THE STORE STRIKES BACK

Why Omnichannel Retailers Should Win Over Pure-Play Competitors

Some industry analysts and investors say it's nearly impossible for retailers with stores to win against their online-only competitors, saddled with a massive store fleet and losing on price. We believe the opposite.

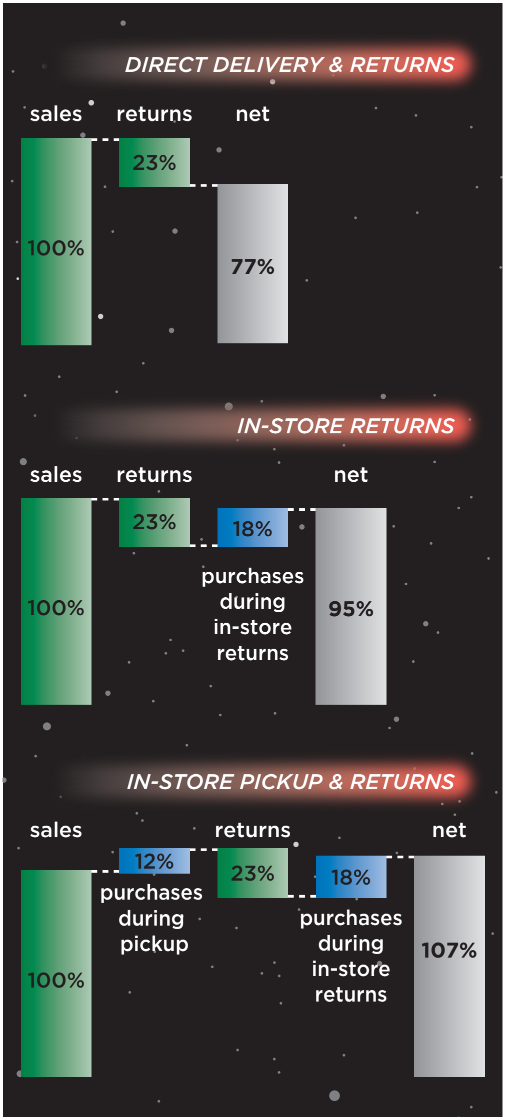
In fact, omnichannel retailers should be in a better position than their online-only competitors to win in this hypercompetitive world. True, the U.S. is overstored, foot traffic is declining and traditional brick-and-mortar retailers face increased pressure from online competitors. As one client put it, although their in-store conversion rate of about 18% is on par with the industry average, that figure will need to double in the very near future so stores can remain competitive.

But omnichannel retailers are well positioned to achieve such a significant increase. Why? For starters, it's well known that cross-channel shoppers are more profitable.

For example, one department store retailer found that customers who shopped only on its website browsed it an average of three times a year. Customers who shopped exclusively in-store, on the other hand, shopped an average of 7.5 times a year. But customers who shopped both channels shopped an average of 1.7 times a year online and 7.3 times a year in the store, to get a total of nine times a year. This number demonstrates that online shopping was not cannibalizing in-store shopping; online was purely additive.

The retailer found that these omnichannel customers not only shopped more, they purchased more often. Generally, about 23% of the retailer's purchases are returned. So when direct delivery and direct-to-DC returns are the only options for online purchases, the retailer nets about 77% of its sales. But if the retailer offered in-store returns, it found that customers spent an extra 18% on top of their original order when they were in the store returning the original product, which boosted the retailer's net sales back up to 95%. And if the retailer offered in-store pickup, it found that customers purchased 12% more when they were in the store picking up their order. So if the retailer offers both in-store pickup and returns, it will recoup 107% of its sales. This means that this retailer's cross-channel customers purchase nearly 40% more than its single-channel counterparts.

Stores also have other advantages, including their ability to be a powerful distribution asset. As customer expectations around delivery speed continue to increase—especially after Amazon, eBay and Walmart's recent forays into same-day delivery—stores can be the ideal vehicle for fulfilling these orders.



And the true advantage of omnichannel retailers is the ability to combine online, in-store, mobile and other channels to create an unbeatable customer experience.

But stores' true advantage comes with their ability to act as an effective piece of an overarching, compelling omnichannel customer experience. New technology is now enabling retailers to bring the personalized customer experience once found only online to life in their stores, creating one-to-one retailing experiences. Doing this will help increase conversion rate and basket size by improving customer engagement, making a retailer's store fleet more profitable.

What will these one-to-one retailing experiences look like from a customer's perspective? They will include four key building blocks:

1. Connected marketing.

In the very near future, the store will become one more distribution point for the kind of personalized marketing now found online and on mobile devices. For example, a customer looking at a certain pair of jeans on a retailer's website would be shown those jeans on interactive displays when she entered the store later.

2. Presence awareness.

Similar to the cookie concept online, technology is now enabling retailers to know which customers are in the store and which products they're interacting with. Retailers can already push personalized offers to customers when they're near or entering the store, but this idea can extend to any given display or fitting room.

3. Product awareness.

Not only can retailers know who is in the store and where they are, they can know exactly what products they're handling. For example, a consumer in a bookstore picks up a novel and a nearby screen displays product reviews pulled from the customer's social media networks.

4. Personalized recommendations.

The in-store experience can be tailored and targeted at the individual level by combining presence and product awareness with location and personal data and using predictive analytics. For example, a consumer can be shown shoe recommendations based on the pairs she already has in her closet and the styles she has been exploring online and in the store that day.

The Technology behind 1:1 Retailing

Geofencing. Geofencing, or creating a virtual "fence" around a set physical space to monitor movement near and within it, helps retailers track customers' movements around and within the store's four walls. Combine that power with a loyalty app or smart card and you've got the ingredients for a truly personalized interaction with your customer. By knowing who is in their store, retailers can use individual purchase histories or customer profiles to dynamically change recommendations, visual merchandising presentations or promotions.

RFID. RFID allows retailers to see exactly which products each customer is handling or trying on at a given moment. Beyond that, RFID allows a retailer to know exactly what items, sizes and styles they have in stock in the store or backroom. Combine this with the geofenced loyalty app or smart card and retailers have the power to make personalized, real-time shopping recommendations and offers.

Interactive displays. Only a year or two ago, installing and communicating interactively with immersive video displays in a retail environment was prohibitively expensive. But now, the cost of display technology is dropping rapidly. More importantly, personalized in-store experiences enable significant sales and margin improvements, creating attractive returns on the investments required to deliver them.

Implementing these technologies will help improve customer engagement, which in turn drives increases in traffic, conversion rate and basket size, completely changing store financial performance and making the omnichannel retailer even more profitable versus its online-only competitors.

Traffic. Successful one-to-one retailers will use integrated channel communication to bring customers to stores with targeted events and promotions. The immersive experience will begin right at the store threshold, drawing in higher traffic from customers looking for a new experience as well as increased loyalty revisit rates.

Conversion rate. The more time a customer spends in a store engaging with the retailer, the more likely they are to make a purchase. For example, we studied the behavior of several specialty retailers' customers and found that 45% of customers walked into the store and left within two minutes without ever engaging with the products or sales associates. But when customers were engaged by an associate or started interacting with the products, they were nine times as likely to try something on. And once they tried on a product, they had a 52% chance of buying it. So we determined that by engaging with just 30% more customers, retailers could increase their conversion rates by 50%.

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Basket size. While retailers can guarantee 100% of shoppers see companion products on their websites, only 8% to 15% of shoppers in the stores of the specialty retailers mentioned above were upsold. Yet when the retailers could find the staffing and time to do it, 75% of customers who were offered additional items converted, and their average basket size increased by 25%. Imagine the benefit of upselling to more than that 8% to 15%.

Of course, enabling this level of omnichannel experience will not only require new technology but also significant organizational change. Saks Fifth Avenue, Gap and Macy's are leading the charge to make their organizations more channel agnostic, increasing coordination and improving the customer experience at the same time.

We believe there are five key factors that should inform any discussion about omnichannel organizational design:

1. Consumers

» Target customer profile

» Main purchase drivers

» Shopping habits in each channel and across them

2. Offering

» Assortment overlap between channels

» Primarily core or quick turn and high fashion

» Level of commoditization of products

» Price elasticity

3. Brand

» Level of exclusivity

» Competitive set

4. Business maturity

» Absolute size

» Growth rate

5. Marketing and selling

» Role of store—more for service or for selling?

With all the benefits of a well-executed omnichannel experience, not to mention stores' tremendous distribution advantages, it's no wonder Amazon CEO Jeff Bezos said in a recent interview that even he would love to open Amazon stores. If the world's biggest online retailer is thinking about opening a physical store, retailers who are already blessed with hundreds of stores should be celebrating their good fortune, not wringing their hands about the demise of bricks and mortar. ❖

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