "The job that they wanted their product to do", was to have tasteful, fashionable and conservative apparel that they could wear while conducting business. The clients were entrepreneurs and business people. Therefore, they generally preferred darker colors with bright colors as accents, rather than just bright colors. Moreover, on average, Latin American men did not wear brighter colors like American men in Palm Beach did.

What was the solution? How did we grow the business in Coral Gables? By merging the quantitative and qualitative information we were able to increase sales in Coral Gables. With the new information that we had just acquired, we tweaked the purchases at Palm Beach. However, the biggest change took place in Coral Gables. Rather than purchasing the same products for each store and adjusting quantities based on the projected volume and size of each store we catered to the prevailing consumer preference in Coral Gables. In order to create a cohesive brand identity in both stores, we purchased a similar selection of products for Coral Gables. The Coral Gables store could not just be "darkened" by buying darker business colors. Therefore, we purchased the darker colors in greater quantity, but layered enough bright colors so that the store looked bright and went with the sunny locale. We knew that we would sell bright colors in the Coral Gables store, though not as well as the Palm Beach store. The key was adjusting the proportion of dark colors vis-à-vis bright colors in our purchases. This led to increased sales in the Coral Gables store, since we stocked the right goods at the right time in the right place at the right price. More importantly, this is an illustration of how listening to and understanding the consumer can yield positive results.

The case of Barneys New York and Loro Piana provide us with extremely valuable lessons. We must remember to incorporate some of these lessons into the online world, as well as the technology that is currently being developed for brick-and-mortar retailers. As we reflect upon these lessons we begin to grasp how rich the retail sales floor experience can be for customers when done well. We must always remember that as retailers, everything we do is for our end-consumers. They are our raison d'être. Therefore, it is not difficult to see why pure-play retailers are moving offline. Not only is it a logical business pathway, but also perhaps more importantly –at this point in time it is difficult to replicate the human touch digitally.

6. The Digital World

6.1 Data

Technology has allowed enterprises to produce massive amounts of data. This is the case across industries and is not any different in the fashion retail industry. Even though the act of gathering customer data has become easier, retailers are grappling with how to segment and interpret the data. There are some concepts to remember in this regard. First, data is not useful if does not have a purpose. In order for data to be useful, it must be actionable. The upside-down pyramid method can be useful here—start with the big questions and drill down to the details. With this in mind ask, what are the questions I want answered? Based on this, manipulate the data in order help answer those questions. In other words, data should be made actionable in order for an organization (or an individual) to move forward. Information simply is not enough.

Data analytics is making big waves in many industries. In fashion retail we are grappling with this as well. The big question for retailers is how to organize, integrate, process and act on the data from all of the sales and social media channels? Data is a big part of the Omni-channel conundrum. With so much data what are the right data points for us to create a single view of our customers. The answer to this will evolve. Regardless of how the Omni-channel evolves, the key is to have data that is both descriptive and ultimately actionable.

6.2 Digital Marketing

Without a doubt, marketing is a crucial component of modern retailing. Many marketing dollars have shifted from traditional to digital media. Digital marketing activities are conducted through e-mail, mobile devices (smartphones or tablets), websites or even digital television. Digital marketing is integrated with other communications off-line channels in order to develop new customer relationships and maintain existing relationships. The biggest sea change in this space has been social media and mobile applications. The prevalence of these has changed the overall way in which retail marketers interact with consumers. Moreover, some of these can also become part of the Omni-channel touch points. Let us examine some examples of modern marketing methods that are being integrated into the overall retail experience. The following examples give a 30,000-foot flavor of the major trends, rather delving deeply into how to implement these.

6.2.1 Social Media

Social media is any type of electronic communication that allows users to share content or information online i.e. blogs (Mr. Porter- The Journal, Taste – Williams Sonoma) digital video/photography (Pinterest, YouTube), Internet forums (The Fashion Spot, Styleforum), podcasts (Dolce & Gabbana World, H&M), Q&A sites, review/opinion sites (Amazon, Loop-it) and social networks (Facebook, Foursquare). Retailers can either generate this on their own or can have a more authentic approach by facilitating user generated content or a combination of both.

6.2.2 Mobile Applications (Apps)

For example, a store locator is an effective way of using a smartphone application. Tabbing each page of the store locator with Twitter, Facebook, and 4 Square can give users more options for sharing information. Rather than just showing creative ads, applications can be made practical as the example above shows.

6.2.3 Viral Marketing

Viral Marketing is the use of social networks to increase brand awareness, with the aim of eventually producing sales. A Social Network is an online community bought together by a mutual interest. GILT Group was very successful at viral marketing. At first, entrance to the site was by invitation only. Therefore, it was exclusively through word-of-mouth or a social network that access would be granted, since invitations to join could be only be extended by existing members.

6.2.4 Search Engine Optimization (SEO)

Improving a website's visibility so that it appears more frequently on Internet searches is known as Search Engine Optimization. This can happen naturally, or more often it can be done through the use of algorithms. For example, if you Google "luxury handbags," what brands do you think will appear in the top 10 search results?

7. The Mobile Future

"Brands should use mobile in the store to help the salespeople collect and use data to create relationships...Say the store is empty, employees can use the mobile device to send recent customers information and deals and offer to make them an in-store appointment...Every employee with a mobile device can be far more effective at creating customer relationships."

-Milton Pedraza, CEO of the Luxury Institute, New York (Hutzler, 2011)

7.1 The Growth of Mobile

Apple and Google app stores offer about 1.4 million apps combined, which is an astounding 700,000 apps each. On average, consumers spend about two hours on mobile apps. According to Gartner Inc. global app store revenue is expected to hit $25 billion in 2013. (Lessin & Ante, 2013) This is quite impressive for an industry started by Apple five years ago, since apps are still in their early days. The browser of choice on mobile devices is Apple's Safari. Due to the popularity of the iPhone and iPad it Apple a 59% share in smartphones and tablets. (Lessin, 2013) We know that apps are big business when Facebook also starts getting into the game. In May 2013, it reported that 1 out every 3 dollars in revenue comes from advertising in smartphones and tablets. (Rusli, 2013b) In May Facebook also announced that it would launch video advertising in its news feed (Budden, Steel, & Dembosky, 2013) and was also in talks to buy Waze, a navigation mobile app, for $1 billion. (Rusli, 2013a)

Projected M-Commerce Sales 2011 – 2016

US Retail Mcommerce Sales, by Device, 2011-2016
billions and % of total

	2011	2012	2013	2014	2015	2016
Tablet	$5.45	$13.86	$24.00	$34.33	$46.44	$61.06
—% of total	40.0%	56.2%	62.5%	65.8%	68.0%	70.3%
Smartphone	$7.50	$9.86	$13.44	$16.69	$20.49	$24.32
—% of total	55.0%	40.0%	35.0%	32.0%	30.0%	28.0%
Other mobile devices	$0.68	$0.94	$0.96	$1.15	$1.37	$1.48
—% of total	5.0%	3.8%	2.5%	2.2%	2.0%	1.7%
Total	$13.63	$24.66	$38.40	$52.17	$68.29	$86.86

Note: excludes travel and event ticket sales
Source: eMarketer, Jan 2013

149662 www.eMarketer.com

(More shoppers reach for mobile to browse, buy.2013)

The chart above shows us the projected growth of mobile apps in terms of smartphones and tablets. The projection indicates that by 2016 70% of m-commerce sales will come from tablets, 28% will come from smartphones and 2% from other mobile devices. In other words tablets will become a more important sales channel when compared to smartphones. This is because tablets are easier to navigate, view and upload more quickly when compared to smartphones that are smaller.

7.2 Retail Applications

The mobile app market is a saturated segment. However, it holds much promise in the fashion retail sector, since the customer directly interfaces with the online channel during the purchase process. Therefore, rich customer data is readily captured and can be quickly analyzed in order to help customers make real-time decisions. However, as we have seen in an earlier section, the adoption process is the critical factor that will either make an app a success or failure. Again, it is all about the personnel in the organization. Burberry has forged ahead successfully, whereas Neiman Marcus's partnered with Signature in 2012, to create a NM service app. The app has a sales associate and consumer interface. Its features include: reminders, customer preferences, purchase history and an email feature to communicate with customers. Up until apps came on the scene, precise customer history was only available in-store at the point-of-sale register. At this time it is important for retailers to try apps, iterate, and make them part of the process once positive results are shown. Retailers that do not start incorporate apps into the selling process will fall behind retailers that are able to connect with their customers.

7.3 eBay's Mobile App

As we know eBay, facilitates interactions with buyers and sellers globally. Sellers will generally sell used or new merchandise. On July 16, 2010 eBay introduced a new fashion app via iTunes that allowed buyers view, purchase or "try on" items virtually. The app allows users to build a personalized closet, build outfits, share finds with friends via Facebook, Twitter or email and have access to a Style Gallery that recommends styles that the user might like. (Dillon, 2010) This market is evolving quickly and many retail app start-ups are getting into the game. It will be interesting to see what players will be left standing and how they will continue to influence this segment of the apparel sector, as this is the latest emerging trend in the industry. Lastly, eBay established a Retail Innovation Division in December 2012. Their Goal is to create in-store consumer experiences through interactive kiosks and other interesting technologies.

7.4 The Future of Apps

" The normal retail calendar is shifting because of mobile. The time a store opens changes because the store is on the phone, the stores in the shoppers' hands."

-Steve Yankovich Vice-President of mobile for eBay (Dembosky, 2012)

Retailers must understand how mobile apps retail to the future of their business. Since they are at a nascent stage, apps have much room to grow. What does the future hold for mobile apps? First, they will capture more data, as they will continue to grow in usage. A growth in data goes in tandem with the growth the need for greater storage and processing capabilities. Second, Facebook is cluing us in on their recent announcements that location based services and mobile marketing are future growth areas. Third, as we saw this last Black Friday 2012, select coupons and exclusive deals were only offered on mobile devices. This not only points to mobile coupons, but also to consumer segmentation when coupled with location. Forward-looking fashion retailers must re-imagine their futures, lest they risk ending up footnotes in retail history.

8. Conclusion

"I try to project a constant sensibility about life. To me, it's not just clothes. It's how you live and what your dreams are."

-Ralph Lauren, Chairman and CEO Ralph Lauren (Lauren, 2013)

We have explored the tectonic changes occurring in brick-and-mortar fashion retail. Additionally, we have explored how retailers might be able to manage the change process and incorporate technology into existing retail system. The Internet and Smartphones have changed the way in which consumers and retailers interact. Retailers that adapt their retail business models and address change head on will prosper and have enduring businesses.

It is an exciting time in brick-and-mortar retail. Successful retailers create a shopping environment that galvanizes the consumer to purchase. The fashion retail industry creates dreams through clothing. With the aid of technology, imagine what a connected retail future might look like. Consider the contributions that Amazon, Apple and Burberry have made to the overall retail experience. Future research should analyze new ways of enhancing the customer experience in store. In the future, emerging trends and their potential effect on existing retail models should also be explored. For example, Digital fabrication, 3D printing and the Internet of Things are catching on. What implications will these technologies have in the future and when and under what conditions will these technologies overshadow existing retail technologies? Additionally, as much as technology facilitates sales, we should we consider whether or not we are going down a difficult path by perpetuating artificial obsolescence and consumerism? What are some potential alternatives?

Think of your own experiences in retail. Some of these might be negative due to: poor sales help, too many products, uninspired products, unavailable sizes/product, incorrect sizing between brands or perhaps a disorganized store layout. On the other hand, successful retailers mitigate these problems by having knowledgeable and pleasant sales staff, streamlined product assortments, differentiated products, proper size runs, and a well-designed, easily navigated store. They ensure that customers are satisfied during and after purchase by leveraging technology and maximizing the Omni-channel experience during all stages of the purchasing process. Always remember that no one ever goes into a store to feel worse off than when he or she walked in. This is why we patronize certain retailers and ignore others. When well executed, the retail experience is nothing short of magical. On the other hand, when executed poorly, it destroys the dream.

APPENDIX

NAICS Code	Type of Business
441	**Motor vehicle and parts dealers**
4411,4412	Automobile and other motor vehicle dealers
4411	Automobile dealers
44111	New car dealers
44112	Used car dealers
4413	Automotive parts, acc., and tire stores
442,443	Furniture, home furn, electronics, and appliance stores
442	**Furniture and home furnishings stores**
4421	Furniture stores
4422	Home furnishings stores
44221	Floor covering stores
442299	All other home furnishings stores
443	**Electronics and appliance stores**
44311	Appl.,TV, and other elect. stores
443111	Household appliance stores
443112	Radio, T.V., and other elect. stores
44312	Computer and software stores
444	**Building mat. and garden equip. and supplies dealers**
4441	Building mat. and supplies dealers
44412	Paint and wallpaper stores
44413	Hardware stores
445	**Food and beverage stores**
4451	Grocery stores
44511	Supermarkets and other grocery (except convenience) stores
4453	Beer, wine, and liquor stores
446	**Health and personal care stores**
44611	Pharmacies and drug stores
447	**Gasoline stations**
448	**Clothing and clothing access. stores**
4481	Clothing stores
44811	Men's clothing stores
44812	Women's clothing stores
44814	Family clothing stores
44819	Other clothing stores
4482	Shoe stores
44831	Jewelry stores
451	**Sporting goods, hobby, book, and music stores**
45111	Sporting goods stores
45112	Hobby, toy, and game stores
451211	Book stores
452	**General merchandise stores**
4521	Department stores (excl.L.D)
452112	Discount dept. stores
452111	Department stores(excl. discount department stores)
4521	Department stores (incl. L.D.)(1)
452112	Discount dept. stores
452111	Department stores(excl. discount department stores)
4529	Other general merchandise stores
45291	Warehouse clubs and superstores
45299	All other gen. merchandise stores
453	**Miscellaneous store retailers**
4532	Office supplies, stationery, and gift stores
45321	Office supplies and stationery stores
45322	Gift, novelty, and souvenir stores
4533	Used merchandise stores
454	**Nonstore retailers**
4541	Electronic shopping and mail-order houses
45431	Fuel dealers
722	**Food services and drinking places**
7221	Full service restaurants
7222	Limited service eating places
7224	Drinking places

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