

# 1:1 Retailing

## The Future of In-Store Retailing



**We all know** that the U.S. is currently over-stored and competition between retailers is only getting fiercer for a limited consumer dollar. This challenge to retailers with physical stores will only be exacerbated as consumer spending continues to shift to digital channels. In this environment, retailers will need to either make their existing doors more productive or begin shuttering their increasingly unproductive space. Kurt Salmon believes the winners will use their space as a competitive weapon, fundamentally changing historic store productivity across their footprint.

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### Personalizing Retail

The path to fundamentally changing store productivity starts with following the successful trails forged by the evolution of leading digital retailers. Those who recall the early days of digital retailing remember simple catalog websites offering homogeneous offerings to all customers. But today we all experience individual marketing messages connecting us to personalized Web experiences and offers from retailers who remember our needs and desires over multiple visits and purchases. Simple technological adoption of cookies and JavaScript enabled the realization of one-to-one marketing strategies that are commonplace today.

And this one-to-one marketing has really paid off online: The conversion rate of nonorganic traffic delivered to a site without personalization hovers around only 2% to 3.5%, but give that customer personalized recommendations based on their personal history and products he or she is browsing and watch those conversion rates climb tenfold, according to comScore.

Just as technology allowed the strategy of one-to-one marketing to be applied to digital retailing, it is now inviting us to begin applying it to physical retailing: one-to-one retailing. In the very near future, retailers will provide pervasive, personalized customer relationships and experiences which extend across all of their customers' visits, channels and locations.

These personalized experiences will boost customer engagement, traffic, conversion rate, basket size and long-term customer loyalty, ultimately fueling a fundamental change in acceptable retail store productivity.

Of course, retailers have known about the customer experience imperative for years. But they have struggled to create the truly personalized one-to-one retailing experiences that consumers have come to expect in most other areas of their lives. Until now.

### Innovating the Future

Kurt Salmon believes that the fundamental technologies required to deliver this type of one-to-one retailing experience emerged in an economically viable form in 2012. The ability to bring digital-like personalization in stores—from usability and economic perspectives—will become increasingly apparent and compelling over the next three to five years.

Just as we saw in the digital channel, where some retailers pushed forward on the Web as trailblazers and fast followers but others chose to ignore the technology until it was too late, we expect a blast of in-store innovation over the coming years coupled with more retailers being left behind. And as is the case in any competitive environment, the penalty for late evolvers is most often extinction.

Given the rapid transformation facing retail store experiences, it is critical that retailers develop a rapid innovation strategy. Successful retail innovators will identify one owner of the customer experience across channels, build a continuous innovation process, evolve how they measure success and dedicate ongoing funding specifically to customer experience innovation.

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### Designing a 1:1 Retail Environment

One-to-one retailing means that no matter where, when or how a customer interacts with a retailer, the retailer will respond in a manner personalized to that individual customer. What will this look like from the customer's perspective? One-to-one retailing experiences 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. We've already seen early examples at retailers like Burberry, where lifestyle marketing messages are coordinated simultaneously across all channels. The cost to deploy interactive surfaces and displays capable of delivering this marketing in-store is dropping dramatically, while their functionality is becoming more robust and flexible.
- 2 Presence awareness.** In order to personalize messaging, the retailer must recognize the target consumer when he or she starts interacting with the brand. Online, this is usually accomplished with cookies. In-store, we're already seeing multiple approaches being tested, from near-field-communication-enabled mobile loyalty programs to video and WiFi or cellular analytics. Expect to see multiple strategies used across various retail formats.
- 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. Similar to presence awareness, depending upon the product involved, this data collection can be triggered by multiple technologies including RFID, video and in-store geolocation.
- 4 Personalized recommendations and services.** The in-store experience will be tailored and targeted at the individual level by combining presence and product awareness with location and personal data and by using predictive analytics. Today's customers are offered cross-sell recommendations very infrequently, but imagine if they were offered cross-sell options multiple times per store visit as they interact with displays, surfaces, fitting rooms and associates.

Successful retailers will use their innovation labs to test approaches to each of these four building blocks to find the best fit of each for their brand.

### The Measurable Benefits of 1:1 Retailing

These building blocks will help improve customer engagement, which in turn drives increases in traffic, conversion rate and basket size, completely changing store financial performance. Innovation labs should be designed to measure three distinct areas of retail performance improvement:

**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 simply by engaging with just 30% more customers, these retailers could increase their conversion rates by 50%.

**Basket size.** While retailers can guarantee that 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 just that 8% to 15% and instead upselling multiple times to every customer who engages in the store.

The technology is here, and so is the consumer demand. Retailers who act now to develop compelling, personalized in-store experiences will capture both the customer's imagination and wallet, while retailers who wait will soon be struggling to catch up and remain relevant. Fifty-two percent of retail executives surveyed by Kurt Salmon said one of their biggest capital expenditures for 2013 is remodeling existing stores with an eye toward improving the customer experience. Retailers who are not focusing on creating a personalized, cross-channel experience will be supplanted by those who are. ❖

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#### AUTHOR

Al Sambar has nearly 20 years of experience advising the world's leading retailers and consumer products companies. Kurt Salmon is actively working with retailers and brands to pilot these new physical retail experiences. If you are interested in learning about how to bring these experiences to life in your stores, please email him at [al.sambar@kurtsalmon.com](mailto:al.sambar@kurtsalmon.com).

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