

Stores Beta

Why Stores Should Behave More like Online Retailers



For more than a decade, conventional wisdom had it that online retailing would be the demise of the brick-and-mortar store. However, to borrow an oft-quoted phrase, the rumors of their death have been greatly exaggerated. Instead, retailers are now finding that Internet technology is less of a threat to the retail store than a potential savior.

By leveraging technology to create a seamless customer experience across the physical, online and mobile channels, the retail store is now a strategic asset, not a liability. In fact, in a recent Bloomberg interview, Macy's CEO Terry Lundgren said, "Today I view our stores as a competitive advantage against our online competitors."

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The new era of omnichannel retailing might be reinvigorating the physical store, but to succeed, retailers do need to think about their stores differently. Retailers like Macy’s, Williams-Sonoma and Sephora have realized that a key to that success is to apply the lessons they learned from the online world to how they operate their stores—using technology to create a more compelling and personalized customer experience. The impact of this can be significant: increasing conversion rate by up to 50% and basket size by up to 25%.

This one-to-one retailing, as we call it, may sound straightforward but until recently was nearly impossible for most retailers to execute. Historically, retailers have had very little visibility into what was happening in a particular store; whether it was how many items were on hand or whether a particular customer had visited the store, retailers might not know for weeks. But now, an array of new technologies are providing retailers with both real-time access to store-level customer, product and employee data and the ability to act on it.

And this is why the lessons learned in the online world are so important for retailers looking to turn their stores into a strategic asset. Because online retailers have been blessed—some would say cursed—with so much data, over the years they have come to realize that capturing data is just the first step in creating value. To get the greatest impact, retailers need to have the ability to translate this data into insights and use those insights to affect the customer experience through an iterative test-and-learn approach.

Track customer behavior

One of the most powerful elements of e-commerce is that it provides retailers with a window into the minute details of the customer’s shopping experi-

ence. It reveals where customers came from before they arrived at the site; what they did and what they looked at while they shopped; and whether they decided to buy something or not. In many cases, retailers are able to link the data about what the customer did to details about who they are and even their attitudes and preferences. All of this information is then used to create a very comprehensive 360-degree view of the customer.

Until now, brick-and-mortar retailers have been unable to come even close to matching this level of precision in their understanding of their customers. But that’s all changing with recent advancements in technology that give retailers unprecedented visibility and control into what’s going on in the physical store.

Retailers can deploy technologies such as smart shelves (Intel), video monitors (Tyco, 3VR), mobile phone tracking (RetailNext, Verizon, Euclid) and smartphone apps (Foursquare, Shopkick) to get a view of customers’ movements within the store, how they interact with products and displays, and their engagement with store associates. Retailers can also partner with companies like Facebook and Google to augment their data even further. Verizon just launched a new business, Precision Market Insights, which will provide aggregated customer data to retailers on the location and movement of their customers.

All this data can help retailers understand key actions that make customers more likely to purchase or uncover factors that may lead customers to leave the store without making a purchase.

Retailers can use these insights to make improvements in store signage, store layouts or how sales associates interact with customers.

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Nordstrom, for example, is piloting in-store sensors that pick up information from customers' smart phones as they connect to in-store Wi-Fi. The information collected—including which departments they visited and how long they spent in each one—will be used to inform staffing and store layout decisions.

And Kroger is using infrared cameras at its checkouts to reduce customer wait times. The cameras, which sit at store entrances and above cash registers, monitor customer traffic, including how many customers are waiting to check out. Custom software then analyzes the data to determine if Kroger needs to open up another checkout lane. As a result, average waiting times have dropped from four minutes to 26 seconds. This data can also be used to adjust overall store staffing levels going forward.

The cameras also showed many customers with small basket sizes showing up in the morning and around lunch—more than Kroger originally anticipated—resulting in a backup at the express lanes. So Kroger added 2,000 new express lanes to its stores, which has helped drive an even greater increase in these breakfast and lunch purchases in the last two years.

Last, but not least, Cabela's is using video analytics to improve its service and customer engagement. Cameras help identify when customers are looking for a sales associate or having to wait for one to become available, enabling the retailer to deploy additional associates as needed to save the sale. This has resulted in year-over-year weekly sales increases of 26% in pilot departments, with especially service-intensive departments growing 39%. Cabela's aims to approach all customers within three minutes and calculates that if it can increase compliance with that goal from 20% to 80%, 30% of those newly engaged customers will make a purchase.

Deepen customer knowledge

Retailers have long wished for access to more data to help drive better decisions, but now they may be thinking they should have been more careful about what they wished for. And again, retailers should look to the leading e-commerce companies for guidance on how to use the significant volume of data they now have. Online retailers have learned to use analytics to better understand their customers—who they are, what they want and how they behave. Armed with this knowledge, they are able to create personalized experiences that better engage those customers.

Customers are starting to expect this same level of personalization in stores, and the only way retailers can meet those expectations is by applying the same approach they have used online. For example, the MyLowe's program helps to personalize the in-store experience by using data on the customer and their prior purchases, inspire them about potential projects, and create shopping lists for them when they visit the store. The program has seen great success, with about 18 million unique swipes in-store and almost seven million engaged consumers online who have set up profiles and are actively using the program.

Sephora, another leader in creating a personalized customer experience, last year began deploying in their stores a Pantone Color IQ device that scans a customer's skin and creates a unique color profile for her ideal foundation and related products and brands. The profile is then linked to Sephora's proprietary Universal SkinTone Library on an iPad, which holds over 1,000 foundation SKUs. This determines which products are a precise match for each woman's skin. They can then use this information to help make a selection or have it emailed to them for future trips.

Test and learn to create a personalized customer experience

Once retailers are armed with deeper customer knowledge, the final step is translating those learnings into tactical improvements to the physical store experience.

Redesigning the store experience to facilitate better customer engagement drives significant lift in store profitability. 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. By better engaging with customers on a more one-to-one basis, retailers could increase their conversion rates by 50%.

In addition to increasing customer conversion, cross-selling represents another significant opportunity for retailers who create a more personalized and engaging experience. While digital retailers can guarantee that 100% of shoppers see alternatives and companion products, only 8% to 15% of shoppers in the stores of the specialty retailers we studied were cross- or upsold—dramatically lower than what the management of those stores expected. Yet when the retailers were able to use insights about store traffic to redeploy associates to busier times, 75% of customers who were offered additional items converted, and their average basket size increased by 25%.

In the online world, it's easy for retailers to make small tweaks to their sites to quickly test and analyze changes to the customer experience. Retailers need to develop the same rapid innovation processes for their physical stores.

Start by setting up a handful of representative test stores. These shouldn't be just the highest-performing stores, but stores that accurately represent a range of sales, demographics and regions. For even

more sophisticated testing strategies, retailers should consider tools, such as APT's Test & Learn, that facilitate conducting multiple store-based tests concurrently.

These test stores can be used to run both short-term tests, such as changing displays and product locations and updating prices, and long-term tests, such as changing overall store layouts or assortments. It's then important for retailers to create a way to share what these test stores learn with the larger store base and develop a process for rolling out these changes to the larger store base quickly and efficiently. Although nothing may be as fast as a simple website update, using centrally controlled digital displays or even store-based social networks can help bring speedy changes to stores.

In summary, technology is bringing retailers full circle and helping the physical store become an effective part of the omnichannel customer experience. When crafting an in-store customer experience, retailers should take a page from their faster-growing, more nimble online channel to shape the future of the store. By providing the same compelling experience now found online in their stores, and backing up that experience with operational efficiency and responsiveness, retailers can get one step closer to the promise of a truly omnichannel customer experience. ❖

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