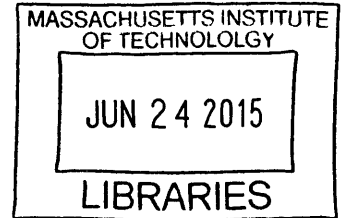# Retail of the Future: O2O or O&O?

By

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SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

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# Retail of the Future: O2O or O&O?

By

**Vaibhav Somani**

Submitted to MIT Sloan School of Management
on May 8, 2015 in Partial Fulfillment of the
requirements for the Degree of Master of Science in
Management Studies.

## ABSTRACT

Retail industry has transformed in the first decade of this century and new trends continue to disrupt it. Rise of the online channel has pushed the entire retail industry to innovate and think of novel ways to attract and retain customers. With increasing competition, retailers need to differentiate themselves and be relevant to customers. 'Customer is King' is more valid today than ever before. From the customer's point of view, convenience of online retailing is attractive, but physical stores continue to have strong appeal. Access to smartphones and the internet gives customers the flexibility to frequently shift between these channels. This poses a great challenge for retailers on how to provide an omnichannel experience that is personalized but not intrusive.

This work explores the need for innovation in the retail industry by researching changing customer behavior and socio-economic trends. Customer's affinity for online channels is not debatable, but this does not mean the end of physical retail. This study examines the importance of physical footprint and the new role of Brick & Mortar in omnichannel settings. It looks into facilitators of transformation of physical retail store from *point of sale* to *point of customer experience.*

Research indicates that online and offline channels will coexist. Channel integration aims to ensure that online and offline channels do not compete with each other, but complement each other. Further, this study reports the benefits and challenges of channel integration. Finally it proposes an implementation roadmap for the channel integration based on the customer value proposition and dynamic roles of each channel in omnichannel retail.

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# 1. Introduction

Customers today are very quick to adopt new technologies; the proliferation of ecommerce is strong evidence. Disruptive ecommerce players such as Amazon, eBay, Goggle Express made the landscape more competitive and the retention of the customers more difficult in the last few years. In response, brick & mortar retailers implemented multi-channel strategies to harness the power of customer touch points. They soon realized that only a presence across different platforms is not enough. Customer experience has to be seamless across these channels. As brick and mortar retailers tackle the challenge to integrate different channels, the market and technology dynamics breed newer frontiers to aim for. Continuously evolving retail models and the new roles of online and offline channel present both challenges and opportunities for the retailers.

With the rise of the Amazons of the world, many retailers believed that the end of brick and mortar stores is near. But, over the last decade, brick and mortar retail has survived the strife with these online players and the increased competition. Also, the statistics clearly show that brick & mortar retail is here to stay. 75% customers prefer customized in-store experience to online shopping (Synqera, 2013).

In fact, the online retailers are also moving to the offline channel as they see value in physical footprint (Brown, Mendoza-Pena, & Moriarty, 2014). Figure 1(a) shows how 5 major online players have increased their physical footprint since 2009. For instance, the number of Microsoft physical stores increased from 2 in 2009 to 51 in 2013.
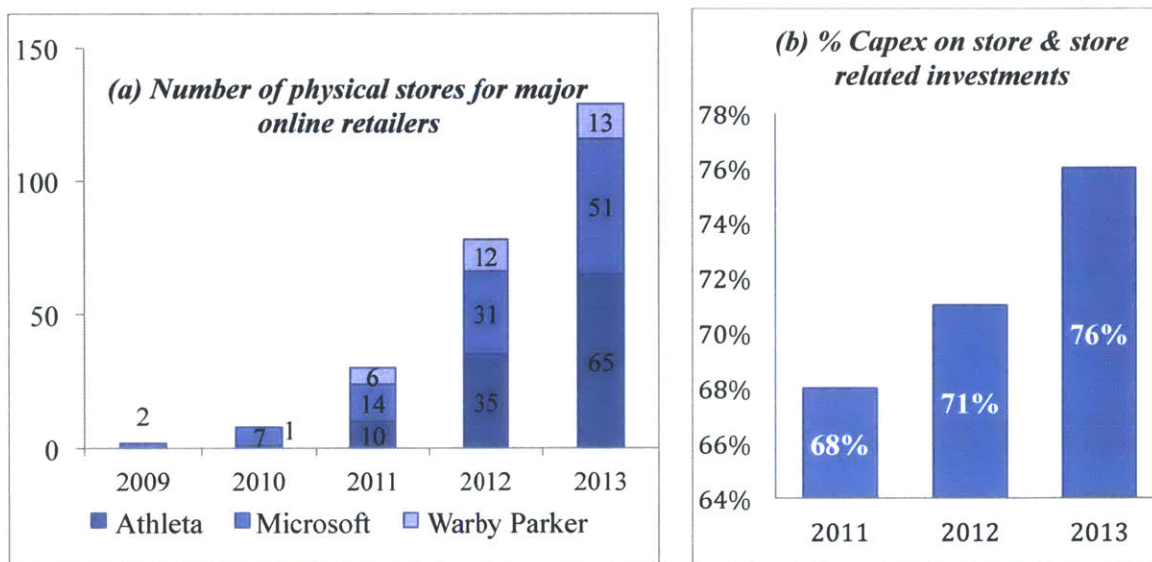


*Figure 1: Increase in physical footprint of retail*
*Source: Bloomberg, Retailer websites, annual reports, AT Kearney Analysis*
*(Brown, Mendoza-Pena, & Moriarty, 2014)*

At the same time, traditional retailers continue to invest in physical stores. Figure 1(b) shows the increase in top retailers' capital expenditure on store and store-related investments. However, brick and mortar retail of the future will have to change. It has to adapt to the new reality so that it is efficient and relevant. To effect this change, retailers have to re-determine functions because online and offline channels can

contribute differently at different points in the customer's shopping journey. Predominantly, retailers need to figure out whether it is a move from click to brick, brick to click or click and brick.

## 1.1 Changing Landscape of Retail

Physical retail has been enjoying a captive audience for a long time now. Until almost the end of the twentieth century, a physical store was the only place where customers bought products. But, online stores have encroached on this territory. Ecommerce sales grew from almost 1 trillion in 2012 to 1.47 trillion in 2014 and are estimated to reach 2.35 trillion by 2018 (Statista, 2014). E-commerce sales now account for about 6.5% of total sales for 2014, growing rapidly within last 10 years from 2.5%in 2005, and is up by 3.8% from that in 2013 (U.S. Department of Commerce, 2015).
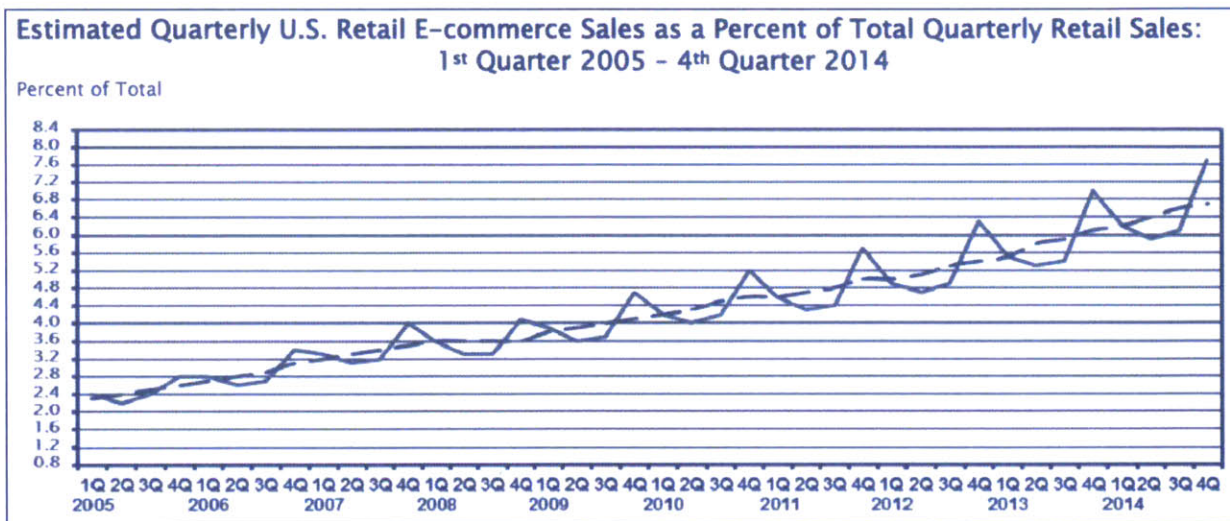


**Figure 2: Ecommerce sales**
*Source: U.S. Census Bureau News, U.S. Department of Commerce (February 2015)*

Retailers also face competition from the emerging formats of retail. For example, travel retail has become a big phenomenon in the last few years. Travel retail is defined as retail sales happening in the travel environment and mostly refers to sales at airports (Doran, 2014). According to NRF study, Travel retail is now more than $1 trillion industry and Sales at airports alone will grow by 73% from 2013 to 2019 (Economist, May10th 2014).

**Shift in channels** - There are seven major anchors to pull a customer into a physical store – product range, brand experience, convenience, entertainment, getting a solution, discounts and instant gratification (Niemeier, Zocchi, & Catena, 2013). The online channel has affected most of these anchors. For instance, online retail can display an unlimited product range while brick and mortar can only display limited products due to the physical boundary. Amazon is a good example of this. Amazon stocks many niche books that are generally not available at by physical book retailers (Grieder, Buck, Banfi, Kment, & Fitzner, 2014). These books account for only 2% of total book sale by Amazon, but contribute 37% to the revenues (Brynjolfsson, Hu, & Smith, 2010).

Another anchor, Product details and performance information can be also collected through the social

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networks and recommendation platforms, making personnel advice, a value proposition of physical retail, redundant. At the same time, the physical retail has a very high operational cost and invested capital. Online stores can leverage this cost saving and offer discounts to the customer. Moreover, the online shopping is really convenient for the customer. The customer is not even required to go out of her house and things are delivered at the doorstep. At the same time, physical retail stores have been able to preserve the value propositions such as Experience, Getting a Solution and the Instant Gratification.

**Brand Dilemma** - Manufacturers are in a dilemma to establish their own stand-alone stores or partner with the Retailers. With Amazon becoming the biggest online retail giant, the actual question is whether the manufacturers can afford to ignore this marketplace. The recent incident of Amazon-Hachette dispute certainly points to the powerful position Amazon is in. By controlling more than half of the book trade, Amazon has a sort of monopoly, not enjoyed by a single Retailer otherwise (Streitfled, 2014). This is a warning signal to all the brands. The online behemoth is well on its way to becoming a competitor for the manufacturing brands themselves (Chatterjee, 2014). So, the challenge for retailers is to offer relevant channels so that manufacturers see retailers as partners and not competitors. Before we get into the argument of which channels are better, we need to understand the necessity of the innovation in Retail.

## 2. Drivers of Retail Innovation

Online shopping has made customers accustomed to more choice, quicker accessibility and greater convenience. Therefore, when they walk into a physical store, their expectations are already very high. Thus, whether it is a store or any other physical location, customers expect much more from shopping. Moreover, these expectations are shaped by the change in customer behavior and economic trends.

### 2.1 The Changing Customer

**Smartphone Usage** - Today's customers belong to an always-connected generation. Technology advancement has very drastically redefined how we communicate, how we interact, how we think and how we live. Study shows that across most categories, mobile accounts for a third of online research by customers and about half of it are done in the store (Chappius, Duncan, Gaffey , & Roche , 2012). The adoption of smartphones is a major driver in driving sales both online and offline. The three-month average Smartphone penetration was at 76.6% (comScore.com, 2015) for February 2015, a huge jump from 65.2% in December 2013 (comScore, 2014), and 54% in December 2012 (comScore, 2013). The total mobile phone user base is growing at CAGR of 1.39% while Smartphone adoption is at 5.27%. The Smartphone penetration is expected to reach 80% by December 2015, as per CAGR calculated from data in figure 3 (refer appendix 8.2 for detailed calculations). The adoption of Smartphone is fast as compared to certain other technologies. It took about 8 years for smartphones to reach the 10% penetration, but only about 2.5 years to reach from 10% to 40% penetration (H, 2012). This is much faster than the non-smart mobile and other technologies.

Smartphone customers use these devices during their entire buying journey. In decision-making stage Smartphones help to research on products, compare with competitors' offering and get peer reviews & recommendations. In buying stage Smartphones are used to make payments. Finally, in post-purchase stage they are used to claim loyalty points, share feedback on social media and post reviews.
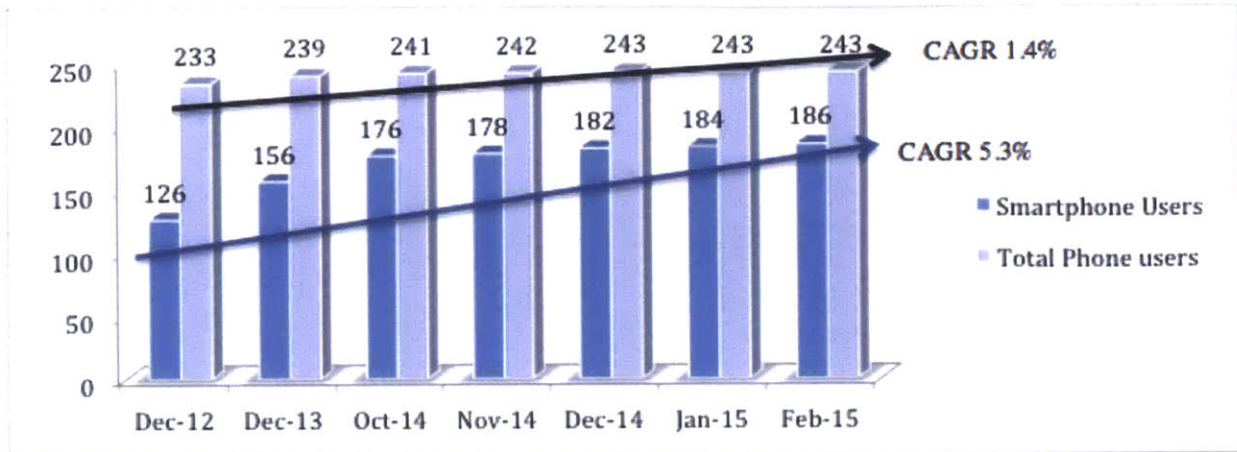
*Figure 3: US Smartphone and mobile users in millions*
*Source: www.comScore.com 2012,2013,2014*

**Millennial Generation** - Baby boomer generation that contributes to 23.7% (US Census Bureau, Population Division, 2014) of the total population is often thought as the largest population in the United States. But actually millennial generation is the largest with 26% share in the total population (US Census Bureau, Population Division, 2014) as shown in figure 4. The reason for this shift is not only the death of baby boomers but also the high immigration of millennial from other parts of the world to the United States (Raphelson, 2014). Retailers have to make their strategy so that they can attract millennial. The millennial are more inclined towards multi-channel retailing (Brown, Moriarty, & Mendoza-Pena, 2014). About 45% of millennial prefer in-store advice versus 28% of baby boomers appreciate this service (Accenture, 2015). The digital natives (Pensky, 2001), millennial generation aged between 15 years and 25 years, have altogether different expectations. Surprisingly, despite the notion of this cohort's affinity with the digital world, their preference for physical stores is greater than other age groups in the millennial generation and generation X (Brown, Moriarty, & Mendoza-Pena, 2014).
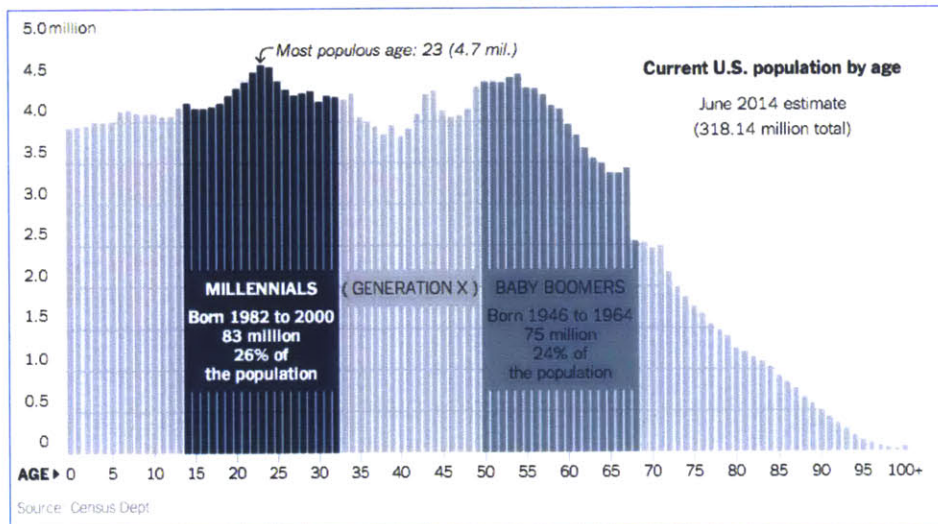


*Figure 4: Demographic profile of the United States*
*Source: US Census Bureau, Population Division; www.shopify.com (Schreiber, 2015)*

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**Immigration** - Another important factor that has affected the demographic mix is the wave of immigration in recent times. People from all over the world have come to the US. Highest migration was observed in young adults aged 18-24 in both 2007-2009 recession as well as 2010-2012 post-recession (Benetsky, Burd, & Rapino, 2015). The foreign population in the United States will increase from 13.5% in 2015 to 16% by 2030, according to projections (US Census Bureau, Population Division, 2014).

As the demographics change, not only what people purchase changes but also how they purchase varies. Retailers need to make sure that they are enabled to cater to the demand of the new generations and adopt strategies so that they can cater to a diverse population.

## 2.2 The Changing Economy

**Slow customer spending** – The recession had an extremely diminishing impact on customer spending and recovery is still very slow. Consequently, the customer is very sensitive to price and looks for value in any deal. Furthermore, the customers tend to show more loyalty towards the channels and retailers that offer better bargain. Likewise, most of the retailers rate 'Pricing' amongst the top three motivators for the customers (Baird & Rosenblum, 2014). A survey, amongst top retailers in 2012, states that a majority (65%) of them expected the economy (Larson & Dolan, 2013), and therefore the customer spending, to improve in next few years.

**Rising business costs** –The demand for physical stores is continuously increasing and that has made the commercial real estate market even more price competitive (Patel, 2013). At the same time, energy costs, labor costs and operational costs for physical stores are also rising adding to the pressure from high rentals. In particular, the retail rent in malls has increased every quarter continuously for last 3 years, driven by the increase in demand and less availability of prime commercial place (Hudson, 2014).

**Shared Economy** – It refers to an economic model that allows participating people to share goods and services (Turban, King, Lee, Liang, & Turban, 2015). The shared economy concept was born out of the basic model of peer-to-peer sharing. The Internet platform has facilitated this sharing and so we see more and more success of such sharing economy ideas. Consequently, shared economy based businesses such as Uber, TaskRabbit and Airbnb are household names today in the United States. Moreover, a third of all the millennial generation belongs to a sharing platform (Park, 2014). This tendency of customers to share the assets is a threat for retailers to sell new products.

These changing customer and economic trends necessitate the need of innovation in retail. One of the important consequences of these trends is rapid adoption of the online channels. Many interpret this as the end of physical stores and movement of customer traffic from offline to online (Banjo & Ziobro, 2014), while others debate that Ecommerce is not the end of physical retail (Rigby, 2014). Further in this study we explore the merit in later argument and the significance of physical retail.

## 3. Importance of Brick & Mortar Presence

"There was a time when the online and offline businesses were viewed as being different. Now we are

realizing that we actually have a physical advantage thanks to our thousands of stores, and we can use it to become Number 1 online" - *Raul Vasquez, Walmart.com Chief Executive* (Bustillo, 2009).

**Store experience** - The physical retail experience still remains the most effective touch point for the customer (PWC, 2015). Therefore, retailers are adopting many strategies to enhance the shopping experience for customers in their retail stores. For instance, Google recently opened a physical store in London and announced the launch of two more such stores in the future (Kharpal, 2015). In this Google store, people can experience Android products and participate in software code writing and other creative workshops. Thus Google wants to provide a place that allows its customers to explore creativity. This way Google can further its identity of being a creative brand. Creating such exclusive experiences can get customers to repeat-purchase from the retailer.

**Web-rooming** - As online researching becomes easier, the customer today has many options due to the availability of various platforms. Especially the mobile platform enables customers to carry their research with them all the time and also allows them to continue the research in physical stores. Thus the tendency to do research offline and buy online, also known as Show-rooming, is very common. However, the tendency to research online and buy offline, also known as Web-rooming, is becoming equally common (PWC, 2015). As per a customer survey, 68% of nineteen thousand responders say that they have browsed products online but decided to purchase in store while 70% of them except that they have browsed products in the store and decided to buy them online (PWC, 2015).
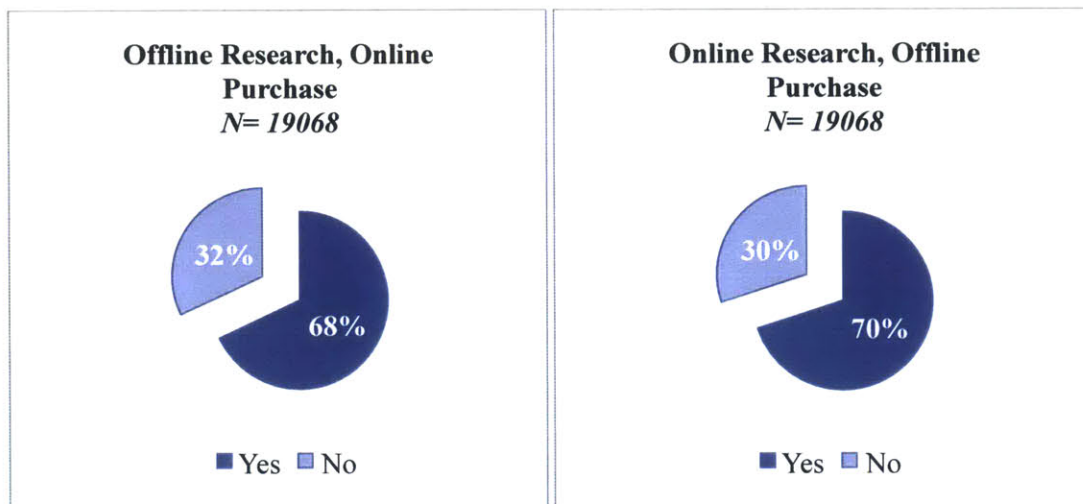


*Figure 5: Web-rooming versus Show-rooming*
*Source: Global PwC 2015 Total Retail Survey (PWC, 2015)*

**Product trial** - It is sometimes very important for the customer to look at and feel the product especially for some product categories. For example, the apparel customers prefer to touch and try merchandise before they actually buy it. About 60% of customers that buy products at the store instead of online, say that the primary reason is 'touch and feel' (PWC, 2015).

Even in certain categories with standard SKUs such as electronics, customers wish to see the product physically and then proceed with the purchase. As per a customer interview (refer appendix section

8.1.2), on her recent purchase of a laptop, she said that she did a thorough research for about a week, before finalizing on three laptop models that she wanted to buy. After this, she went to a Best Buy store to feel the product physically. She wanted to specifically check how heavy the laptop is by holding it in her hands. Though the online platforms gave this info, the interaction with the product only gave her the actual feel of the product. Finally, she placed order at the store for home delivery.

**Instant Gratification** - One of the most important advantages of a purchase through the physical store is the instant gratification of possessing the product. About 53% of the customers say that 'to get the product immediately' is the second most important reason to buy products in-store instead of online (PWC, 2015).

Figure 6 illustrates how customers use multi-channel platforms to perform not only research before the purchase, but also other activities. The most common usage is accessing the online channel to check the availability of items and get discount coupons. Also, physical channels are used extensively for pickups and returns.
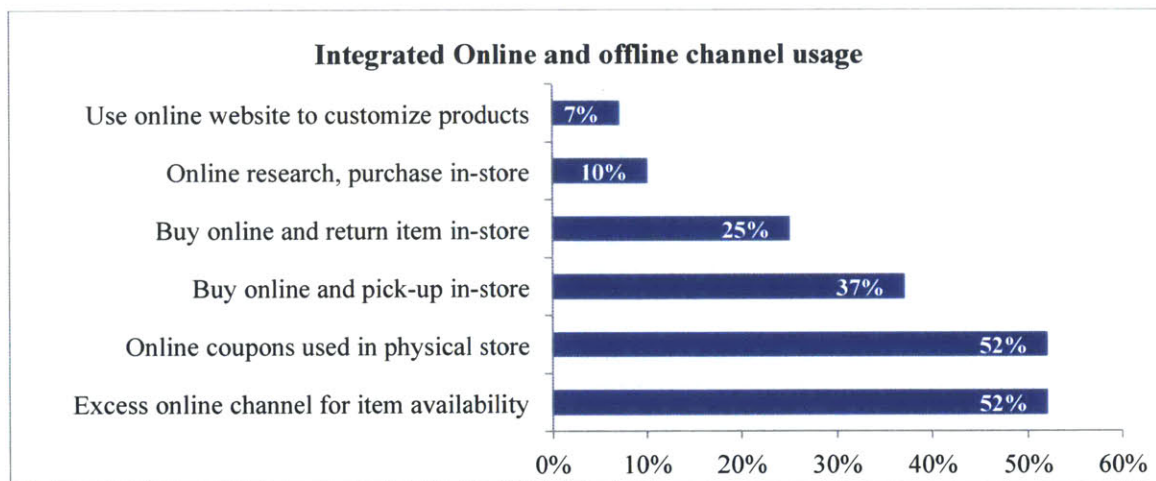


*Figure 6: Multi-channel usage*
Source: iCustomer 2013, RT16aa, RT16bb (Grieder, Buck, Banfi, Kment, & Fitzner, 2014)

Therefore, ecommerce can certainly not replace the tangible benefits of a brick and mortar store. In fact, companies such as Verizon that do not even have any physical product also wish to engage their customers through their Destination stores. These stores are built to engage, educate and experience (LeJeune-Whitaker, 2014). This clearly demonstrates the importance of the physical stores. Thus, physical retail is definitely here to stay, but its role is certainly going to change.

### 3.1 New Role of Physical Retail

Most of the traditional retailers have a high capital invested in the physical retail stores. These stores have huge size and utilize economies of scales. These stores often operate on a low margin, high volume strategy. For example, Walmart has been operating at a net profit margin of about 3.5% for last 5 years. Likewise, this is in general true for all the big-box retailers. Table 1 captures the profit margins for last few years for the top four retailers (by Sales). These retailers are under continuous pressure to maintain

the profit. They survive on thin margins and cannot afford to lose even a penny more. At the same time, the online commerce threatens to take away this traffic, which may directly affect their sustenance.

*Table 1: Consistently low profitability of top retailers*

| Company | Revenue $ bn | Net Margins (%) | | | | | |
|---|---|---|---|---|---|---|---|
| | | Jan'10 | Jan'11 | Jan'12 | Jan'13 | Jan'14 | TTM |
| Walmart | 485.65 | 3.51 | 3.89 | 3.51 | 3.62 | 3.36 | 3.37 |
| Costco Wholesale Corporation | 112.64 | 1.67* | 1.64* | 1.72* | 1.94* | 1.83* | 1.96 |
| The Kroger Co | 108.46 | 0.09 | 1.36 | 0.67 | 1.55 | 1.54 | 1.59 |
| Target Corp | 72.61 | 3.81 | 4.33 | 4.19 | 4.09 | 2.72 | -2.25 |

*\* Data quoted for Aug; TTM = trailing twelve months; Source: Company annual reports, Yahoo Finance, Gurufocus.com*

Physical retail stores have always performed various functions such as Sales, customer data collection, product information dissemination and payment collection. With the growth in number of online channels, the role of physical retail has evolved to include more functions. Now, physical stores also represent the brand to customers and play a crucial role in creating a brand identity in the minds of the customers. Store ambience, services and overall experience impacts the purchasing behavior of the customers. Retailers look forward to create engaging experiences through their physical footprint.



**2015**
Point of Consumer Experience
Order Fulfillment for online orders
Retail Brand Promotion point
Consumer Engagement

**2000**
Point of Sale
Customer Data Capture
Product Research
Major Consumer touch point
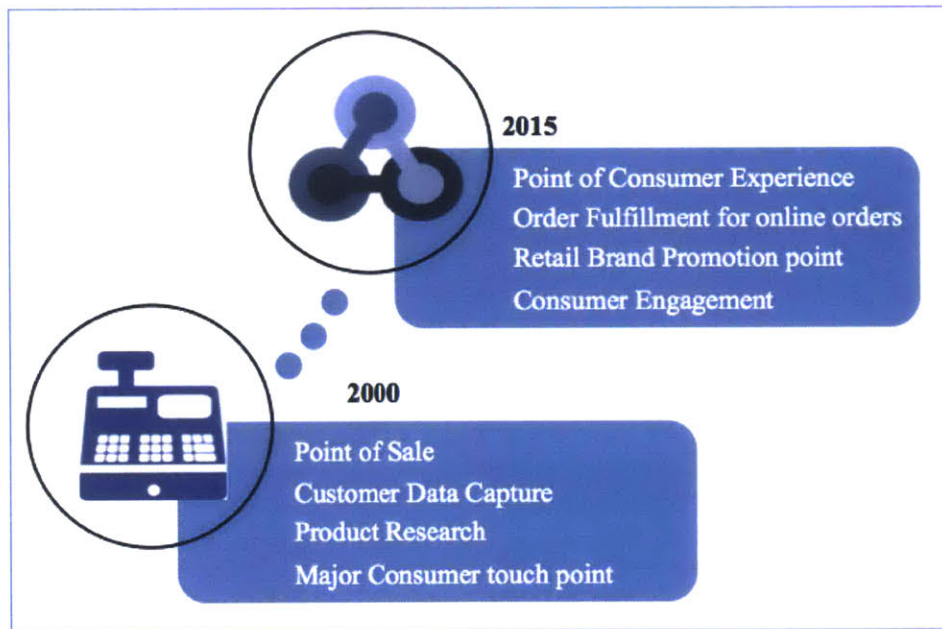
*Figure 7: Changing roles of physical retail*

**Point of experience** - Many brands such as the North Face actively seek opportunities to create a new experience for customers in their stores. The North Face's South Korea store recreated an adventurous experience for their customers. After a customer chooses apparel, the floor beneath starts disappearing, leaving the customer with no option, but to climb the rock-climbing wall at the back of the store. Once she is on the wall, a jacket is hung from the ceiling and she is required to jump and grab it. If successful,

she gets the jacket for free. This activity truly captures the North Face's brand image of thrill seeking and adventure (Yeung, 2014).



*Figure 8: North Face in-store adventure experience*
*Source: Inspiration Room.com (Macleod, 2014)*

Another example is Capital One Café 360°. In order to create a different experience for the customers, Capital One has partnered with the Beets café. The store is a multi-use space that looks like a regular café but also has a Capital One bank branch right inside it. The customers usually walk into this store to use free WiFi and have a coffee. In this process, they also learn about Capital One's offers (Capital One).

**The dual role as warehouse** - Many of the big stores such as those of Macy's, also double as ecommerce fulfillment centers for their online orders (Pasquarelli, 2013). With the availability of hundreds of physical locations, these retailers benefit from wider reach to customers. They also leverage store personnel for deliveries leading to efficient utilization of human resources. Thus retailers with a larger physical footprint can offer one-day delivery or faster delivery easily.

**Easy returns** - Customers find it very easy to return merchandise, purchased online, at a physical retail store. As per survey on customer returns in retail industry, 87.3% of retailers, use their physical retail stores for accepting returns of the goods, purchased online (The Retail Equation, 2014). In addition retailers save on the extra reverse logistics costs of transporting those goods back to central warehouses. Also, the customer is satisfied, as she gets an instant refund.

Thus, we see that the physical retail stores are expected to play many different roles, as they integrate

with their online cousins. But the foremost expectation from physical retail is to provide an experience; because a novel and engaging experience creates a brand recall in the minds of customers. Gradually, but surely the physical stores are adopting newer roles and there are various factors that facilitate this transformation.

## 4. Facilitators of Transformation in Physical Stores

Disruptive changes in retail scenario certainly pose a threat to the existence of physical retail stores, but also provide unique opportunities for them. For instance, digital devices have changed how customers discover, evaluate, purchase, receive and review products (Rigby, 2014). So, a digital interface in store can be very useful. Moreover, many retailers have realized the need for transforming their physical stores. Technology, supply chain architecture and experiential retailing are the forefronts of this transformation. Even amongst these three facilitators, Technology is the most influential facilitator. Figure 9 shows these facilitators.



- Cloud
- Big Data
- Interactive Displays
- In-store Locating

Technology

- Faster Deliveries
- Single Inventory
- Logistics

Supply Chain Architecture

Experiential Retailing

- Seamless shopping
- Social Media
- Personalization
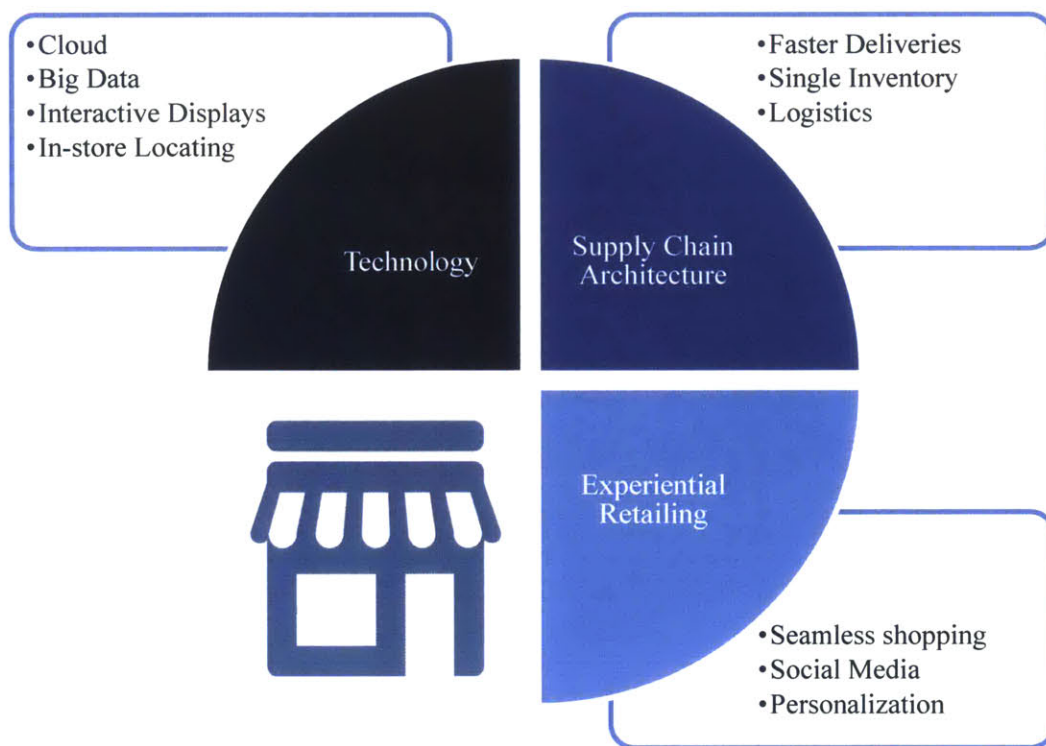
*Figure 9: Facilitators of physical retail transformation*

### 4.1 Technology

A number of technology trends affected the retail industry in past few years. The four most important trends that changed the game for physical stores are Cloud, Big Data analytics, In-store location tracking and Interactive displays. Though these facilitators have a different role to play they often work together.

### 4.1.1 Advanced Technologies

**Cloud** - A widespread cloud adoption is expected in the retail industry; industry's cloud market is growing by almost 300% from $4.2 billion in 2011 to $15.1 billion (estimated) in 2015 (Accenture, 2012). The availability of cloud computing allows the customer to access information easily and through multiple devices. The online pre-purchasing research is one such crucial information, that a customer likes to access while in store. The cloud storage and accessibility through digitization of the physical store will allow the customer to not only access this research, but also continue it in the store.

Smart computing today allows these digital platforms to understand the customer preferences from their pre-purchase research. It can provide them with the relevant content in the form of product related information such as ratings and reviews, and personalized discounts to convert the purchase intention to a sale. Thus the physical retail store can create an exclusive milieu for the customer with the help of digital interfaces.

**Big Data Analytics** - Developments in Big Data analytics have revolutionized the retail industry. At every touch point during the shopping journey, a customer leaves loads of data that can be utilized by retailers to draw insights and drive meaningful changes based on them. Sophisticated methods are available to gather and analyze data at more and more granular level. After all, retail is detail.

In the modern technology-enabled retailing, these details extend beyond the traditional scope of customer details. Earlier the customer data was only captured at the checkout from a store, but with information tracking feasibility through other channels, retailers can make real-time propositions. This analysis can help retailers offer more personalized recommendations to the customers. Armed with data analytics abilities, the retailers can reward the loyal customers and also offer personalized discounts.

**In-Store locating** - Customer always wants to compare the products before making a purchase. Earlier, this comparison happened by visiting actual physical stores and now, this happens over a smart device connected to the Internet. But, inside a store, cellphone networks are not reliable and so, the customer is very motivated to use store WiFi. Retailers can benefit from this to get customers on their network and study their shopping behavior. By using the in-store customer locating technologies, the retailers can note the behavior of the customers inside their stores. Retailers can track the number of customer visits, duration of the stay per visit, the frequency of visits and time spent in different sections of the store. Using this data, the retailers can modify their shop layouts to avoid congestion points, rationalize the product offerings and improve the placement of products and promotion props to maximize sales.

**Dynamic to Interactive Display** – Interactive displays have many advantages over static and dynamic displays. From the customer's point of view, these displays are attractive, engaging, entertaining and educative (Rudiger, 2014). According to a survey by McKinsey, "nearly one quarter of apparel customers say that digital touch points are the most influential factor in the initial consideration phase of their decision making journey" (Pascal Grieder, 2014). From retailers' point of view, interactive displays are versatile and enabled to handle real-time information management and changes. Managing content consumption by interactive medium can enable retailers to provide the customer with an exclusive and personalized environment. Also these displays can easily integrate with big data analytics and cloud; and

act as the front end to provide a delightful customer experience based on the insights drawn. Further section elaborates some cases of implementation.

### 4.1.2 Examples of Current Implementations

Cloud, Big Data, Interactive displays and In-store locating technologies are often implemented in combination of two or more. The following section demonstrates few examples of the current implementations. Though there are many implementations of these technologies, the following instances capture the features and applications more holistically.

**Aerva** is "a technology company that provides real-time interactivity between mobile, social media applications and digital display networks including outdoor, place-based and enterprise" (Aerva Inc). Aerva's cloud based technology facilitates the creation of an experience in a retail store that enables real-time content management. The technology manages the real-time data display, video content and dynamic pricing of products. Also, their web-based platform enables integration with social media, and provides real-time data feed and mobile interactivity (Aerva Inc). This helps their client, to engage its customer and maintain their loyalty.

The company, in partnership with hardware vendors, has developed a see-through cooler door that can display digital content. This is installed at about 2000 different physical stores of a client. With Aerva's cloud computing technology, the client manages video content, real-time data and dynamic pricing for about 2000 store displays. This interactive display engages the customers in a very unique way by replacing the static content with a digital retail experience (Aerva, ABInbev case).

**IBM** is another company innovating through these technologies. IBM's *Presence Zones,* a location based technology that assists retailers to derive better customer insights and gather contextual information. This technology utilizes the store's WiFi network and customer's mobile to deliver location-based services. This helps retailers to manage customer traffic effectively inside the store. With help of big data analytics, the retailer can optimize the product placement and merchandising in the store. Based on the customer data, the retailer can offer relevant products or instantaneous discounts to the customer. (Whitler, 2014)

**iBeacon** is another disruption in this area. "IBeacon is Apple's implementation of Bluetooth low-energy (BLE) technology to create a different way of providing location-based information and services to iPhones and other iOS devices" (Ranger, 2014). So, when a customer enters a store, she gets a notification for an instant discount offer on her iPhone or other iOS device. This is effective and targeted.

### 4.1.3 Impact of Technology on Other Facilitators of Transformation

Technology is the most important facilitator of the transformation because it influences the changes in other facilitators as well. Table 2 captures how different elements of technology impact other elements of physical retail transformation. For instance, cloud-based technologies and advanced big data analytics that help to optimize the inventory flow highly impact supply chain architecture and seamless shopping experience. At the same time, interactive displays in a physical store play an important role in making the experience truly seamless for the customer. Personalization facilitator is heavily impacted by most of the technology facilitators. In the following sections, we will exclude the technology-enabled changes

brought in by these facilitators. This will help understand the exclusive impact of each facilitator.

*Table 2: Technology impact on facilitators of physical retail transformation*

| Technology Facilitators | Other Facilitators | | | |
|---|---|---|---|---|
| | Supply Chain Architecture | Seamless Shopping | Social Media Interaction | Personalization |
| Cloud | High | High | Low | High |
| Big Data | Medium | High | Medium | High |
| Interactive Displays | Low | High | High | Medium |
| In-store Locating | Low | Medium | Medium | High |

## 4.2 Supply Chain Architecture

Wholesale channels are becoming redundant with the rise of ecommerce and increase in availability of products on the online channels (Stephens, 2015). The wholesale channel was an important element of the business value chain, and so its abandonment requires a rediscovery of the entire supply chain. The traditional view of supply chain was to stock high inventory, as said by sir John Cohen, founder of Tesco, "Pile It High, Sell it Cheap" (Corina, 1971). Those days are now gone and the supply chains are expected to be faster and leaner to fulfill the delivery pace expectations, such as single-day and drone delivery, of the customers.

**Quick Deliveries** - Single day delivery and quick shipments have become the norm of online retail. E-retailers compete with physical retail channels, where customers can instantly own a product. However, supply chain analytics and smarter inventory management systems are making sure that ecommerce players can deliver products to customers as soon as possible. The entire supply chain is leaner and faster. The capability to track items in run-time gives retailers a better visibility of their shipments. Thus they can better control delivery lead times to their end-customers.

**Different channels, single view** - Traditional retailers' supply chain is designed to cater existing physical retail distribution and ecommerce is often add-on functionality. This leads to poor inventory management and higher non-moving stocks. Inventories have to be viewed as a single entity so that planning and allocation can be done across channels and functions (Chaturvedi, Martich, Ulker, & Ruwadi, 2013). Supply chain management should have an end-to-end view of the inventory. Nordstrom is one such retailer that has enabled end-to-end supply chain visibility and inventory sharing across its online and brick & mortar channels. As a result, Nordstrom's inventory turnover increased from 4.84 in 2005to 5.41 in 2009 (CLIFFORD, 2010).

**Logistics service is the key** -Third-party logistics service providers are in a very beneficial position. While the manufacturers are undecided as to whether to open their own retail channels or to extend co-operations with their existing retail partners, the retailers are busy with their channel integration functions. Therefore, logistics players have potential to become the crucial link in owning the supply chain, an

important piece of the value chain. Furthermore, This requires not only to expand infrastructure and warehousing capabilities, but also to focus on the services and technologies that enable them.

## 4.3 Experiential Retailing

"If you do build a great experience, customers tell each other about that. Word of mouth is very powerful."– *Jeff Bezos, Founder & CEO, Amazon*

To define Experiential retailing, we need to first understand how to define Experience. Experience was always considered an integral part of the service, but now as customers desire experiences, they are identified as a 'distinct economic offering' (Pine & Gilmore, 1998). In the current context, by experience we refer to customer experience. "A customer experience is an interaction between an organization and a customer. It is a blend of an organization's rational performance, the senses stimulated and the emotions evoked and intuitively measured against customer expectations across all moments of contact" (Shaw, 2005).

Retailers are taking many steps to make the brand and product experience instantly available to their customers. Physical stores can play a very important role as providers of experience that is a physical manifestation of retailer's brand (Carter, 2013). Moreover, these experiences should appeal to customers. The customer today not only wants to do shopping but also wishes to include gaming, entertainment, social interaction and convenience as crucial elements in it.

**Event based marketing** - Many retailers appeal to customers by creating events in their stores. For instance, Eataly, a high-end Italian food market, innovates the way they provide shopping experience for their customers. It is also referred as Disneyland for foodies (Chute Gerdeman, 2014) and 'Eat, Shop and Learn' (Eataly) is part of the company's manifesto. Eataly integrates shopping and restaurant experience with that of learning to cook. It regularly organizes workshops on developing skills such as cookie making and pizza baking. In addition to these, they offer specialized chef demonstrations and walking tours of the facility by the store staff.

However, an event-based pull in retail stores is expensive and difficult to sustain. On a more basic level, the customer needs following three elements as integral part of her shopping experience – Seamless shopping, Social Media interaction and Personalization.

### 4.3.1 Seamless Shopping Experience

To define the seamless experience, we need to study different retail touch points in an entire shopping journey. For this purpose, we assume a hypothetical customer. Our customer is a 30-year old financial professional. Her weekday is typically very busy and she generally does her shopping either online or on weekends. She wants to buy a new mobile phone; starts her research by visiting various brand websites and decides that she wants to buy a 6-inch screen smartphone that looks stylish. After a week's research she finalizes on three options. Now she decides to go and check these phones at the physical store. In the store, as soon as she enters, a digital mural greets her. She is given a quick navigation map through the store to the storage location of her desired product – smartphone. Now while she walks towards the smart phone aisle, sidewall screens display the content related to smartphones. When she reaches the

22

smartphone aisle, the digital interface next to actual physical products, quickly pulls up her earlier research and shows her the comparison between the three short-listed phones.
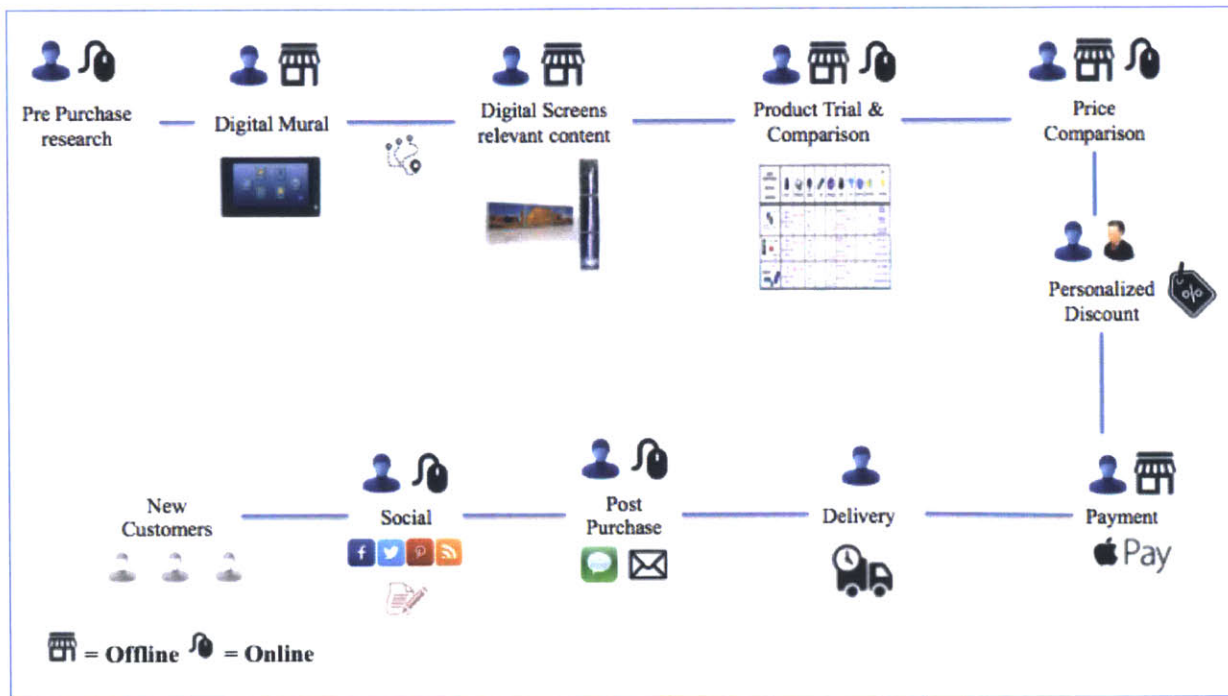


*Figure 10: Seamless shopping experience*

On this screen, she also checks the ratings and reviews of these phones. She connects to her Facebook group and consults with friends who already own this phone. Finally, she selects one of the models. Now she compares the price of this model across different online channels, both the retailer's and it's competitors'. She comes to know that a competitor offers the same model at 5% more discount than the retailer. She talks to one of the salesmen in the shop about this discount and she is instantly offered a personalized discount of 7%. She does her payment through Apple pay. She chooses to get delivery at her home and gets the phone delivered within a day. Elated by the experience, she tweets her feedback to the store and posts her appreciation on the social networking sites.

Figure 10 captures the entire shopping journey for a customer and we can clearly see that customer switches between the online and offline platforms very frequently. Retailers should understand that the role of each of the channel in today's shopping journey is very dynamic and to provide a truly seamless shopping experience, the switching of these channels has to be easy. Though the customer experience from each channel is different and unique, the value proposition across all channels should be same. Especially the physical stores should be equipped to offer the same product range as their online counterparts, and this can be done through digital interfaces inside the store.

### 4.3.2 Social Media Facilitation

The omnipresent social media is the norm and it influences many customers. About 62 % of the customers say that they were influenced to an extent in some way or other by the social media in their

buying decisions (PWC, 2015). About 68% of them accepted that they were related to favorite brands through social media in some way or other (PWC, 2015). Figure 11 shows that, 71% retailers say that Social media has the maximum impact on their business (Larson & Dolan, 2013).
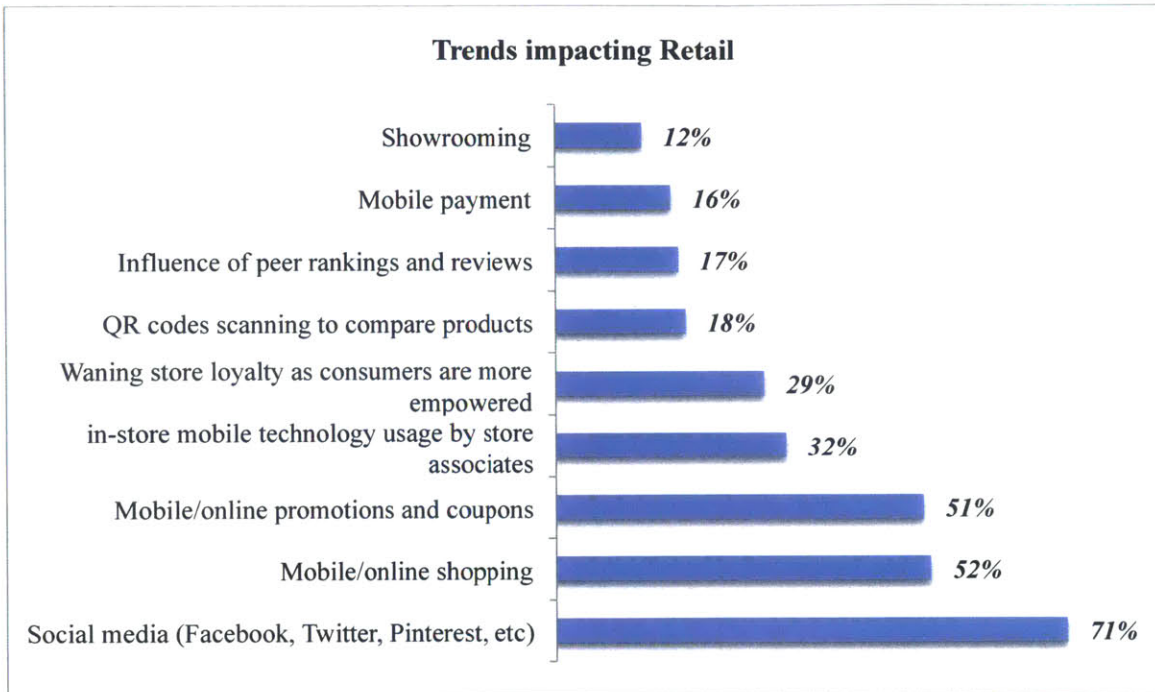
**Trends impacting Retail**

| Category | Percentage |
|---|---|
| Showrooming | 12% |
| Mobile payment | 16% |
| Influence of peer rankings and reviews | 17% |
| QR codes scanning to compare products | 18% |
| Waning store loyalty as consumers are more empowered | 29% |
| in-store mobile technology usage by store associates | 32% |
| Mobile/online promotions and coupons | 51% |
| Mobile/online shopping | 52% |
| Social media (Facebook, Twitter, Pinterest, etc) | 71% |

*Figure 11: Social media has highest impact on retail*
*Source: 2013 Retail Industry Outlook Survey (Larson & Dolan, 2013)*

Social Media refers to an online platform that allows its users to create new content and build upon and relate to existing content (Mattern, 2012). It includes social networks, micro-blogs, discussion forums, file sharing, messaging platforms and many more. Social networking sites such as Facebook, Twitter, Zynga, YouTube and Google are household names today and frequently used during the shopping journey by a customer. Customers use social media platforms to access more information about the products; to know more about discounts, promotions and deals; to get feedback on the product from the other users; to access the customer service; to participate in some kind of brand event and to compare the reviews and ratings of competitive products. In particular, customers are interested in a new product launch and post their own experience with the brand and product. The customer interaction in the form of likes, dislikes, reviews and recommendations leave a very useful trail of information that can be used by retailers to make more relevant offers to customers.

**In-store social media access** - At the most basic level, the retailers should provide free Internet access in stores, so that customers can access social networking sites through their smartphones. Furthermore, the digitization of physical stores can enable customers to reach these social platforms easily. For example, a smart screen or a tablet placed next to the products can enable customers to access social media in the store.

Adidas is one such brand that is always looking for newer avenues to instill social media interaction in the

stores. Adidas's Social Media Mirror is one such example. It is essentially a mirror in the changing room that allows customers to take pictures in the new Adidas outfits and post them on their Facebook wall. This enables the customers to get feedback from their friends. Usually for such things, people use cell phones, but Social Mirror makes it easier for them to consult their social group during their in-store shopping (Zellner, 2012). The result was more than 2000 likes and over hundred shared photos within the first weekend of installation (Connected retail).

### 4.3.3 Personalization

As per Oxford Dictionary, personalization means 'Design or produce (something) to meet someone's individual requirements. In the context of retail, it means that retailers access the customers' data such as their music interests, age & Facebook likes and on the basis of that offer products and assistance to them.

Wanda Gierhart, CMO of Neiman Marcus, omnichannel Retailer of luxury and fashion merchandise, stated that personalization is the highest priority for them when it comes to retail innovations (Roman, 2015). Customers expect not only deals and discounts, but also a relevant product offering as per their taste (Grant, 2015). Maintaining a high touch service for the customers can go a long way in building a long-term relationship with the customers. Personalization plays a very important role in today's customer buying.

Statistics indicate that customer value personalized offers. According to Infosys, technology giant based out of India, amongst 86% of the customers who experienced personalization say that it influences what they purchase to some extent (Infosys Technologies Limited, 2013). Also, about 85% of the customers prefer personalized offers based on their previous purchase history (Synqera, 2014). Likewise, a majority of retailers (96%) believe personalization influences what customers purchase to some extent, with over half of them (56%) saying that this significantly influences customer purchases (Infosys Technologies Limited, 2013).

**Data security and privacy concern** - The biggest barrier in implementing personalization is accessing customer data. Customers are concerned about the security of the shared data, the exposure of their privacy and the spamming of their email inbox by personalized offers. Retailers have to build trust with the customers, by making sure that they do not share this critical information with any third party and exercise restraint in sending email offers.

Thus, we see that how above factors can facilitate the transformation of the physical retail stores. This transformation is actually part of the larger motive – Omnichannel value proposition. In other words, omnichannel also means channel integration, a topic we turn to in our next section.

### 5. Channel Integration

The choice is about the combination of channels and not a solo channel (Wilson, Street, & Bruce, 2008). It is a common pitfall that retailers tend to prioritize one channel over another. Rather, retailers should discover the most favorable combination of different channels that will help them reach their customers

easily. In fact, channel integration is defined as the degree to which different channels interact (Bendoly, Blocher, Bretthauer, Krishnan, & Venkataramanan, 2005).

With the availability of different channels, customers have developed a tendency to research anywhere, shop anywhere and buy anywhere. Online channel is the most frequently used medium during the research phase by customers, while the buying phase consists majorly of the brick and mortar medium (Noble, Griffith, & Weinberger, 2005). So, we can say that the shopping phase is a mix of both online and offline mediums.

There are supporting as well as opposing arguments for channel integration. Some researchers say that these channels are complimentary and comparative (Avery, Steenburgh, Deighton, & Caravella, 2012), while others claim that they are substitutes to each other (Falk, Schepers, Hammerschmidt, & Bauer, 2007). A wider range of assortments is often given as an underlying argument for the multi-channel retailing, but no compelling evidence was found to prove the same (Noble, Griffith, & Weinberger, 2005). However, the retailers are quite convinced with the merits of Omni-channel presence. Figure 12 shows that about 63% retailers claim that their Omni-channel initiatives are either in-process, moderate or advanced (Baird & Rosenblum , 2014).
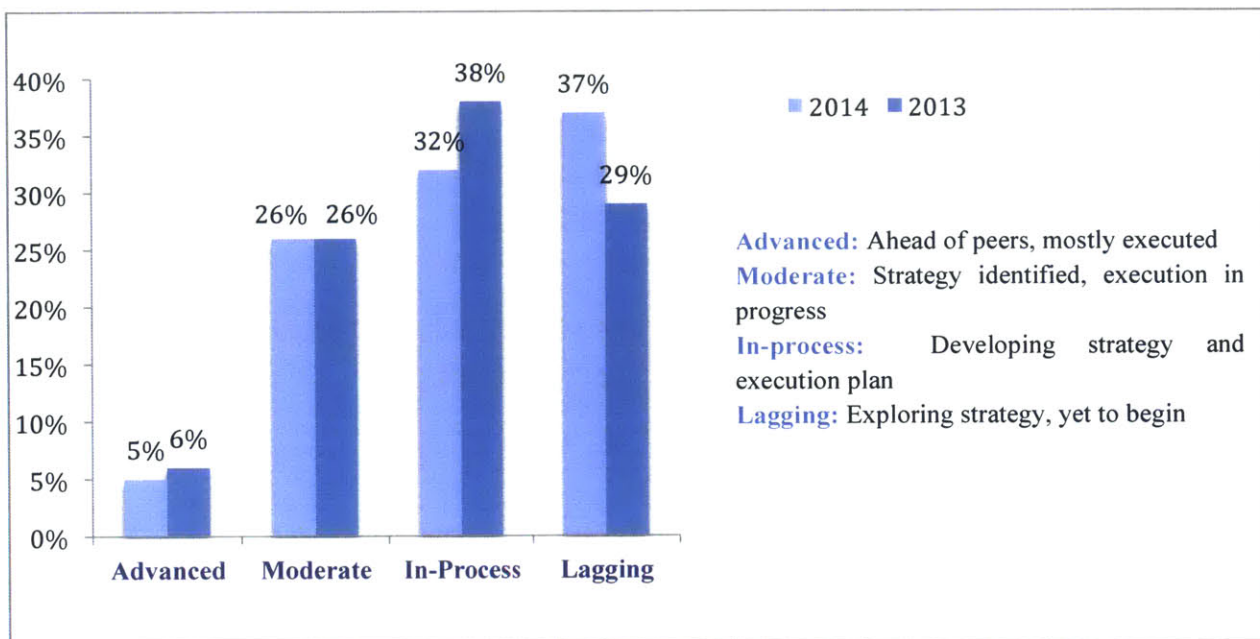


*Figure 12: Current state of omnichannel strategy execution*
*Source: RSR Research, Retail Insight: Fulfilling Customer Expectations (Baird & Rosenblum, 2014)*

**Customer usage of multi-channel** – The trend to using integrated channel is gaining popularity amongst customers. A good example of this is the rise of click and collect spend in the fashion category. About 39% of online customers in Britain and 33% of those in France utilized the click & collect service (Thomasson & Vidalon, 2013). Though the trend is slow in the US, but gradually it is picking up. It grew from 12% in 2013 to 19% in 2014 (Accenture, 2014). Walmart's CEO Doug McMillon mentioned the importance of online order and store pick-up service (Ash, 2014). Other than this many retailers are also

experimenting with the drive thru models. These integrated models make the shopping convenient for customers. In-store pickups offer a sense of reliability and trust that customers do not find online (Brown, Moriarty, & Mendoza-Pena, 2014).

**Multichannel to Omnichannel** - It is very essential for the retailers to convert their multi-channel strategy to omnichannel. The physical retail chains have begun to realize that they have an advantage over the pure online stores. In terms of capital investments, it is easier for physical stores to develop their online counterparts. However, the challenge is to redefine the role of existing physical stores. At the same time, for the online players, it is a daunting task to develop their physical presence, but they have an opportunity to well define the roles of physical channels. Identification of the benefits and challenges of channel integration can help us decipher this dilemma.

### 5.1 Benefits from Channel Integration

With the ever-increasing expectations of the customers, it is very important for retailers to innovate shopping experience. Customers are increasingly switching channels during shopping while the retailers still struggle to provide a seamless shopping experience (Accenture, 2013) and so channel integration is not a distinguishing feature, but a necessity. Before describing on implementation, we explore the benefits and current challenges. Channel integration strategies can broadly drive four major agendas - reduction of inventory costs, increase the effectiveness of promotions, increase overall sales, and multi-functional channels.
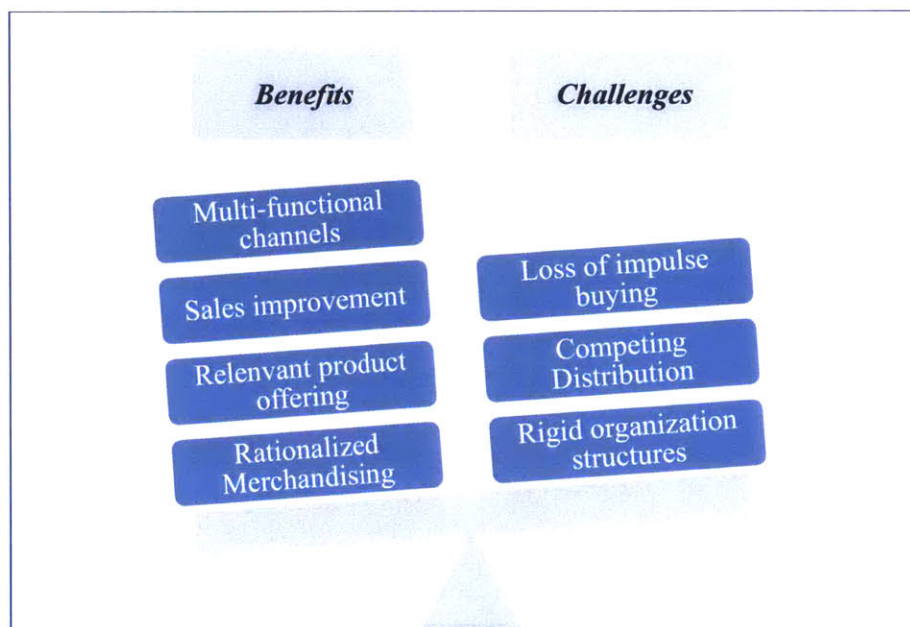


*Figure 13: Benefits outweigh challenges of channel integration*

**Rationalized merchandising-** Merchandising is a very important component of customer shopping experience. Ideally, a retailer would like to offer a full range of products in its store, but it is not practically possible. Retailers need to optimize their in-store product offering to enhance the customer experience.

At the same time, online channels can certainly provide the exhaustive range of products to customers. Furthermore, In-store digital platforms like iPads, interactive screens and smart shelves can access this online platform and offer an unlimited selection of items. Quick search and easy navigation through these devices saves customer from the trouble to go through irrelevant products and thus enhance their experience.

With technology advancement, one of the most fundamental elements - product lifetime is also affected. The rapidly growing customer's desire to upgrade products quickly shortens the life of products. This has also led the retailers to rationalize their inventory and use technology to offer only relevant products to the customer. The run-time update of in-store sales enables retailers to gauge demand and call for an instant fulfillment. This means that retailers can survive over lesser inventory and save a huge cost. Also, they can forecast better and manage their capital more efficiently.

**Relevance of the offering-** Customers have a huge array of choices with these increasing no of retail formats and stores all around them. This has led to the reduction in customer's loyalty for a brand and store. It is essential for retailers to increase the relevance of their offerings to customers. Having a presence across multiple channels can help Retailers understand customer inclination better and leverage this information to gain customer loyalty (Stone, Hobbs, & Khaleeli, 2002).

By having an integrated shopping experience, retailers can track entire journey of customer right from the beginning and gauge her interests. Thus, by providing the customer with specific product related contents, there is a higher probability of converting her intention into a sell. This increases effectiveness of promotions and the targeted content helps customers cut through clutter and makes navigation easy for them.

**Sales improvement-** With integration of different channels and the customer database, retailers have a greater opportunity to cross-sell their products (Berry, Bolton, Bridges, Meyer, Parasuraman, & Seiders, 2010). The ability to track customer behavior over different channels can make retailers offer them other complimentary products and through preferred channels. The cost of switching channels between research, shop and buy phase for customers is lower across the channels of a single retailer as compared to that across the channels of multiple retailers (Noble, Griffith, & Weinberger, 2005). Thus, the availability of different channels from the same retailer can lead to better loyalty and less shopping cart abandonment, one of the major problems for today's online retailers (Smith, 2015).

**Cross-functionality across channels** – As retailers move towards multiple channels, they can utilize and optimize their operations. About 25% retailers suggest that more than 75% of their online orders are shipped from the store (Baird & Rosenblum , 2014). Thus, Retailers can benefit from their presence across different channels by using one channel to gather orders while other to fulfill them. Also, these channels can be used to siphon off non-moving inventory.

Though the benefits are many there are some challenges that retailers encounter in implementation of Channel integration.

## 5.2 Challenges in Channel Integration

As every coin has two faces, so does channel integration. It comes with some challenges that, if not addressed, are potential downsides. Major challenges in channel integration are – rigid organizational structure, competing distribution channels and loss of impulse purchases.

**Rigid organization structures** - Often in the conventional retail business, physical and online channels are handled as two separate entities. Amongst 80 retailers interviewed, most agreed that they have a 'siloes structures' to handle sales across these channels (The Aberdeen Group, 2012). They target different customer through different channels and so their multi-channel strategy consists of different channels operated by different cost-centers in the organization.

This strategy presents some potential downsides for the physical retail. For instance, Show-rooming – defined as the tendency of a customer to research a product through a physical store but buy it through an online channel (Kalyanam & Tsay, 2013), reduces the channel specific lock-in effect. However, through Omni-channel presence, the retailers can facilitate this inclination of customers to compare products across different channels by offering the same value proposition through all of them. For this, retailers should view their channels as complementary rather than competing mediums. This has to start from making changes in the organization structure itself. The interaction between departments handling different channels in an organization has to be more dynamic and run-time. Traditional organizations need to change the tendency to see these channels as individual profit centers. A sales transaction should be seen in entirety and the conversion across the value chain within different channels should be noted.

**Competing distribution channels** - Missing complementarity amongst the existing distribution channels is another challenge for the retailers. Most of the businesses have wholesale, direct and corporate as major distribution channels, and they reach to the final customers through online and offline sales channels. Moreover, the structure of distribution channels varies due to differences in product line offered, price points, markets, etc. So, when customers do research through one channel and buy it through other, one partner incurs the cost of product presentation while sale goes to another. Therefore, there is an inherent channel conflict. Also, often a third party owns these distribution channels, and so it becomes even more difficult for a retailer to convey advantages of omnichannel to their distribution partners. This inhibits the potential synergies that can be achieved by the integration and consequently, the challenge is to balance the costs and margins across the channels.

**Loss of impulse buying** - Channel integration facilitates the customer's tendency to research easily but it may lead to loss of impulse buys. Customers can do their research online beforehand. So, when such customer, if at all, goes to physical retail space, she is very focused on what to buy and so her tendency to browse products in the physical store reduces. Ultimately, less browsing leads to less impulse purchase.

While the challenges of channel integration are easy to identify, they require a careful examination to arrive at a solution. Retailers need a roadmap that can guide them through the process of integrating the channels. Following section explores one such way forward.

# 6. Implementation Roadmap

To implement the channel integration, the entire retail business requires a strategically different outlook. Channel integration makes the role of each channel very dynamic. So, retailers need to define exactly their expectations from each channel. Moreover, the channel roles should be flexible enough to accommodate alterations caused by future technology disruption. Foremost, these roles have to drive the ultimate agenda of delivering the customer value for the organization.

Through the literature review and the analysis of some available strategies, further a framework is developed to create the implementation roadmap for retailers. This is a broad framework and needs to be tailored for each retailer, as they proceed with the implementation. This four-step roadmap is shown in figure 14 below.

1. Identify Customer Value
2. Define Channel roles
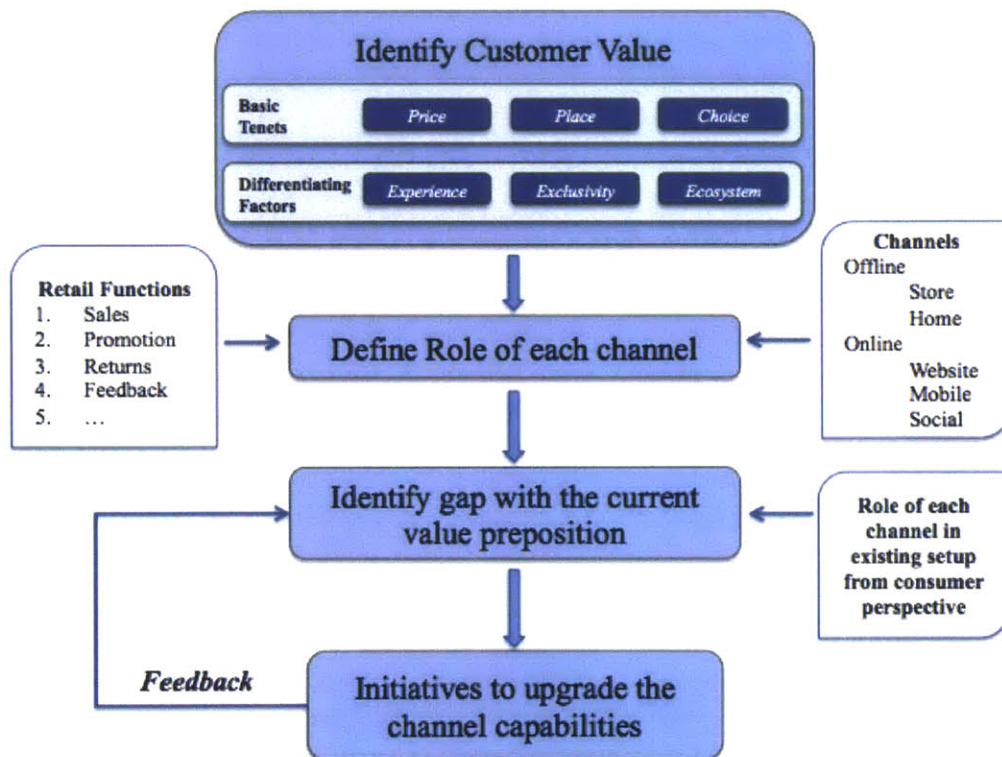3. Compare with current status
4. Upgrade Channel capabilities



*Figure 14: Implementation roadmap*

The roadmap aims to bring clarity on customer value proposition and align channel roles and functions to deliver these values effectively. Moreover, this roadmap analyzes the gap between desired channel functions and the current functions and suggests initiatives to bridge it.

## 6.1 Customer Value

Customer centricity is very important for all organizations. The best example of this is Amazon. Amazon's success largely derives from its obsession with customers. Whether it is drone delivery, frustration-free packaging or free returns, Amazon designs everything to engage its customers. Moreover, retail is no longer considered a place where customers buy things, but they are brands in themselves (Pegler, 2007) and as brands, retailers need to provide value to customers. These values can be divided into two different sets – basic tenets and differentiating factors. Figure 3 exhibits three major basic customer needs during a purchase – Price, Place and Choice (Niemeier, Zocchi, Catena, & Hannemann-Strenger, 2013).
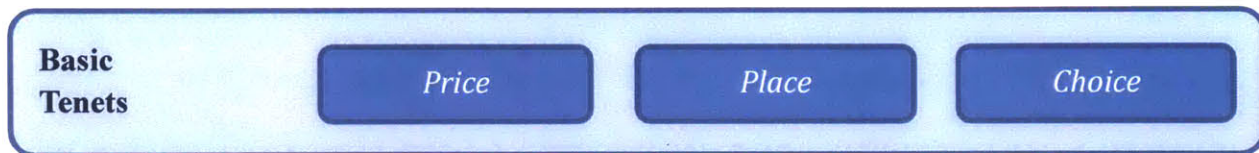
| Basic Tenets | Price | Place | Choice |
|---|---|---|---|

*Figure 15: Customer value - Basic tenets*
*Source: Basic Archetypes (Hannemann-Strenger, 2013)*

**Price** – This attribute benefits the customers by offering them the lowest price. Retailers with this driver have a very thin margin and low costs. This strategy calls for focusing on lowering the costs, especially inventory costs leading retailers to optimize their inventory and reduce stock-outs. Also they need to have channel integration that helps them move the unsold items from one channel to another. Reducing the size of the stores and having digital interactions instead of the full-fledged store staff can further reduce costs. However, retailer should have a large number of outlets to drive lower costs in product sourcing through economies of scales.

**Place** – This tenet refers to the location from which shopping is done. It requires retailer to be at the right place at the right time. By staying in close proximity to customer, retailer can fulfill the immediate and urgent requirements of the customer. One of the advantages of following this tenet is that the retailer can have a better estimate of demand, as it is mostly limited to a local area. Also, due to the limited customer base, the retailer can build a personal rapport with the customers and customer loyalty earned through these relationships can ensure a sustainable business. For this, the retailers need to invest a lot of money in local promotions through extensive signage and display. However, retailers can cover costs by charging a premium to consumers for providing the convenience.

**Choice** – This basically caters to the customers who require a lot of product choices to select from. Everything under one roof is the key mantra for such customers. In today's context, it also refers to the platform. Online Retailers such as Amazon attract customers by offering an unlimited range of products. The customers in this category value the product comparisons and love to do some research before they buy anything. Omni-channel presence plays a very vital role, where the customers can access a wider range of products across different channels.

Once the company defines the basic need that it caters to, it should identify the differentiating factors that will help it compete with other players. There are three differentiating factors that retailers can provide – experience, exclusivity and ecosystem (Niemeier, Zocchi, Catena, & Hannemann-Strenger, 2013).

However, as they are differentiating factors, it is indeed difficult to establish these facets.

| Differentiating Factors | Experience | Exclusivity | Ecosystem |

*Figure 16: Customer value - Differentiating factors*
*Source: Potential Variants (Hannemann-Strenger, 2013)*

**Experience** – This refers to the feelings of customer during entire shopping journey. From product point of view, it includes the actual look of the product, product trials and touch & feel. Moreover, for a physical store it means the store ambience and the processes within a store such as navigation, payment, returns and other services. As mentioned earlier, Personalization plays an important role in creating an experience for the customer.

**Exclusivity** – This refers to a distinct offering made especially for a particular customer. There are many levels of exclusivity that can be created for the customer. For example, the premium brands create this unique proposition, by pricing their products very high, so that only few customers can afford them. Another strategy is customization through which brands create an exclusive product for a customer or organization. Personalized discounts, individual loyalty rewards and exclusive offers are certain other ways of offering exclusivity to customers.

**Ecosystem** – This refers to a particular set of solutions that include both products and services. Gillette's "Razor and Razorblade" model is a classic example of this. In the current context, it is imperative to say that any product cannot be dissociated from services. Service includes easy returns, post-purchase feedbacks and after-sell services. Though physical products may not qualify in this category, retail is always seen as a service. It is an anchor that can attract customers to retailers and make them come back.
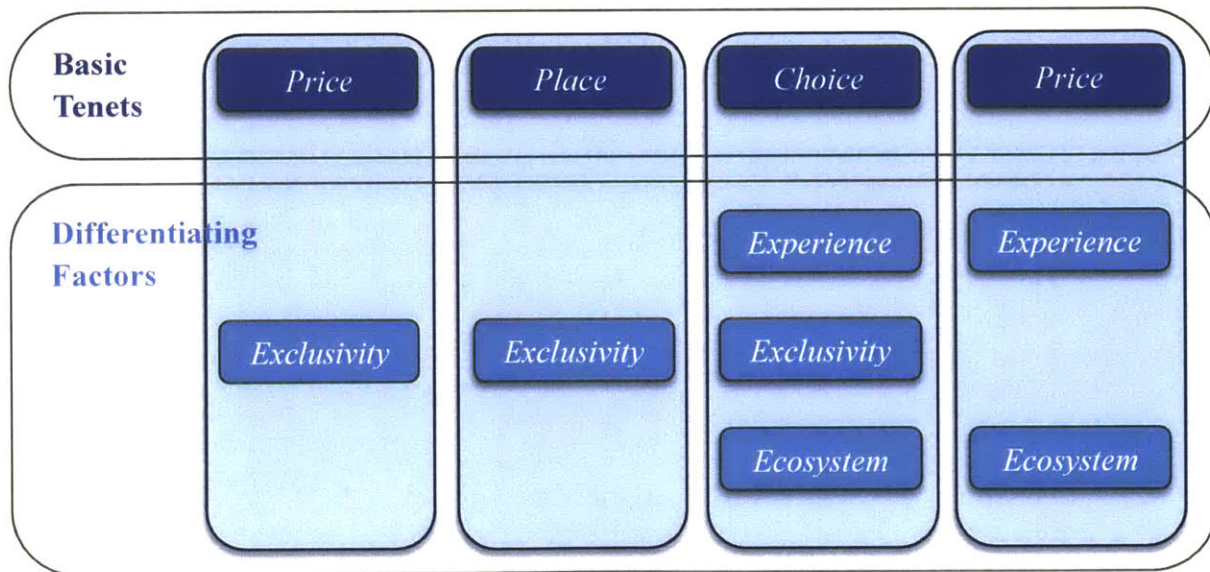
| Basic Tenets | Price | Place | Choice | Price |
|---|---|---|---|---|
| **Differentiating Factors** | | | Experience | Experience |
| | Exclusivity | Exclusivity | Exclusivity | |
| | | | Ecosystem | Ecosystem |

*Figure 17: Customer value combinations*
*Source: Adapted from Retail Archetypes (Hannemann-Strenger, 2013)*

The customer value can either be a single trait or a combination of basic tenets and differentiating factors. As basic tenets are more fundamental in nature, it is advisable to select only one. One can choose one or more differentiating factors to build the customer value offering. Based on the retail archetypes (Hannemann-Strenger, 2013), I have adapted a more concise framework as shown in the figure 17. Though there can be more options, but the scope here is limited to four combinations that are mutually exclusive.

## 6.2 Define Role of Each Channel

This is the most complicated step in the implementation. Every customer value proposition demand a unique combination of primary and secondary channel. At the same time, as the importance of different channels vary in different stages of the shopping journey, and so retailers need to make sure the secondary channels are equipped to act as primary in certain other stages.

We can start by making a list of all the functions that retail does. The following is a representative list of various functions - Create Trigger, Customer research, Product trials, Product reviews, Promotions/Advertisements, Customer Retention, Order Gathering, Payment collection, Sales, Order fulfillment, Feedback, Returns. The customer value that retailer choses to serve, will define the function each of the channel can perform. The table 3 is a recommended list of various functions that offline and online channel can perform based on different customer value.

*Table 3: Channel functions for basic tenets of customer value*

| Customer Value | Online channel function | Offline channel function |
|---|---|---|
| **Price** | <ul><li>Trigger</li><li>Research</li><li>Product Comparison</li><li>Sales</li><li>Payment</li></ul> | <ul><li>Promotions/Ads</li><li>Feedback</li><li>Fulfillment</li><li>Returns</li></ul> |
| **Place** | <ul><li>Trigger</li><li>Promotion/Ads</li><li>Feedback</li><li>Research</li></ul> | <ul><li>Sales</li><li>Promotion/Ads</li><li>Customer Relations</li><li>Payment</li><li>Fulfillment</li><li>Returns</li></ul> |
| **Choice** | <ul><li>Product Comparison</li><li>Research</li><li>Trigger</li><li>Sales</li><li>Feedback</li></ul> | <ul><li>Product Trials</li><li>Order Gathering</li><li>Returns</li><li>Sales</li><li>Promotions/Ads</li></ul> |

Now on the basis of customer value, we can define the roles of each channel. For instance, if we select a basic tenet of price as our customer value proposition, then the role of physical channel may be to create a brand recall. This is a low cost strategy and requires one to have tight control of inventory, ideally no

inventory. Retailer need cut on the huge capital costs involved in owning a large retail store. So the online channel can take the function of sales and physical stores are more like advertising and marketing channels. Stores can also act as order fulfillment and feedback gathering channels.

Table 4 is another recommended list of the channel functions against the customer value combinations taken from figure 17. Basically, it shows that more differentiating factors in customer value leads to more functions being performed by both the channels. Also, this requires a substantial amount of investment in upgrading the channels. At the same time, management across the channels becomes more complex and challenging from an organization point of view.

*Table 4: Channel functions for customer value combinations*

| Customer Value | Online channel function | Offline channel function |
|---|---|---|
| Price<br>+<br>Exclusivity | • Trigger<br>• Research<br>• Product Comparison<br>• Sales<br>• Payment | • Product Trials<br>• Promotions/Ads<br>• Feedback<br>• Fulfillment<br>• Returns<br>• Order Gathering |
| Place<br>+<br>Exclusivity | • Trigger<br>• Promotion/Ads<br>• Feedback<br>• Research<br>• Order Gathering<br>• Product Comparison | • Sales<br>• Promotion/Ads<br>• Customer Relations<br>• Trigger<br>• Fulfillment<br>• Returns |
| Choice<br>+<br>Experience<br>+ Exclusivity<br>+ Ecosystem | • Product Comparison<br>• Research<br>• Trigger<br>• Sales<br>• Feedback<br>• Customer Relations<br>• Order Gathering | • Product Trials<br>• Order Gathering<br>• Returns<br>• Sales<br>• Promotions/Ads<br>• Customer Relations<br>• Fulfillment |
| Price<br>+<br>Experience<br>+ Ecosystem | • Trigger<br>• Research<br>• Sales<br>• Promotion/Ads<br>• Feedback<br>• Order Gathering<br>• Payment | • Product Trials<br>• Research<br>• Sales<br>• Customer Relations<br>• Product Comparison<br>• Returns<br>• Fulfillment |

Defining a channel role is necessary for successful channel integration. The next step is to understand the status quo of existing channel functions.

## 6.3 Comparison with the Current Status.

This step is performed from perspective of the customer. The aim is to determine what customer value each of the retailer's channels currently provides and during which phase of shopping. This needs to be done by collecting data on customer patterns and habits. A study of the customers' buying patterns can give the organization an idea of the status quo. We need to define each step of the customer's shopping journey, right from the need trigger to post-purchase service and customer feedback. Table 5 is an example of such a template that can be used by the retailers to identify current functions of each channel.

*Table 5: Template to check current channel functions*

| | | Channel Roles | |
|---|---|---|---|
| **Shopping journey** | **Description** | **Offline** | **Online** |
| Trigger to buy something | | | |
| Feels the need | Situational, Occasional, Specific Purpose | | |
| External cue | Looking at a friend's purchase, word of mouth, ads | | |
| Regular | Day-to-day consumption, good deal or discount | | |
| Impulse | Shopping happens as a by-process, window shopping | | |
| | | | |
| Research and Decision making | | | |
| Product experience | Touch & feel, trials, physical attributes like looks, style | | |
| Price | Offers from other channels and competitors, discounts | | |
| Feedback | Reviews, ratings, recommendations, peer to peer | | |
| Comparison | Competitive offerings, Range, | | |
| Convenience | Location, place, accessibility, instant ownership | | |
| | | | |
| Making a purchase | | | |
| Delivery | Free Shipping, Store pick-up, third location, instant | | |
| Payment | Quick pay, secured, privacy, online, contactless | | |
| Shopping Experience | Enjoy, fun, focused, social, quick, engaging | | |
| Personal Interaction | Store staff, digital interaction, customization | | |
| | | | |
| Post-purchase | | | |
| Feedback | Service, posting on social media, word of mouth | | |
| Returns | Easy, hassle-free, anytime | | |
| Rewards | Loyalty points, Discounts on further purchase | | |

Note that in this template, online channels can be further divided into three sub channels of website, mobile and social. This can help retailer identify the channel specific initiatives to be taken to bridge the gap from the expected role. Though website, mobile and social thrive on the similar backbone of the

online network, but they require a separate treatment as the experience and expectations of the customer vary across these channels. Further inquiry is needed on sub-channel specific functions and how they can be leveraged to provide an omnichannel shopping experience to the customer.

## 6.4 Initiatives to Upgrade Channels

Once we have the current status and the desired channel offering, the retailer should take the initiatives to upgrade lagging functionalities of the channels. Moreover, while filling this gap, retailer should make sure that they do not alienate their existing customers in the process. The goodwill amongst these customers should be preserved while implementing channel integration. For this purpose, they should be able to prioritize their transformation initiatives and then roll out the implementation in a phased manner.

In case, the retailer need to completely makeover a particular channel, it should make sure that the customers in the channel are not lost. Customers, as many as possible, should be moved to the alternate channels. Retailers can offer incentives to make sure that customers do not migrate to other players. Following are some initiatives that can help bridge the gap between the expected channel roles and the actual one.

**Channel-wise initiatives** - Design your offering to drive traffic towards the channel that has the most competitive advantage on basis of the analysis done on customer value and channel roles. For instance, retailers, that serve 'Price' as customer value, must facilitate the comparison with competition's offering. For this, the primary channel should be online. Additionally, they can have digital screens in the stores to access these online portals. Following are some best practices.

- Digitization of the physical stores to integrate personalization and experiential shopping
- Online channels accessible from the stores through digital screens
- Virtual reality enabled websites/online channels
- Multi-channel initiatives such as order online & pickup in-store, and shop in-store & get delivered to home

**Organization structure changes** - No channel-siloes in the organization. From customer's point of view, there are no channels and both online and offline modes represent the retailer. To offer seamless channel experience to customers, retail organizations need to think in the similar manner. They need to create organization functions that operate across different channels.

**Product assortment** - Retailers need to tailor their product range as per the customer value that they have chosen to serve. For instance, a company that aims to provide the customer value of experience cannot keep products from manufacturer brands that are inferior in quality. For the customer, the product is purchased from the retailer and not the brand and if anything goes wrong with it, the customer develops mistrust in the retailer and not the manufacturer.

**Flexibility to reach the customer anytime, anywhere** - Upgrade logistics and supply chain to reach the customers easily. Fast and error-free delivery can help retailers build long lasting relationships with the customers. At the same time, an accurate forecast can lead to fulfillment of the demand and customer satisfaction.

**Educate and upgrade the partners** - As retailers transform themselves, they need to make sure that they upgrade the entire value chain behind them. Retailers should take a greater interest in developing its manufacturers, vendors and third-party distributors. The development agenda should include quality management, staff administration, finance management, procurement and other related processes. Also they need to make sure that these partners equally value the customer centricity.

## 7. Conclusion

The implementation roadmap suggested in this work can be further substantiated by analysis of real customer data. Especially when we include sub-channels of online and offline retail, the measurement of different functions becomes more complex. For this, we need specific data. The customer value served and the flexibility to use online and offline channels varies from retailer to retailer. This implementation has to be driven by individual retailer, and will vary from case to case.

On a broader scale, this work tries to resolve the dilemma of retailers on channel selection and expectations from each channel. From the literature review and the analysis done, we can certainly say that omnichannel is the future of retail. Also, the significance of both online and offline channels still remains equally high, but the functions certainly vary. Both channels have to interchangeably perform the roles of sales and support to fulfill the desired customer value. Based on this value proposition, retailers can drive channel integration initiatives to align the channel functions with organizational goals.

# 8. Appendix

## 8.1 Interviews

### 8.1.1 Customer Interview 1
General Information
Age: 23
Gender: Male
Discipline or Occupation:
Technology Consultant

*How long have you been living in the city?*
I have worked in India for about 5 years.

*How do you shop most – online or offline?*
My preference for shopping varies from category to category. I would like to shop online for something like grocery or appliances, but for clothes, I would like to visit the stores and try out. Though I am not bothered with the availability of sizes, I just want to see how do they look on me. Online shopping offers a large variety of products. My favorite store is Apple. I am a 'loyalist' of the store. Really like the products and the way they are placed.

*What makes you shop there?*
Store ambience and proximity are big motivators. Particularly the friendly staff and curated stores interest me a lot.

*Can you explain your shopping experience?*
Overall in every shopping experience, I look for being productive i.e. less time consuming. Example is Ikea's simple navigation. At Ikea, I can just go around and have a look at the products once and then just be done. Also, I do not like any pushy salesman but I am impressed by personalization. For example, when I do the payment at an Apple store the shopkeeper greets me by my name. I like this.

*If you were to develop the retail experience, how can you make it better?*
I will like to have instant delivery on shopping online. Something like order now and get delivered within 3-5 hours. Retailers should give both instant delivery of physical retail and the online convienience. In physical stores, I wish to be able to access the ratings and recommandations instantly. But they should be from a third party.

*How do you think the retail experience will be in 20 years?*
More and more online shopping will catch-up. Virtual trial rooms will be available for purchasing the clothing online. Supportive sales people and real-time customization will help customers.

*Any comments?*
I feel that shopping malls and markets are good places to hangout with friends. Mostly will do this on

weekends. I like to do shopping along with some entertainment or at a place that is very different.

## 8.1.2 Customer Interview 2

General Information
Age: 30
Gender: Female
Profession: Student

### *How long have you been living in the city?*
In US since last 3 years

### *Where do you shop most (digital? physical?)*
I love to shop at malls. I generally visit malls with friends; enjoy different cuisines at food courts and the shopping happens as a by-process.

### *Can you explain your shopping experience?*
Depends on what product I purchase. I generally do clothing shopping in-store and only at rare occasion use online channel. While for electronics items, I mostly use online channel. Overall, it will be like a mix of both online and physical. For a category like gadgets, I do a research online and look at the reviews, recommendations. I think that the products look too nice online and actual looks will be revealed only when seen directly. But ultimately order placement depends on where it is available cheaper. Delivery waiting time is not a concern for me.

Recently I bought a laptop from best buy. I did an online research before visiting the store. For example I knew from the websites that a particular model is light-weight, but it was confirmed only when I held it in my hand and did a comparison with other laptops. I finally placed order online as I was getting a better deal there.

### *What makes you shop there?*
The range of products available as well as the ability to compare them with other products. Also another important aspect is I get to see the complementary offerings and compare them on mobile.

In retail shops, the ability to have a look and feel of product makes it preferred option to online shopping. For example in apparel shopping, i want to see an entire look and not only the product. Zara is my favorite shop coz product display is very organized. Plus the ambience and ease of navigation is very good.

### *If you were to develop the retail experience, how can you make it better?*
Real time reviews should help a lot. And not only on the mobile phone, but may be even on a big digital screen next to the product. Also if in-store promos should only display information related to my desired product.

### How do you think the retail experience will be in 20 years?
Virtual reality kiosks that allow people to browse and shop.

*Any comments?*

In-store assistance should be given only if asked for. I do not believe in the suggestions of sales people, if they are pushy. In fact, if pushed too much by salespeople, I will never buy the product.

## 8.1.3 Professional Interview

General Information
Profession: Manager at a major Retail firm in the US

*What excites you about Retail today?*

The dynamic nature and ever-increasing competition in retail today is breeding many new opportunities, especially trend to integrating the online and offline channels. This comes with lots of hurdles but in recent times, we have seen a lot of technology implementations to tackle these challenges. In particular, the usage of mobile devices and its ubiquitous use is really very exciting.

*So how do you think mobile is driving the change in retail?*

First it has given retailers another opportunity to reach their customers. Customers are always using their smartphones to access product information, deals and other information. I see it as an chance to understand my consumer better through the analysis of the various data points.

Second, it has given thrust to the importance of convenience in a shopping journey. It allows customers to switch from online to offline mode very quickly. For example, show-rooming was always seen as a problem, but now retailers are enchasing on this inclination of the customers. Retailers offer same value across different channels and thus facilitate the switching.

*What are certain other factors that are driving innovation?*

Supply chain is another area, where retailers are making a lot of progress. Promising proposals such as One click ordering, online shop + store pick-up and one-day delivery would not be possible without making your supply chain leaner and faster. It has enhanced the availability and so convenience while shopping.

*How do you see the retail of the future?*

Cloud computing and big Data analytics are revolutionizing the shopping process and so today's customer will not settle for anything less than perfectly seamless experience. In the future, we see an extensive implementation of such technologies even in the physical retail space. This can help retailer optimize their stocks and run their business on minimum inventory.

In physical stores, I also see Virtual Reality playing a major role in future. Already, many retailers have started experimenting with providing new experience in the stores. Virtual reality facilitates digitized product trials, instantaneous social media access and hassle-free checkouts.

*On the experience front, what do you think about to customer's expectations?*

Customers today don't just want to shop. They seek personalized experience in shopping. So, relationship

building is very important for a retailer. Technology implementations in physical store can help a retailer understand its customers and fulfill their demands. All the physical retail will eventually be experience centers for customers and its up to retailers that how they provide an engaging experience to customers.

*What do you think is the most important for customers today in physical store?*
Pricing is still the most important criterion for customers today. But recently convenience and product qualities have also surfaced as important criterion for customers. Earlier these were considered to be a unique proposition of a retailer, but now they are considered given by consumers. As they say in marketing, the differentiating factors of today are hygiene factors of tomorrow.

*Any more comments?*
Zero-inventory models of retailing are increasing becoming popular today. And the whole technology advancements in physical retail will ensure that retailers in future work on minimum inventory while making a better connect with the customer.

Another important thing is to see the online retail space, where Amazon is well on its way to monopolize the market. But it will be interesting to see how they compensate for the physical experience part. Secondly, emerging online retailers such as Alibaba.com and Jet.com pose a threat to them by creating a niche for themselves.

## 8.2 CAGR calculations on growth of smartphone usage in the US

| | Dec-12 | Dec-13 | Oct-14 | Nov-14 | Dec-14 | Jan-15 | Feb-15 | CAGR (last 3 years) | CAGR (last 5 months) |
|---|---|---|---|---|---|---|---|---|---|
| Smartphone Penetration% | 54 | 65.2 | 72.9 | 73.6 | 74.9 | 75.8 | 76.6 | | |
| Smartphone Users | 126 | 156 | 176 | 178 | 182 | 184 | 186 | 5.27% | 1.14% |
| Total Phone users | 233 | 239 | 241 | 242 | 243 | 243 | 243 | 1.39% | 0.15% |

*Source: comScore.com. Following links shows the month wise data.*
**Dec-12:** http://www.comscore.com/Insights/Press-Releases/2013/2/comScore-Reports-December-2012-US-Smartphone-Subscriber-Market-Share
**Dec-13:** http://www.comscore.com/Insights/Press-Releases/2014/2/comScore-Reports-December-2013-US-Smartphone-Subscriber-Market-Share
**Oct-14:** http://www.comscore.com/Insights/Market-Rankings/comScore-Reports-October-2014-US-Smartphone-Subscriber-Market-Share
**Nov-14:** http://www.comscore.com/Insights/Market-Rankings/comScore-Reports-November-2014-US-Smartphone-Subscriber-Market-Share
**Dec-14:** https://www.comscore.com/Insights/Market-Rankings/comScore-Reports-December-2014-US-Smartphone-Subscriber-Market-Share
**Jan-15:** http://www.comscore.com/Insights/Market-Rankings/comScore-Reports-January-2015-US-Smartphone-Subscriber-Market-Share
**Feb-15:** http://www.comscore.com/Insights/Market-Rankings/comScore-Reports-February-2015-US-Smartphone-Subscriber-Market-Share

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