Can blending online and physical stores help sellers compete?

Executive Summary

Consumers in an Internet age have the world at their fingertips. They can buy on the Web, on mobile devices and via social media. They can shop seven days a week at any time of day and buy from anyone anywhere. Some browse the Internet, then buy in a store; others browse in a store, then buy online from a competitor. To survive in this demanding environment, retailers are breaking down the boundaries between physical and digital “channels,” the ways in which they sell and distribute products to consumers. Retailers are blending their operations into a seamless experience the industry calls omnichannel retailing. Growth in this type of selling comes at a time when retailers are facing increasing competition and shrinking profit margins. As a result, they are trying to improve their Web experiences, bring the digital world into the store and reorganize their supply chains for speed. The challenge is daunting and raises numerous questions. Can existing supply chains support growing omnichannel retailing? Can Internet retailing help small businesses compete? Will brick-and-mortar stores disappear?

Overview

A consumer walks into Best Buy to shop for a television. She views models and compares prices, then pulls out her smartphone to read reviews on the Best Buy app. She spends 20 minutes in the store, using her phone to find more information before narrowing the selection down to a model she really likes. Rather than buy on the spot, she visits a competing store, then returns home to compare other competitors online and ensure she’s getting the best product for the best price.

After a few hours of research, she settles on the model she saw at Best Buy and logs into her account from her laptop. It instantly pulls up the televisions she viewed on her smartphone app. In less than five minutes, she completes the purchase and pays from her living room. She could choose to wait four days for shipping, but she sees three of those TVs are in stock at another nearby Best Buy location and clicks the in-store pickup option. An hour later, Best Buy sends her an email saying her television is ready for pickup at the customer service desk. She walks into the store and a clerk scans a barcode on her phone. Within a few minutes, she’s leaving with her new television.

Such transactions are becoming more common as the lines between the physical and digital worlds blur for retailers and their customers. People buy products on the Web, on mobile devices and via social media. They shop at all hours, seven days a week, in a market where geography has less and less relevance. Some browse the Internet, then buy in a store; others browse in a store, then buy online from a competitor. Consumers expect to place orders from their smartphones, have their purchase available to pick up in a nearby location an hour later or shipped to their home the following day. Shoppers want more, and they want it now.

To meet consumer demand, retailers are changing the way they market their merchandise, how they fill orders and how they run their stores. They are breaking down the boundaries between the physical and digital “channels,” the ways in which they sell and distribute products to consumers. From their point-of-sale systems and in-store merchandising to their websites and mobile apps, retailers are slowly integrating and blending their operations into a seamless experience the industry calls omnichannel retailing. Kevin Mullaney, CEO of New York-based retail consulting firm The Grayson Company, says omnichannel retail involves getting customers “what they want, where they want it, how they want to pay for it and how they want to interact with you.”

“There’s no consistent definition, so there’s no concise history to point to,” says David Giannetto, author of “Big Social Mobile: How Digital Initiatives Can Reshape the Enterprise and Drive Business Results.” “It’s just something that grew through the Internet, smartphones and technology. Consumers just started demanding it. What is unique is the merging of channels.”

Technology has led the retail revolution. “Smartphones, the Web—it’s spilling into the stores and changing everything. Everyone is trying to catch up,” Mullaney says.

A global survey of Web users by New York-based marketing firm DigitasLBi found that 28 percent of respondents reported buying an item via smartphone in the previous 30 days. For tablets, that number was 20 percent and for laptops, 50 percent. Of those surveyed, 87 percent who logged into an e-commerce site said they did so to receive a more personalized offer. Nearly 80 percent said they buy more, and buy more often, on personalized sites.

Online Sales Continue to Grow

Estimated percentage of U.S. retail sales from e-commerce, 2005-15, seasonally adjusted

Growth in omnichannel selling comes at a time when retailers are facing increasing competition and shrinking profit margins, as well as demanding consumers who are more inclined to follow price and convenience than brand loyalty. Gino Van Ossel, marketing professor at the Vlerick Business School in Brussels, and author of “Omnichannel in Retail,” said retailers who don’t make the transition to omnichannel will suffer as online retailers expand. “If, as a traditional retailer, you ignore that, you are digging your own grave,” he said. 2

Nikki Baird, analyst with Retail Systems Research in Miami, says consumers used to have trusted brands and stores. They would visit a store and rely on the retailer’s expertise and selection to guide purchases. Technology has “disrupted the shopping process,” she says, by allowing consumers to use information from everywhere to select a product before deciding where they’re going to buy it. Retailers, she says, “no longer have a captive audience. Consumers can shop anywhere for anything. And just because they buy [once] doesn’t mean they’ll keep coming back.”

As a result, retailers are being challenged to better market their brands on all channels. A Nielsen study found a strong correlation between brand equity (the value of having a well-known brand name) and a retailer’s success in the omnichannel environment. As channels expand, Nielsen said, retailers need to understand what drives people to their stores and how to keep customers loyal.

That means examining everything from the appearance and graphics to product descriptions, to ensure shopper experience is consistent in the store, on the Web and in the rest of the digital world. 4

The shift in how customers shop is also profoundly affecting stores. Despite the perception that “brick-and-mortar” stores—physical locations—are becoming less relevant, the overwhelming majority of shopping is still done in person. According to the Department of Commerce, online sales represented only 7 percent of total retail sales in the first quarter of 2015. 5 Although some retailers are closing physical stores, others are opening new stores, while Web retailers such as Warby Parker, Athleta and Boston Proper are using stores to offer a physical presence in their omnichannel operations. These physical stores serve as showrooms for Web shoppers and purchase locations for Web browsers. As a result of all these shifts, stores are becoming smaller. Michael Burden, principal at real estate management services company Excess Space Retail Services, said within the next five to 10 years, average store size could shrink by one-third to one-half. 6
Omnichannel retailers can capture data and analytics to learn more about their customers, how they shop and what they desire. Chris Hammond, management consultant and retail specialist with Atlanta-based management consulting firm Parker Avery Group, says omnichannel selling is ultimately about empowering consumers and “letting them decide how to shop.” Technology enables retailers and consumers to adjust to a “changing culture” of information, speed and convenience in retail, he says.

Nevertheless, creating the perfect omnichannel experience remains challenging for many retailers. Hammond says retailers need to work from the top down to make “big changes” in everything from their supply chains and websites to their storefronts and customer service protocols. Retailers have spent years building their Web operations, but to adapt to changing demands they must “tear down the barriers” to integrate Web with bricks and mortar, Hammond says. A successful omnichannel retailer designs everything from its front line point-of-sale (POS) systems to its smartphone apps, distribution centers and supply chains to meet consumer expectations. This requires a large invisible infrastructure. “There is no omnichannel without the technology to service it. Retailers are trying to break down the silos they created when they started in Internet retail,” Hammond says.

Laptops Most Popular for Online Purchases

Percentage of Web users who bought items online in last 30 days, by device, 2015

![Graph showing percentage of Web users who bought items online in last 30 days, by device, 2015](http://tinyurl.com/pwfc742)

A global survey found that half of Web users had purchased an item online in the last month with a laptop. Forty-one percent said they had used a desktop to buy online; 28 percent used a smartphone; and 20 percent used a tablet.

Surveys have indicated that consumers welcome a retail experience that blends online and real-world capabilities. Research from Accenture this year found that while consumers say it is easy to shop across all channels, they tend to want more in-store experiences. When it comes to in-store shopping, shoppers said retailers need to improve in two main technology-related areas: 42 percent said staff should have the ability to order out-of-stock items, and 28 percent said in-store Wi-Fi is essential. In the online experience, flexible fulfillment—the ability to choose where and when a product is picked up or delivered—and speed of delivery were the two most important factors. Seventy-five percent of shoppers said they would use scheduling options if available and 64 percent said speed was important.

Retailers are seeking the right mix of investment and business change to capitalize on omnichannel growth while determining what technologies work for them. Some of the top challenges include inventory accuracy, minimizing labor costs and coming up with new store processes, layouts and technology.

As retailers seek ways to meet shifting consumer expectations, here are some of the questions being debated:

**Weighing the Issues**

**Can existing supply chains support growing omnichannel retailing?**

As more retailers adopt omnichannel practices, they are demanding more from supply chains—the networks of manufacturers, shippers and distributors that make and move products around the world. Retailers are questioning whether their supply chain can meet the demands of an environment where consumers want to buy and receive products anywhere.

When consumers shop on the Web and then head to a store to buy, or check out products in the store and then buy on the Web, retailers need a seamless, fast supply chain to deliver products to consumers when they want it and how they want them, ideally, the retailer should be able to seamlessly fill an order whether a consumer wants to pick up in-store in New York or have it shipped to their home the following day in California. Many experts say most retailers now do not have a supply chain to meet the increasing demand for speed and flexibility.

“It’s company specific, but many retailers have only one dedicated distribution warehouse and are not able to support omnichannel fulfillment,” says Santiago Gallino, assistant professor of business administration at the Tuck School of Business at Dartmouth and a retail specialist.

In 2014, PricewaterhouseCoopers surveyed more than 400 retail CEOs and found that most think their supply chains cannot support an omnichannel environment. The biggest challenge was changing supply needs created by the expansion in online shopping. Eighty-three percent of the CEOs said their supply chains were “not optimal” for omnichannel retail.

David Simchi-Levi, a professor in the Department of Civil and Environmental Engineering at the Massachusetts Institute of Technology, says while traditional supply chains are set up to be efficient and cost-effective from the corporate perspective, they’re not always designed for the fast-paced world of the Web where a customer order should be filled as quickly as possible. “They essentially need multiple supply chains. One type of strategy for the brick-and-mortar outlet, another for when they sell online,” Simchi-Levi says.

Omnichannel supply chains also need more integration and options, according to Simchi-Levi. Orders coming from multiple directions into both individual stores and several distribution centers, each with its own inventory and demands, can mean logistical headaches. For instance, pulling product from one location to serve another location could produce a shortage down the line. Each order fulfillment becomes a complex calculation in how to make the best use of the entire supply chain. Sometimes, what’s fastest isn’t the cheapest. “This trade-off between inventory and cost prohibition becomes important, and if you don’t integrate your supply chain, it can be difficult to respond,” Simchi-Levi says.
Yet retailers can make technical and logistical changes to help their existing supply chains support omnichannel demands. At Home Depot, a large portion of in-store sales start online. The retailer has tweaked its supply chain over the past six years to integrate direct fulfillment centers (DFCs)—huge warehouses dedicated to filling online orders, whether for store pickup or direct delivery. The company has DFCs in California, Georgia and Ohio that offer same-day shipping and warehouse control systems that synchronize fulfillment activities.

Galliano says retailers can also invest in digital infrastructure and technology to provide real-time “visibility”—the ability to know whether a specific product is in stock, and where. Ideally, sales clerks should see how quickly they can obtain out-of-stock items or fill special orders. Many successful omnichannel retailers such as Best Buy, Home Depot and Target even have real-time inventory visibility on their website to allow customers to see if a product is in stock at a particular location. “One of the biggest challenges they face isn’t necessarily the supply chain, but the investment in infrastructure. There are demanding IT solutions [required], and it’s a burden for many retailers,” Galliano says.

Supply chains that don’t provide visibility or can’t quickly process orders risk driving away customers. A survey by logistics software provider Kewill found that 62 percent of respondents were less likely to shop with a retailer if they did not receive goods within two days of the date promised. 13

Successful omnichannel supply chains require complex metrics to forecast and plan for consumer demand. With fulfillment from multiple channels, it becomes more difficult to maintain real-time inventories and to know how they affect sourcing and procurement. In the environment of rapid delivery, balancing supply and demand can be challenging, especially in a global supply chain where materials are sourced in one country, products assembled in another and then sold in another. An unprepared retailer can find its stock of products has run out, meaning higher expedited freight charges and reduced profit. 14

Omnichannel supply chains also require speed. Consumers expect next-day or even same-day delivery. The need to offer more product lines from more suppliers compounds the pressure for shorter delivery times. Holding too many unsold products in warehouses costs money, though, so retailers also have to find a way to do it all with just-in-time capabilities to reduce inventory expenses. “The supply chain needs to be set up to have products where consumers want it and when they want it. How fast they can get it is a critical part of the decision-making process,” Giannetto says.

Can Internet retailing help small businesses compete?

Since the early 1990s, small businesses have faced stiff competition from Internet retailers whose lower overhead and greater economies of scale have allowed them to offer lower prices. Amazon dominates U.S. online retail sales and has become one of the nation’s largest retailers overall—with sales continuing to grow. 15 As traditional large chain retailers expand their online presence to capitalize on the rise of e-commerce, it’s putting even more pressure on small businesses. Nancy Thomas, president and CEO of the Richmond, Va.-based Retail Merchants Association, which represents local Richmond businesses, says Amazon and big boxes are the “the 800-pound gorilla in the room for small retailers.”

Daniel Butler, senior adviser at the National Retail Federation in Washington, says the Internet is a “mixed bag” for small retailers. The Web enables them to reach a larger audience and offer more merchandise by shipping it directly from the manufacturer, a process called “drop shipping.” The Internet is an inexpensive way for small businesses to reach market to fulfill the needs of prospective consumers, according to the Internet Association, a Washington policy advocacy group. Nearly two-thirds of part-time small-business owners surveyed by the group in 2013 said they relied on the Internet a lot, while more than half said they could not conduct their businesses without it. 16 Even many very small retailers, including home-based businesses, are using sites such as Etsy, eBay or even Amazon to sell products online. 17 "The Internet can be a real blessing for small businesses if they know how to use it.

Butler says.

The Internet and social media have made some consumers more conscious about their purchasing decisions, inspiring them to shop local, some say. A 2013 annual holiday survey by Deloitte found that 66 percent of consumers said they would shop locally during the season. Among the reasons cited, 60 percent said it was to support the local economy and 44 percent said it was more convenient. 18 In 2010, American Express created a promotion, Small Business Saturday, on the day after Black Friday. A 2014 survey by the National Federation of Independent Businesses, a Washington small-business group, and American Express found consumers who were aware of the event spent $14.3 billion with independent retailers and restaurants on that day. 19

Parker Avery’s Hammond says omnichannel and Internet retailing give small businesses another opportunity to improve their customers’ experience. While small retailers are unlikely to win the war on price, he says, they can “hold their own” by delivering superior service. “Small retailers can offer a whole different type of experience. They can do that in the store and on the Web with more direct assistance and relationship to the customer,” Hammond says.

At the same time, Butler says one of the biggest challenges small businesses face is keeping up with the 24/7 marketplace. “Consumers are shopping more at nights and on weekends than ever before and if you’re not open, you’re losing business to the competitors,” he says. And the desire for fast delivery and free shipping can quickly erode profit margins at a small business.

Successful small retailers work to stand out from the competition, says Adam Lewis, founder of San Francisco-based online marketing consultancy Foghorn Labs. Specialty retailers can’t compete with large online retailers on the basis of price and selection, he says. Instead, they offer something “tangibly different from bargain-centric online shopping” while integrating their physical shops with their online presence. “Give me a reason to get up from my chair and visit your store. Those tangible connections will make me a loyal customer both on your website and in person,” Lewis says.

Small businesses could be at a disadvantage as consumers move more to mobile shopping. A report by SAS, an international software firm, found that the more than 50 percent of the U.S. population that owns a smartphone, 70 percent use their phones for on-the-spot comparison shopping. 20 Thomas says this practice, called “showrooming,” has been a “big issue and an ongoing problem” for many small retailers. Consumers walk into a small retail store, look at products, then go back home to buy online at a discount—or they view the small retailer as “a showroom to do their research.” Thomas says the only way small retailers can combat this practice is to improve the customer experience and consider matching prices.

“The [small businesses] that survive are the ones that have a process for how to handle it, train their employees and be willing to work on price,” she says.

Michael Levy, a marketing professor and the director of the Retail Supply Chain Institute at Babson College in Babson Park, Mass., says some subsectors of the retail market and small, local retailers may not see much benefit from the Internet or omnichannel selling. “If you’re a local hardware store or something like that, no one’s going to look on the Internet to find you. They’re going to your store right then to buy it right away or they’re going [somewhere else],” Levy says. That means it’s not worth the money to pay for sophisticated websites or mobile apps.

Thomas says small retailers also lose sales to online competitors in places where consumers don’t have to pay local sales taxes on Internet purchases. It states such as Arkansas, Louisiana and Tennessee, that means consumers can save about 9 percent by buying something online versus shopping at a small local business. 21 “It’s a big issue that [punts] small merchants at a disadvantage. They have been trying to deal with [it] for quite some time,” Thomas says. (See Short Article, “Internet Sales Tax Remains Contentious.”)

[Image: A sales associate helps Linda Lepp find an item at a Home Depot in Chicago in March. For the retailer, a large portion of in-store sales start online, and it has adjusted its supply chain to fit this need. (Scott Olson/Getty Images)]
As technology changes the retail landscape, it is having a big impact on physical stores. Although e-commerce made up only 7 percent of all U.S. retail sales in the first quarter of 2015, that’s up from 2.8 percent in the first quarter of 2006. Since 2010, year-over-year growth rates have been at or above 15 percent. Brick-and-mortar stores are unlikely to disappear anytime soon, at least not until consumers are comfortable buying more of their products online.

Michael Levy: Small, local retailers may not see much benefit from the Internet or omnichannel selling.

Will bricks and mortar disappear?

As technology changes the retail landscape, it is having a big impact on physical stores. Although e-commerce made up only 7 percent of all U.S. retail sales in the first quarter of 2015, that’s up from 2.8 percent in the first quarter of 2006. Since 2010, year-over-year growth rates have been at or above 15 percent. Brick-and-mortar stores are unlikely to disappear anytime soon, at least not until consumers are comfortable buying more of their products online.

Retailers are integrating the benefits of face-to-face, in-store experiences with the efficiencies of the online world by offering information and visibility to shoppers through mobile apps. These apps can allow shoppers to check prices with a barcode scanner; retailers can “push” coupons to consumers based on previous shopping history. Mobile checkout, a service that allows consumers to scan and pay for products through their smartphone, can also allow consumers to skip long lines.

Staples is shifting to a new model of omnichannel store that is half the size of a typical 24,000-square-foot Staples store. Such a store uses connected kiosks and tablets to sell customers products not on the shelves, and the kiosks allow people to access all 150,000 items the company offers. As part of a strategy to reinvent its brick-and-mortar experience, Toys R Us announced in April it would open a prototype store sometime this year with floor space dedicated to play areas and new technologies to engage children.

Other retailers also use events and educational seminars to help create connections with customers in their stores, even as they increasingly sell products online. Home Depot and Lowe’s, for instance, hold free home improvement seminars. Guitar Center is expanding its physical presence with smaller stores that offer services and experiences it says consumers can’t find online. The company is merging its physical and online experience and offers repairs, lessons, clinics and in-store events as part of a move toward a full-service business.

Online retailers are entering the physical space as well. Web-based eyeglass retailer Warby Parker recently opened more stores after seeing benefits in having a showroom. Amazon opened its first brick-and-mortar location this year on the campus of Purdue University in West Lafayette, Ind., and says it plans to open more at other universities to give students drop-off and pickup options. Nick Hodson, a partner and retail consultant in the San Francisco office of consulting firm Strategy&, says retailers are “breathing new life” in physical stores in the quest for the seamless experience. They’re enticing consumers to use apps in the store, order from kiosks, handle products in-store and buy them online, or buy online, then pick up in the store. “As e-commerce grows, it’s becoming more difficult to distinguish an online from an offline sale,” he says.
Amazon opened its first brick-and-mortar location this year on the campus of Purdue University in West Lafayette, Ind. It plans to open more at other universities to give students drop-off and pickup options. (Charles Jischke/Purdue University)

New York-based retail strategist Bob Phibbs says as stores get smaller, that increases sales per square foot, a much-watched measure of performance. The top retailer by that standard is Apple, with sales of $5,009 per square foot. Fifteen years ago, when real estate was relatively cheap, Wall Street was “rewarding retailers for opening more and bigger locations,” Phibbs says. E-commerce with ship-to-home and ship-to-store options has reduced the need for “giant stores, long aisles and all this space,” he says. For instance, while it was an electronics giant in the 1990s, Circuit City went bankrupt in 2009 as half of electronics sales moved online and it failed to follow consumer preferences.

Yet Phibbs says that space is still important for the “feel good” aspect of shopping in stores. Studies have proven the benefits of “retail therapy,” where people can cheer themselves up by shopping. “We are creatures of habit. Many people go shopping and feel better about themselves. That experience can’t be fully replicated on the Web,” Phibbs says.

Background

Multiple Channels

While omni-channel may be the buzziest trend in 21st-century retail, retailers have long used multiple sales channels to reach customers. For instance, Sears was a mail order retailer for 38 years before it opened its first store in 1925. L.L. Bean has operated a store in Freeport, Maine, since 1917 while selling via catalog around the world; Internet orders surpassed catalog orders in 2009.

“The Internet was really just another channel for selling. Selling through multiple channels wasn’t anything new. It was the technology that was new,” says Vicki Howard, associate professor of history at Hartwick College in Oneonta, N.Y., and author of “From Main Street to Mall: The Rise and Fall of the American Department Store.”

Electronic commerce technically started in the mid-1970s with electronic data interchange (EDI), a communication format that allowed companies to exchange information, place orders and transfer funds. It never became widespread, though, and by the early 1990s, pioneering retailers looked to the Web instead. The Internet had been developed by the government in the 1960s to link computers at research universities. But one of the most significant milestones came in 1991, when the National Science Foundation allowed commercial users access to the Internet, according to communications scholars Yan Tian and Concetta Stewart.

Rise of the Web

That same year, the World Wide Web opened to users outside a small circle. Internet browsers soon let people “surf” the Web—Mosaic in 1993, Netscape Navigator in 1994 and Internet Explorer in 1996. Meanwhile, businesses were exploring how they could profit from the Web. Amazon came online in 1995, followed by eBay, Dell, J.C. Penney and a number of big-box chains trying to reach consumers via this new channel. Amazon quickly moved on from selling books to selling seemingly everything. By the end of the 1990s, most major retailers were trying to take their businesses online. As Internet shopping grew, marketers started using cookies, email newsletters and loyalty programs to collect data on consumers’ Web browsing and shopping habits. The digital world left a trail of information about consumers that allowed savvy retailers to offer better promotions and marketing efforts.

E-commerce grew through the 1990s. Baird of Retail Systems Research says the omni-channel approach started “somewhere in the early 2000s as ‘customer centricity,’” a concept of organizing the retail operations around the customer and striving to make a positive post-sale experience. Baird says the late 1990s and early 2000s were an “Internet land grab” as retailers scrambled for opportunities and tried to find ways to differentiate themselves. At the time, Baird says Walmart and Amazon were “killing the competition and taking on entire categories of retail, from toys to electronics.”

Electronics Shoppers Rely on Technology for Information

<table>
<thead>
<tr>
<th>Percentage of in-store shoppers influenced by digital and mobile devices, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Digital</strong></td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>10%</td>
</tr>
<tr>
<td>30%</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td>70%</td>
</tr>
</tbody>
</table>

Note: “Influence” is defined as the effect of any digital device, including desktop computers, laptops, notebooks, tablets, smartphones, wearable devices and in-store kiosks and mobile payment devices on in-store shopping purchases. “Mobile device” is defined as any Web-enabled mobile device, including a smartphone. Data based on online survey of 2,196 U.S. Web users from Nov. 12-20, 2014, and Jan. 12-20, 2015.
Retailers started to open Internet stores, but in those days they managed their physical and Web operations as two different businesses. Companies such as Best Buy, Sears, Home Depot and Gap were selling online, but they often had separate distribution centers and different return policies, even different prices, for Web and in-store customers. “They were treating them as separate, stand-alone stores. They weren't expecting consumers to perform different activities on different channels,” Baird says.

Rise of Smartphones, Social Media

When the iPhone hit the market on June 29, 2007, it sparked rapid smartphone adoption that changed retail. 36 The 2007–09 recession also affected customers, making them more cost-conscious. One survey found that 32 percent of consumers said they were engaging in frugal shopping time and nearly 35 percent were spending more time at home. 40 To save time and money, they began researching products and prices online before they decided what and where to buy. Such behaviors weren’t new, says Baird, but the economic downturn accelerated them so much that it became a pivotal moment in omnichannel retailing. “The Internet became a huge resource for digital coupons in 2008 and 2009. The growth was huge because of that and people started shopping with their phones,” Baird says.

Mass-scale smartphone adoption became “the connector between the digital and physical worlds,” Baird says. By 2012, nearly half of American adults owned a smartphone, up from 35 percent the year before. 47 She says smartphones completely changed shopping behavior. “It’s really powerful for the overall relationship if we can tie customer and associate,” says Morrison at Answers Cloud Services.

They’re using new point-of-sale systems to capture more data about consumers, better manage their supply chains and even accept mobile swipe payments. More retailers are putting tablets and devices in the hands of associates to store associates, helping them know how and when customers want what — which is what they had been doing all along. “It changed everything. It changed even the market dynamics associated with capitalism, putting more power and information in the hands of consumers,” he says.

Facebook introduced Facebook Places in August 2010, which allowed users to “check in” to places, including stores. Consumers were also using Web services such as Foursquare, Yelp and Gowalla to tell the world where they were and what they thought about those places. Retailers and brands soon began offering promotions or discounts for those who checked in. By Black Friday of 2010, social media was ablaze with incentives for users to tell the world where they were shopping. 42 In June 2015, Facebook introduced Place Tips, where retailers use beacons to “push” information and offers to shoppers’ phones while they’re in the store. Consumers who enable apps and location tracking will automatically receive offers and messages when they enter a participating store. 44

Blending the Digital and Physical Worlds

With smartphones, showrooming and webrooming became the norm. A 2013 survey by Harris Interactive of 2,250 U.S. adults showed that 46 percent of Americans had showroomed, while nearly seven of 10 consumers had webroomed. Those who have done one are more likely to have done the other. The top destinations for showrooming were Walmart, Best Buy and Target, and 59 percent of showroomers said Amazon was their top destination for online purchases. Webroomers flipped that behavior; after research online, they made their purchases at Walmart (28 percent), Best Buy (11 percent) and Target (11 percent).

Time-constrained consumers increasingly wanted the most efficient way to accomplish things, says Morrison at Answers Cloud Services. “Consumers wanted more. They wanted to interact with retailers how and when they wanted. The physical technologies were eventually developed to allow them to do it,” Morrison says.

Baird says the old retail model, consumers walked into a store looking for information and assistance. As technology expanded, consumers were walking into stores already armed with the information and ready to buy. “There was a lot of complaining, but retailers eventually came to grips with the fact that [comparison shopping] was happening all along. It’s just that technology changed the process,” she says.

In 2008, when Apple opened up its iPhone operating system to outside developers, savvy retailers started to respond to the market with smartphone applications, more commonly known as apps. 48 Apps typically tried to replicate a version of the retailer’s website, allowing consumers to shop for goods, check inventories and prices and read reviews. Many also had custom content to help build the brand with consumers. By 2011, 25 percent of survey respondents said they had downloaded a retailer app. Of those who had, nearly 46 percent said doing so caused them to visit the store more. Forty percent also used an app to buy more of the store’s products. 49

For retailers to make the most of such technologies, consumers had to agree to participate. “All that synchronized data and [experience] of omnichannel often requires consumers to download and enable an app,” says Barbara Kahn, director of the Jay H. Baker Retailing Center at the University of Pennsylvania’s Wharton School. “Retailers have often done so with promotions and incentives.”

Eventually, consumers became more discriminating about what they wanted on their device, Kahn says. Successful retailers gave shoppers relevant information and enhanced their shopping experience by bridging the gap between the physical and digital world. “The conversation has gone from traditional real estate to real estate on [shoppers’] phones. Consumers only wanted to download and use so many apps,” Kahn says.

Morrison says technology has continued to blur the lines between retail channels and create a seamless experience. As of April 2015, nearly two-thirds of Americans owned a smartphone, a tremendous jump from 35 percent in 2011. 50 “These trends are just exploding the need for retailers to address the multichannel dynamic. Businesses are being forced to react to the technology,” he says.

Current Situation

Retailers Strive to Adapt

The omnichannel environment is evolving as retailers try to stay ahead of fast-changing technology and consumer preferences. Retailers are improving their Web experiences, bringing the digital world into the store and reorganizing their supply chains for speed. They are also capturing data about shopping patterns and trying to learn more about, and better cater to, their customers. While most retailers are taking some steps in omnichannel, the level of adoption can vary.

“You have sophisticated omnichannel retailers who are way ahead of the curve, and you have more traditional retailers that will never make it. There are some that simply will never go omnichannel,” says Levy at Babson College. The decline of Radio Shack was partly attributed to a weak online business and poor omnichannel strategy. 40

A 2014 study by Deloitte found there is tremendous value for retailers in targeting omnichannel consumers. A third of consumers had used two or more channels during a recent purchase, the survey found. It also found that lucrative segments of the market, such as frequent shoppers and those planning high-value purchases, were more likely to have used different channels when buying. A strong presence across channels, through Web searches and on third-party sites, helped retailers increase both in-store and Web sales. 54 “We know that customers who shop multiple channels are more profitable than those who don’t. Omnichannel lets retailers capture a bigger share of a customer’s wallet, and they’re going after it,” says Hammond at Parker Avery.

Technology Use Expands

Morrison says while most retailers talk about the concept, few have an effective omnichannel strategy. “Even if they haven’t yet connected all the dots, though, most retailers are expanding their use of technology. They’re using new point-of-sale systems to capture more data about consumers, better manage their supply chains and even accept mobile swipe payments. More retailers are putting tablets and devices in the hands of staff on the floor. Lowe’s distributed 40,000 iPhones to salespeople in 2014, allowing them to serve customers on the spot by reviewing specs on an item or pulling up the customer’s purchase history,” says Sean Bartlett, director of mobile strategy and platforms at Lowe’s, said. “It’s really powerful for the overall relationship if we can be customer and associated.”

At the National Retail Federation’s biggest annual trade show in February 2015, participating retailers and tech companies stressed the need for designing integrated systems that can seamlessly support all retail channels. Strategies included using technology to improve the physical stores, making incremental improvements, creating projects with clear goals and not being afraid of failure, and bringing offline engagement to the digital world. 48

Many retailers are taking advantage of mobile marketing to customize the in-store shopping experience, says Joe Dalton, chief product officer at the New York-based digital marketing firm SmartFocus. By using apps, in conjunction with beacons that can determine when consumers are in the vicinity and push messages to them, they can bring Web retailing capabilities to the store. “Ninety-eight percent of the sales in an omnichannel retailer might still be coming through the store, so you need to have data,” Dalton says.

Retailers also continue to look for new ways to leverage technology to boost sales. In March 2015, Amazon introduced its “Dash Button,” which allows users to push a button in their home to have a product ordered and sent on its way. As of June 2015, the company offered that capability for 19 brands and more than 270 products ranging from Glad trash bags to Gillette razors. Consumers place the Wi-Fi-enabled button somewhere...
in their home, then push it when they want more of a product. Amazon also has said it is testing the feasibility of using drones to make deliveries. Its Prime Air delivery system would aim to deliver small packages to shoppers in only 30 minutes.

Technology gives retailers the opportunity to find out more about what their customers are thinking and to measure the experience. Morrison says software providers offer complex solutions to accumulate behavioral data and analytics. This includes things such as how much a consumer purchases, how often they shop and what products they prefer. A 2013 study found that two in five retailers said they lagged behind their competition in terms of analytics, while two in five said they are at par.

Morrison says retailers are discovering that analytics and information can profoundly affect performance. By encouraging customers to create accounts, retailers can track what products they view, then make recommendations via website, mobile device app, email or social media. “Retailers are heading towards taking a combination of people’s attitudes and behaviors and predicting what’s going to happen in the future. It’s a set of technologies we’re all moving to,” he says.

Privacy and the “Creepy” Factor

As retailers use more in-store technology to learn about their customers, they will have to be careful not to be intrusive, says Bob Amster, principal and co-founder of Retail Technology Group in Stamford, Conn. Retailers who gather too much data via apps, cameras and cookies can appear “creepy” to consumers.

A survey of 1,000 consumers found there is a fine line between what people consider “creepy” and “cool.” While 76 percent of respondents thought it was “cool” to be able to scan products with their mobile devices for prices and information, more than 70 percent said it was “creepy” to use facial recognition software or have an associate greet you by name because a mobile phone signaled your entrance.

Mobile Technologies: Cool or Creepy?

Percentage of U.S. consumers who view mobile in-store technologies as “cool” or “creepy”

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile product scan with recommendations</td>
<td>76%</td>
</tr>
<tr>
<td>Mobile interactive map</td>
<td>69%</td>
</tr>
<tr>
<td>In-store location deals</td>
<td>44%</td>
</tr>
<tr>
<td>Dynamic pricing</td>
<td>42%</td>
</tr>
<tr>
<td>Digital recommendations in dressing rooms</td>
<td>55%</td>
</tr>
<tr>
<td>Salesperson unlocks dressing room</td>
<td>62%</td>
</tr>
<tr>
<td>Facial recognition enables targeted advertising</td>
<td>73%</td>
</tr>
<tr>
<td>Salesperson greets you by name based on mobile trigger</td>
<td>74%</td>
</tr>
<tr>
<td>Facial recognition identifies your spending habits to salesperson</td>
<td>75%</td>
</tr>
</tbody>
</table>

Note: Based on national survey of 1,000 consumers conducted in April 2015.

About three-fourths of American consumers view mobile product scans that recommend other items as “cool”; another 69 percent approve of mobile interactive maps for shoppers. Consumers are more likely to view facial recognition technologies for targeted advertising (73 percent) and identification of spending habits (75 percent) as “creepy.”
“They may not be ready for personalized messages the moment they walk in the door or even when they hit the dressing room, but our survey suggests they welcome relevant information and promotions when they are making a purchase decision,” said Diane Keylegy, chief marketing officer of omnichannel marketing company RichRelevance.  

Looking Ahead

Channels to Blend Further

Forrester Research forecasts internet retail sales will top $414 billion by 2018, an 11 percent share of all retail sales in the United States, up from 8 percent in 2013. KPMG’s 2014 Retail Industry Outlook Survey, which gathered opinions from 100 senior U.S. retail executives, found that these retailers think winners in the evolving marketplace “will be determined by how well they adapt their conventional business practices and incorporate new capabilities.”

Most retailers have multiple channels, but they operate them independently and few have yet to merge them in a seamless fashion. Along with technology and expertise to put effective omnichannel strategies in place, Morrison says these companies need vision. “Instead of optimizing for one channel, they should be thinking about how to get the consumer to shop on multiple channels. It takes vision to build that,” he says.

Kahn at Wharton predicts that as more consumers use both digital and physical paths, retailers will respond by blending the channels further. Retailers will continue to expand omnichannel functionality, such as store pickup for online orders, returning online orders at the store, public inventory visibility and smartphone apps that improve in-store shopping, to create a seamless experience. “Most retailers are in the process of transforming. It’s just happening and in the future I think most retail will be ‘omnichannel’ or relatively seamless in the way we define it,” Kahn says.

Steven Dennis, an omnichannel consultant and the president of SageBerry Consulting in Dallas, says while bricks and mortar will remain the “dominant distribution channel,” retailers will continue to consolidate stores and decrease size. Mobile and digital functionality will also further penetrate stores, with consumers using Web-to-store pickup, kiosks, smartphone apps and self-checkouts. “You’ll just continue to see more integration of digital experiences into stores. Mobile’s influence on retail is already significant, but it will grow dramatically with more emphasis on personalization and customization,” Dennis says. (See Expert View, “OMA: Steven Dennis on Omnichannel Retail”)

Retailers will find new ways to communicate with their customers and break down the “old paradigms of messaging,” says Andy Austin, director of experience technology for New York-based marketing firm CBX. Austin says retailers will continue to engage in “two-way conversations” with consumers.

Technology will also fuel retail in “ways we can’t yet imagine,” says Mike Mojica, senior vice president of the retail and consumer goods practice at the Merkle marketing agency. Retailers will use analytics and information to deliver messages to consumers “filtered on the context of who you are and your individual identity.” Retailers will reach consumers through laptops, tablets, smartphones and devices nobody uses yet. He says, “We don’t know what’s next. But there will be new portals, and retailers will continuously find ways to use them to deliver messages to the exact audience they’re looking for.”

About the Author

Craig Guillot is a business writer based in New Orleans who has written about retail for STORES Magazine since 2005. His work has also appeared in such publications as The Wall Street Journal, Entrepreneur, CNNMoney.com, CNBC.com and The Washington Post.

Chronology

1990s

1991 The Internet goes mainstream and e-commerce is born.

1993–1994 Web browsers such as Mosaic and Netscape Navigator hit the market and allow easier use of the Internet.

1994 Amazon, which was founded in 1994, begins operating by selling books, but it quickly enters other retail sectors such as home furnishings and electronics.

1995 Dell starts selling computers directly to consumers over the Internet.

1996 Google is founded; it eventually becomes the most-used search engine in the world. PayPal introduces a digital payment system.

1999 Amazon has a banner year. Founder and CEO Jeff Bezos announces the company’s goal is to become the “Earth’s Biggest Store.”

2000s

2000 Mobile and social media set the stage for omnichannel retailing.

2004 Mark Zuckerberg co-founds Facebook. Credit card companies create the Payment Card Industry (PCI) data security standards to protect card users from fraud and theft.

2007 The iPhone goes on sale.

2008 The iTunes App store opens in July with 500 available small software applications, called apps.

2009 Groupon, the online coupon company, grows rapidly, expanding to 28 cities and thus fueling the use of smartphones in physical retail environments.

2010–Present

2010 Facebook introduces Facebook Places, which allows users to “check in” to places, including many stores. Video rental chain Blockbuster, reeling from digital media and a shrinking demand to visit video stores, files for bankruptcy court protection.

2011 After 40 years in business, Borders closes all its bookstores nationwide.

2013 Macy’s becomes the first retailer to implement iBeacon technology, which allows retailers to deliver targeted offers to individual shoppers in stores. Online eyeglass retailer Warby Parker opens its first store in New York City. It is one of a number of online retailers moving into bricks and mortar to expand their omnichannel operations. Target launches its mobile coupon-clipping Cartwheel app; it also begins “price matching” Amazon in an attempt to combat “showrooming.” Amazon announces it is developing Prime Air, a fleet of drones and distribution centers that would allow the delivery of small packages in a half hour to most markets.

2014 Walmart starts testing a program to allow customers to order groceries online and pick them up in-store. Target creates a Digital Advisory Council to enhance in-store, mobile and online services and to invest in more digital capabilities.

2015 Major retailers, including Office Max/Office Depot, Radio Shack, Sears and Barnes & Noble, announce closings of thousands of brick-and-mortar stores. Amazon introduces its “Dash Button,” which allows users to push a button in their home to order a product and have it sent on its way. The company also opens its first physical location for drop-off and pickup at the campus of Purdue University in West Lafayette, Ind.

Resources

Bibliography

Books

Gannetto, David, “Big Social Mobile: How Digital Initiatives Can Reshape the Enterprise and Drive Business Results,” Palgrave Macmillan, 2014. A marketing consultant and former CEO illustrates how retailers can use mobile to drive business.

Howard, Vicki, “From Main Street to Mall: The Rise and Fall of the American Department Store,” University of Pennsylvania Press, 2015. A history professor traces the history of retail through department stores.

Lord, Bob, and Ray Velez, “Converge: Transforming Business at the Intersection of Marketing and Technology,” Wiley, 2013. The then-CEO (Lord) and the chief technical officer (Velez) of digital marketing agency Razorfish explain how the merging of technology, media and creativity is revolutionizing marketing and business strategy.

Articles

Page 9 of 12

Omnichannel Retail

SAGE Business Researcher
Retailers and brands are using social media to engage customers wherever they may be with custom content and experiences, according to a report from the research arm of marketing agency J. Walter Thompson.

The Next Step

Retail Technology

Katzmaier, David, "Samsung shows retail-ready transparent, mirrored OLED," CNET, June 10, 2015, http://tinyurl.com/s5nmsn7. To personalize the shopping experience, technology firm Samsung has developed transparent glass displays that use virtual reality in fitting rooms, allowing customers to try on items in different settings.

Sciaccia, Annie, "Target launches technology lab and retail space in San Francisco," San Francisco Business Times, July 9, 2015, http://tinyurl.com/pbdfjrb. A planned Target store in San Francisco will showcase wirelessly connected home appliances and include lab and meeting space for tech companies.

Young, Molly, "At Rebecca Minkoff in SoHo, Interface-to-Face Service," The New York Times, Feb. 10, 2015, http://tinyurl.com/pcc4t3p. A high-end handbag designer opened an interactive store in New York City’s SoHo neighborhood where customers can order online, then let customers pick up merchandise ordered online.

Physical Stores


Lindeman, Teresa F., "Department stores, including Macy’s, looking for ways to evolve," The Pittsburgh Post-Gazette, July 19, 2015, http://tinyurl.com/qq26rsx. Department stores such as Macy’s and Nordstrom are adapting to e-commerce’s growing role in retail by selling physical locations and introducing personalized online shopping.

Ramakrishnan, Shruti, "Deeper back-to-school discounts to hurt teen clothing retailers," Reuters, July 22, 2015, http://tinyurl.com/qh5o5wk. The growing popularity of online shopping and changing consumer tastes are forcing some apparel retailers to close physical stores, cut jobs or offer higher-than-normal discounts.

"Showrooming"

Eversen, Jay, "Allowing states to collect sales taxes from online purchases is a tough sell," Deseret (Utah) News, July 1, 2015, http://tinyurl.com/plaoy2s. Rep. Jason Chaffetz, R-Utah, wants online purchases taxed so states don't lose out on revenue compromised by "showrooming," but he has been unable to get Congress to go along.

Halzac, Sarah, "The new shopping behavior that is creating big challenges for the retail industry," The Washington Post, Feb. 11, 2015, http://tinyurl.com/8ecz5ja. The practice of "webrooming," in which shoppers check prices online before arriving in stores, can threaten retailers' ability to suggest other products or to help customers who have already researched what they want to buy.


Small Businesses


Organizations

American Marketing Association
311 S. Wacker Drive, Suite 5800, Chicago, IL 60606
312-642-9000
www.amaa.org
World’s largest marketing association, with 30,000 members in marketing and academia.

Electronic Retailing Association
607 14th St., N.W., Suite 530, Washington, DC 20005
703-841-1751
www.retailing.org
Trade organization representing direct-to-consumer marketers.

National Retail Federation
101 New York Ave., N.W., Washington, DC 20005
202-737-2849
www.nrf.com
Trade association whose mission is to advance the interests of the retail industry through advocacy, communication and education.
Academic institute that acts as a conduit for research between students, retailers and suppliers.

http://www.babson.edu/Academics/centers/retail-supply-chain-institute

781-235-1200

Babson College 231 Forest St., Babson Park, MA 02457-0310

Association that advocates for retailers and small businesses in greater Richmond.

www.retailmerchants.com

5101 Monument Ave., Richmond, VA 23230

Retail Merchants Association

Trade association and advocate for large retail organizations.

www.rila.org

703-841-2300

1700 N. Moore St., Suite 2250, Arlington, VA 22209

Small-business advocacy group with 65,000 members.

www.nsba.biz

800-345-6728

1156 15th St., N.W., Suite 1100, Washington, D.C. 20005

National Small Business Association

Notes


[34] “State and Local Sales Tax Rates in 2015,” op. cit.


