



Understanding

OMNICHANNEL
RETAIL

Beyond
Clicks vs. Bricks

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Executive summary

Not longer than 10 years ago, eCommerce was expected to become the sales channel for the future. Online entrepreneurs, as well as established retail companies rushed to open online sales facilities. Fast-forward to today and eCommerce is not enough anymore. Neither is any other channel, on its own. The battle between brick and mortar stores and online pure-plays is no longer relevant.

Consumers drive a revolution in retail, empowered by connected devices. Using mobile devices, they expect cross-channel service within brick and mortar stores, online in the web store, on their mobile, on social media and when dealing with phone order operators.

Probably the biggest enabling technology has been the rise in smartphone usage. Its adoption created a bridge between previous silo-ed operations. Previously, companies added separated structures for new sales channels. The ecommerce team, the mCommerce team, the social media commerce team and of course the central retail unit.

Once technology was available, and omnichannel became a possible course of action, consumers deemed it not only possible, but expected. However, there is

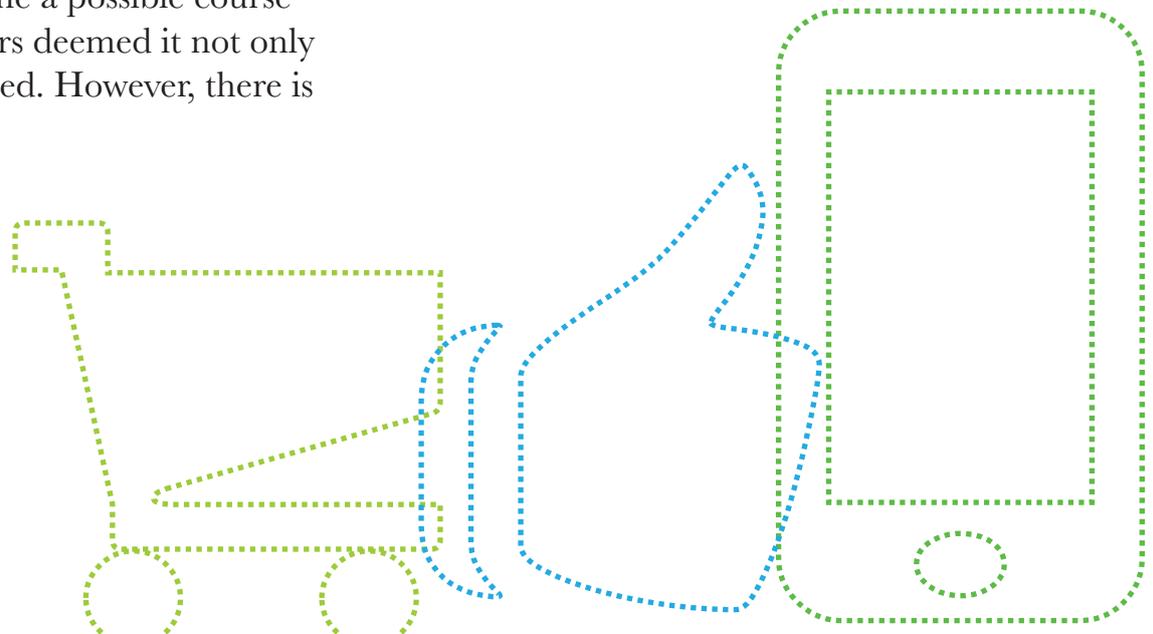
a huge gap between consumer expectations and retailer abilities at the moment. First - there are organizational challenges, such as boardroom buy-in, as well as employee training and culture adoption.

Second - there are technological barriers that need to be overcome. **“What technologies should we use”?** **“How can we integrate existing software”?**

These are common questions within retail companies contemplating change.

Challenges are often found outside the company, just like within. Getting suppliers and partners on the same page is essential to implementing actual omnichannel policies and processes. Getting customers to know about these new found benefits is just as important. Marketing and communication is essential when finally, companies are ready to roll-out omnichannel implementations.

This eBook provides a framework used to understand the causes, previous enablers and inhibitors for retail change as well as the practical steps in adapting to an omnichannel retail world.



Market overview

There is a brand new breed of consumers out there and its influence and spread is growing fast. These consumers are using multiple sources of information, as well as different channels. They browse, get information and buy in store, on marketplaces, using their smartphone, and ultimately everywhere. Consumers expect the same treatment cross-channel and they have low tolerance for retailer ineffectiveness and rigidity.

A shift in retail

As yesterday's champions find it hard to change their approach to commerce, due to legacy structures and sometimes-ineffective supply chains, web-native retail challengers can only benefit. When it comes to IT infrastructure and flexibility, online retailers have an upper hand developing multichannel and ultimately omnichannel policies.

There is balance however: neither brick-and-mortar or online only retailers can expect to dominate tomorrow's market as **71% of consumers expect to view the in-store inventory online and 50% of consumers expect to be able to purchase online and pick up in store, a recent Forester study shows.**

71%
consumers expect
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inventory
online

While customers demand and expect convenience, such convenience is rather hard to achieve and demands increased efforts for retailers just adapting to new trends. While US and Chinese markets seem to rush ahead implementing multi-channel and omnichannel operations, Europe lags behind and that is clearly visible in the online retail growth rate. While Europe does grow at double digit (12%) it lurks behind both China (\$296 billion spent online in 2013) and US (\$262 billion in 2013).

Online spending 2013

Europe
\$186 bln

US
\$262 bln

China
\$296 bln



Achieving an omnichannel customer experience is no longer a question of IT objectives but rather a Marketing and Brand Differentiator. Technology is complicated, supply chains and retail operations are complicated also. The customer, however, expects buying across multiple channels to be a simple, fun and engaging experience.

The omnichannel experience is probably the most important brand asset a retail company can have. While achieving this goal means handling complex operational and IT variables, it is finally a brand and marketing asset. Therefore retailers need to set aside the old paradigm of disconnected departments or even channels and unite different teams in one common goal.

That is, of course, easier said than done. Legacy company policies, obsolete processes and others all account for ineffective and outdated approaches to the new retail. But the real problem seems to be technology.

In a 2013 study by Forrester, while 43% of all retailers had and operated an ecommerce platform, only 29% were using an ERP (Enterprise Resource Planning) system, while a whopping 52% found accuracy of inventory data to be neutral or challenging. Only 6% found the accuracy of inventory data to be easy to achieve.

Previous inhibitors

During the previous stage in retail, one that lasted for the better part of modern retail history, two inhibitors determined success and business planning for retailers: **Geography and Consumer Ignorance**. Both are becoming increasingly obsolete in the age of omnichannel retail.

Impact of geography on retail sales

Geography and consumer proximity had a deep impact on a retailer's bottom line. The closer the shop, higher the consumer's propensity to buy. As the large retail chains expanded their reach, their sales figures increased also.

For example **Walmart has now more than 10700 retail units in 27 countries. It's retail operations bring in net sales of \$466 billion world-wide***. But that wasn't always the case. Sam Walton opened the first Walmart store in Rogers, Arkansas, 1962. At that time it didn't even had a logo. Its print ads featured the wordmark printed with fonts chosen by the publisher.

In 1975 the company already had 125 stores and \$340.3 million in sales. It's that year Walmart leases an IBM 370/135 machine to manage inventory control and cope with the growth. In 1977 the company builds a company wide computer network and connects to its suppliers by satellite.

The changes make extensive development possible and in 1979, Walmart gets to be the first company to reach more than \$1 billion in sales in less than 17 years. The sales figures keep increasing

and in 1985 the company registers \$8.4 billion in sales, a figure fueled by 882 stores.

In 1995 the company reports 1995 Walmart stores, 433 Sam's Clubs, 239 Supercenters and 276 international stores. Sales have now reached \$93.6 billion.

11 years later, in 2006, the company reaches almost 2 million employees, 6775 stores worldwide and \$349 billion in sales.

Walmart's story is more or less the story of every large retail chain. The successful model has been implemented by all retail brands, some better than others.

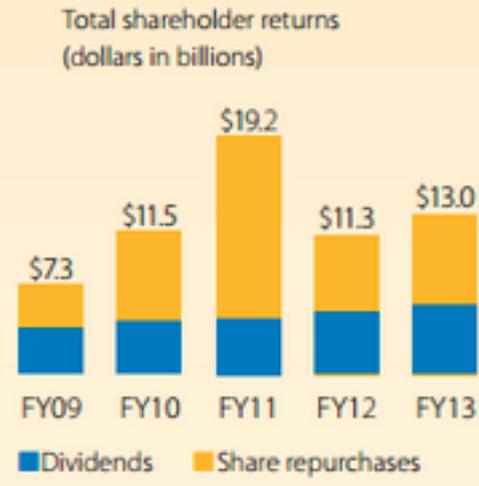
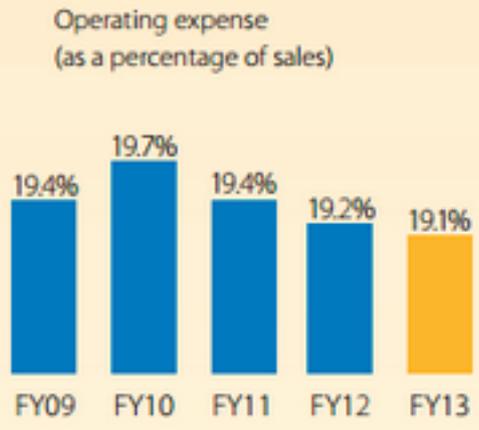
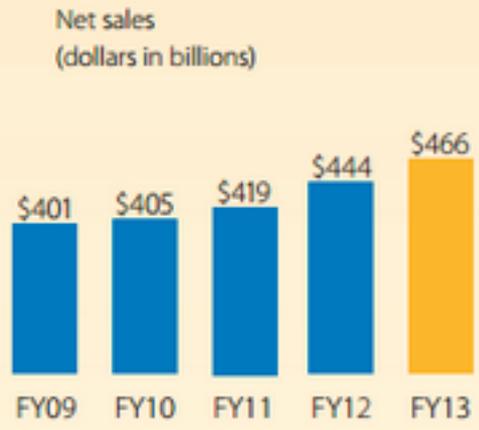
Although Walmart was quick to understand that a strong IT infrastructure is key to extensive development, it somehow failed to understand the importance ecommerce brought to the retail world. Although both its brands Walmart and Sam's Club were quick to open online stores in 1995 and use the internet as a retail infrastructure, it only allowed customers to buy online and pick up in stores in 2007.

* Source: http://c46b2bcc0db5865f5a76-91c2ff8eba65983a1c33d367b8503d02.r78.cf2.rackcdn.com/88/2d/4fd67184a359fdef07b1c3f4732/2013-annual-report-for-walmart-stores-inc_130221024708579502.pdf

Growth

Leverage

Returns



Current Walmart figures

Nevertheless, Walmart did built a model that is now so successful as to put the company at the top of the list when it comes to the companies with the largest revenue. Its focus on extending the store network can be seen in the figure below:

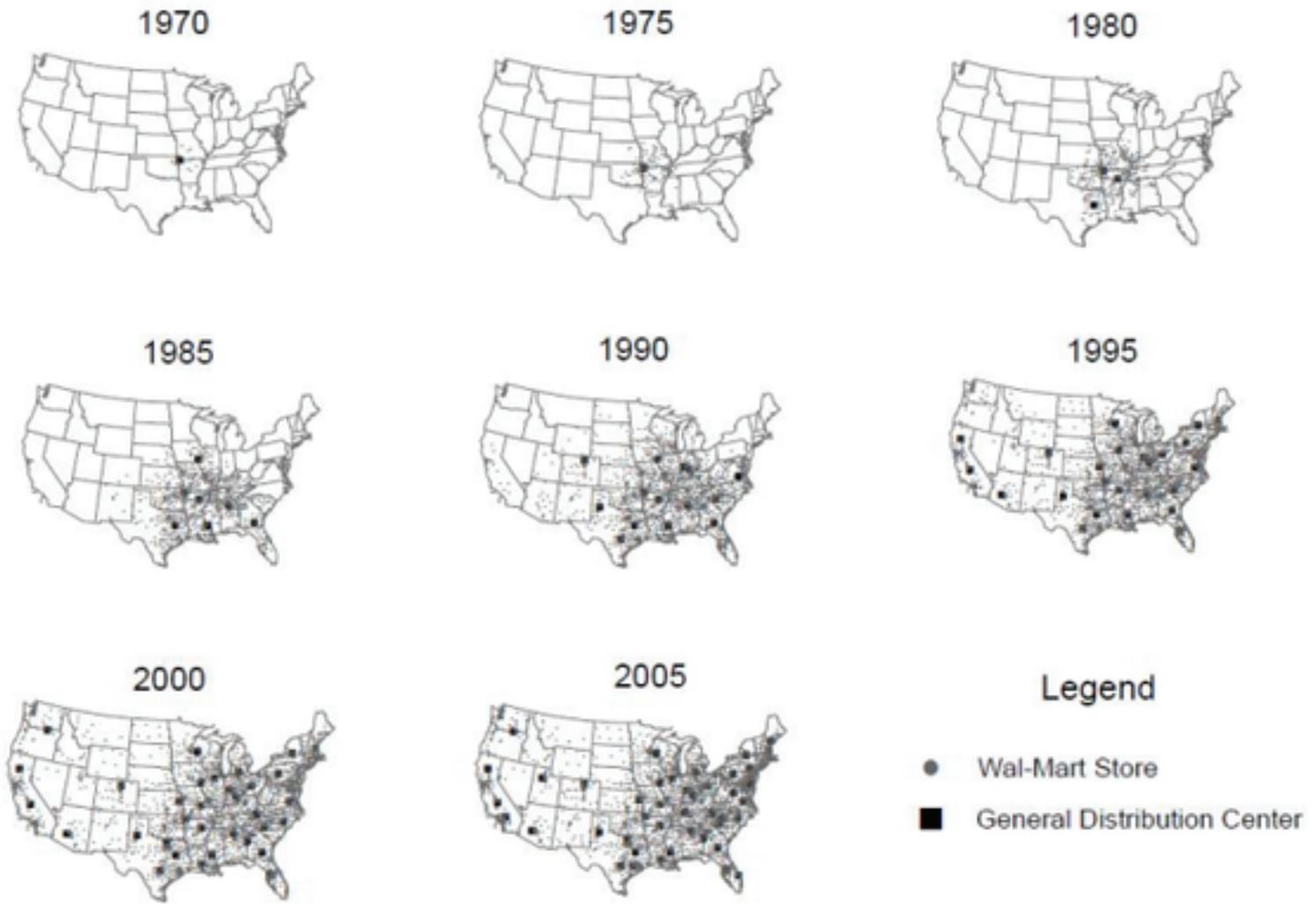


Figure 1 Diffusion of Wal-Mart Stores (Holmes 2011)

Anthony Ostrander shows in its 2011 thesis* that Walmart maintained a sustained pace in its vision to get closer to American consumer. The average distance to a Walmart store in 1991 was 331 miles. In 2005 it was only 71.

Such proximity figures were improving the lives of millions of Americans that now had access to merchandise at prices and proximity they never had before.

Consumer ignorance

With proximity comes another factor that determines consumer behavior: **consumer ignorance**. Simply put, the customer is not very good at math or is ignorant to cost benefits when convenience is increasingly dominant. “Why should I drive another 5 miles for a 10% saving?”

Before the rise of online retailers, and even in the early years of ecommerce, the consumer was still a responsive, rather than proactive and demanding force of the market. Walmart was not always the best choice, but it was the closest and most convenient.

The rise of retail supermarket chains did sometimes hurt local economies, thus creating a decrease in purchase power. It also decreased competition and hurt retail innovation but the regular consumer was not paying attention to growing disadvantages as long as convenience was at hand.

The rise in online retail opened a whole new market with lower costs and a far greater catalogue to consumers. It was, however, until recent years, hard to manage price comparison on million of products spread across thousands of retailer websites.

The enabling technology came with the rising popularity of mobile devices, improved connectivity and systems that allowed big data management and analytics.

* Source: Ostrander, Anthony P. The Expansion of a Retail Chain: An Analysis of Wal-Mart Locations in the United States - http://digital.library.unt.edu/ark:/67531/metadc68027/m2/1/high_res_d/thesis.pdf

Enabling technology

Omnichannel is the result of a tectonic shift in retail, a pressure on retailers to redefine their business models and a combination of new technologies.

Among those technologies - two of them really stand out. First, there was the mobile browsing revolution, ushered in by the launch of the iPhone and subsequent innovations and market shifts. The smartphone and later on the tablet changed the way consumers interact with brands, get informed and ultimately purchase.

The second biggest change in retail was big data processing. With increasingly better connectivity, larger processing power, improved database software and analytical processes, consumers and retailers alike accessed a pool of information previously untapped.

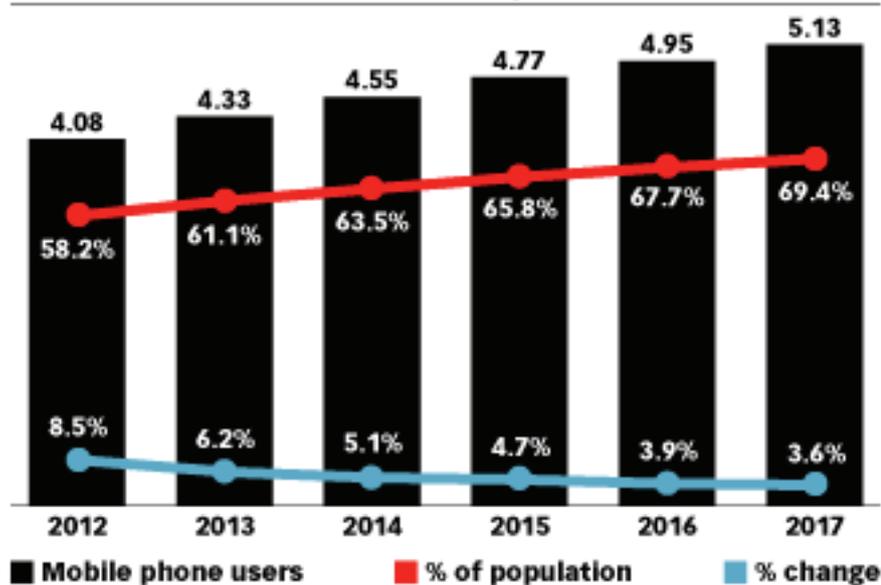
Mobile devices

Mobile has transformed retail and it is bound to be even more influential in the future. According to Nielsen, 64.7 % US adults now have own a smartphone, as opposed to 4.7 % in 2007. Even though mobile shopping is still in its infancy, mobile devices are heavily used to compare prices, read product reviews and browse for, if not buy, products online.

When it was first introduced to the market, the mobile phone had an autonomy of 30 minutes and needed 10h to recharge. Its abilities were basic at best but the whole idea of mobility stuck and gained ever more traction. Phones got smaller, increasingly autonomous and smarter.

Now the mobile phone is accessible and ubiquitous. Even though the mobile penetration has slowed, there will be 4.55 billion mobile

Mobile Phone Users Worldwide, 2012-2017
billions, % of population and % change



Note: individuals of any age who own at least one mobile phone and use the phone(s) at least once per month

Source: eMarketer, Dec 2013

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www.eMarketer.com

users in 2014, eMarketer* estimates. 1.75 billion of them will be smartphone users. The 69.4% mobile penetration will shift users from the good old feature phone (phones without qwerty keypad, touch screen or advanced operating system) to the smartphone. It is expected that almost 50% of all mobile users (2.5

* Source: <http://www.emarketer.com/Article/Smartphone-Users-Worldwide-Will-Total-175-Billion-2014/1010536>

billion) will be a smartphone user in 2017.

This change is noteworthy as it marks how disruptive smartphones have been to retail. Internet connectivity, rich media applications, location based services and mobile payment systems are all factors pushing retailers into an omnichannel era.

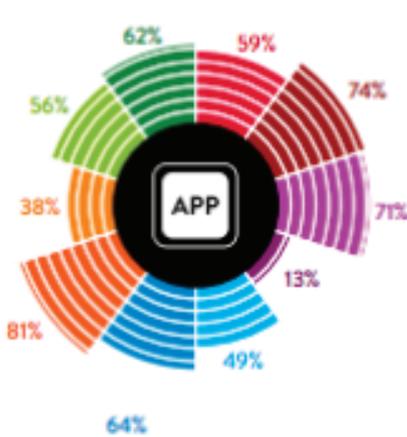
Today's smartphone user is not yet fully empowered in his use of mobile technology. Recent data shows that **although a large number of consumers use the mobile to browse**

the internet (82% in the US, 75% in China) and install applications (62% in the US, 69% in China), only a few use their mobile for more advanced options.

Only 30% US mobile users and 43% of Chinese users are ready to shop online by mobile. Even fewer use location based services or barcode or QR code scanning.

NFC (a technology allowing mobile payments using the device in store) / Mobile Wallet is rather negligible with only 3% in the US and 4% in the UK. Asian countries like China or South Korea are more inclined to adopt this new payment method.

APPLICATIONS



AUSTRALIA ●
BRAZIL ●

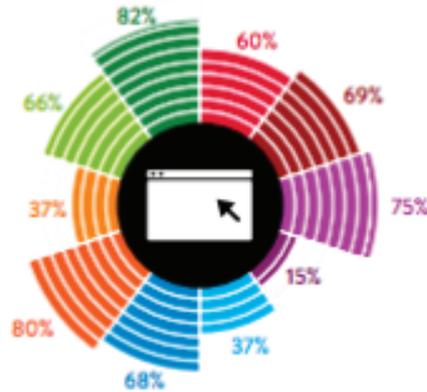
CHINA ●
INDIA ●

ITALY ●
RUSSIA ●

SOUTH KOREA ●
TURKEY ●

UNITED KINGDOM ●
UNITED STATES ●

WEB BROWSING



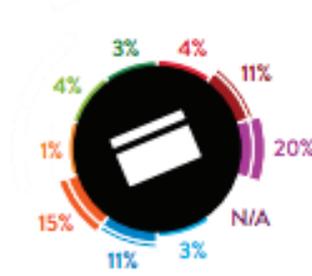
MOBILE SHOPPING



BARCODE OR QR SCANNING



NFC/MOBILE WALLET



*Source: <http://www.nielsen.com/content/dam/corporate/uk/en/documents/Mobile-Consumer-Report-2013.pdf>

Don't let the numbers fool you, however. There is a growing trend in terms of advanced mobile usage and it is only a matter of time until mass market adoption of (now) advanced mobile features will empower the consumer even more.

Some tech companies are pushing the limits of mobile device usage further and some of them will be increasingly relevant to retailers everywhere. Here are some of them:

Upcoming omnichannel-relevant technologies

Most of these technologies are already public but are yet to be widely adopted. Some are improvements on earlier software or hardware and some are possibly disruptive new applications. All of them are worth retailers' attention.

NFC (near field communication)

Near Field Communication is probably the most expected and promising technology for omnichannel retailers worldwide. The technology allows, among others, tap-and-go payment services that have the potential to transform payments, identification services and even personalized marketing. A tipping point is yet to be reached - even though NFC has been around for quite some time, widespread adoption is yet to be reached. But there is hope. One in four smartphones shipped in 2012 were NFC compliant and the trend is encouraging. By 2017, 1.55 billion NFC enabled smartphones will be shipped annually.

This technology can be widely used in retail to identify users and provide personalized pricing. Payments are easily accessible when connected to customer

bank accounts and/or credit cards. NFC can change the way we buy tickets, redeem coupons and ultimately, interact with retailers.

In US, as well as Europe, NFC is implemented but not yet popular. Changes in consumer behavior are expected to increase NFC adoption for both US and western Europe countries from 2% in 2012 to a bold 25% in 2017. If such estimates will come true, **payments processed by NFC enabled devices will reach \$180 billion in 2017.**



The ecosystem involved in determining NFC success is, of course, complex but complexity seems to be an surmountable barrier for those involved. Large companies in the field of telecom, banking and tech giants like Apple or Google have big stakes in the game.

Opportunities are attractive as NFC makes possible numerous applications previously impossible or hardly worth the effort. Imagine a customer entering a showroom, checking in to receive personalized information or personalized prices and recommendations based on previous purchases. The consumer would be able to discuss options with a virtual assistant inside the store, get data on inventory in other closeby shops and eventually purchase and pay just by touching his phone against a NFC payment terminal.

Same customer would find paying using his NFC enabled phone easier than paying with his multiple cards. Many accounts could be unified into one payment/identification/personalization tool. Security wouldn't be an issue: The SIM card inside the phone stores the customer credentials and allows better spending tracking and budget analysis.

Imagine the same customer, now interacting with a multichannel approach to marketing. Ads would recognize him or her, providing relevant information,



\$180 billion
payments processed through
NFC-enabled smartphones
in 2017

vouchers and recommendations, instead of boring or untargeted ads. Vouchers could be redeemed and stored on the phone without any hassle and complementary products would be easily accessible. Location of these products could be the same store or showroom the customer visits or the store across town.

He could leave public or private ratings or messages for his friends, who would also be able to read these messages by using their NFC enabled mobile device.

Maybe the customer has tried on that red sweater the fashion retailer, just marked as a promo. But she wants the blue one instead, which can be found in the outlet few blocks away. Of course, she can spend time to get there or just preview it on the mobile app, check the inventory and order it / pay for it by mobile. By the time she arrives home - it would be already there.



Identification
and personalized
merchandising / support

Mobile
payments



Interactive
shopping