Omnichannel Retail

Delivering on Customer Expectations

featuring **Darrell Rigby**

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Omnichannel Retail:
Delivering on Customer Expectations

Darrell Rigby, Partner, Bain & Company
Julia Kirby (Moderator), Editor-at-Large, Harvard Business Review

OVERVIEW

Digital technology is the most powerful disruption to hit the retail industry in 50 years. It provides a mindboggling array of possibilities and represents both a significant threat and a major opportunity for traditional retailers. It enables omni-channel retailing, where a customer's shopping experience is seamlessly integrated across all channels of interaction, including physical stores, digital media (including mobile), social media, catalogs, call centers, and more.

This disruption is changing the game in retail. It is giving consumers even more information and power, and is forcing retailers to innovate and rethink their value propositions and economic models.

CONTEXT

Mr. Rigby, author of the article "The Future of Shopping" (*Harvard Business Review*, December 2011), described what omnichannel retailing is and outlined what traditional retailers must do to compete in this environment.

KEY LEARNINGS

Digital technology represents the most powerful disruption of the retail industry in at least 50 years.

Disruptions have occurred in the retail industry roughly every 50 years. Major disruptions in retail include department stores (1860s), shopping malls (1910s), and big-box discount stores (1960s). But the disruption based on digital technology (2010+) may be the most significant of all. This technology will fundamentally change the retail shopping experience.

Currently, online spending represents 9–10% of total retail spending and it continues to grow rapidly. When people shop online, they can buy anything at any time. Consumers have broad choices, shopping is easy, prices are low, and user reviews along with expert advice are easily accessible.

Even though the current market share of digital retail is somewhat small, the disruptive impact is significant:

- *Fewer sales*. For almost 10% of retail purchases not to be made at a traditional, physical retail store is a major shift.

- *Lower prices*. To compete with digital retailers, which have lower cost structures and where price is transparent, traditional retailers have to lower their prices.

- *Increased service expectations*. Even though digital retailers lack a physical presence, they have raised the bar on customer service and they provide consumers with more information for their purchase decisions.

- *Shifting customer power*. Digital retailing returns power to the customer. Consumers can ask questions of friends while shopping, can access reviews, and can use a mobile device to compare prices.

- *Eroding brand image*. Many retailers are challenged to preserve their brand. For example, a retailer that has marketed itself as the lowest price option may no longer have the lowest price, causing consumers to question the retailer's value proposition and hurting its brand.

Traditional retailers are in trouble if the delivered prices offered by competitors are lower than their prices; if customers value the huge product assortments available online; if a product category is research and information intensive, lending itself to an online experience; and if products are easy to deliver and return.

Digital technology makes possible omnichannel retailing.

Omnichannel retailing is the seamless integration of the customer experience across all channels of interaction. This includes physical stores, personal computers, smartphones

and tablets, social media, televisions, call centers, catalogs, and more. Omnichannel retail is quickly becoming a natural way of life for consumers and is shaking up the competitive landscape.

"Omnichannel retailing is <u>not</u> optional."
—*Darrell Rigby*

For traditional retailers, becoming an omnichannel retailer requires organizational engagement, a new culture, and new capabilities.

Amazon is redefining the rules of retail.

Amazon is the poster child for digital retailing. The company is relentlessly executing the "Bezos flywheel" (named for founder Jeff Bezos), which consists of three ongoing steps:

1. Offer the earth's **biggest selection of products** to drive traffic, and expand the network of high-profit, third-party sellers. Currently Amazon offers 25 million items and is attracting more third-party sellers.

2. Use scale to **lower the cost of goods and fulfillment**, and pass along savings to customers through **lower prices**. When taking into account delivery and taxes, Amazon's prices are substantially lower than competitors like Walmart and Target.

3. Provide a **best-in-class customer experience** to drive loyalty and increase purchases. Amazon achieves the retail industry's highest customer satisfaction scores, significantly outperforming Nordstrom, Costco, Best Buy, and Walmart.

This strategy has resulted in financial success for Amazon. The company's revenue per customer is growing about 10% per year, and more than 60% during the fourth quarter. Amazon's five-year revenue growth averages 32% per year, compared to traditional retailers which are at 7%. While Amazon's margins are slightly lower than traditional retailers (4.4% vs. 5.6%), the company's return on capital is almost three times that of brick-and-mortar competitors. Amazon's stock trades at 93x earnings compared with 17x earnings for department stores. Its $100 billion market value equals the combined value of Target, Kohl's, Macy's, Nordstrom, Staples, Best Buy, Sears, and JC Penney.

Omnichannel retailers must redefine themselves to combine the best of both the physical and digital worlds.

Despite the threats from digital retailing, traditional retailers have been slow to respond. These companies have lagged, rather than led the revolution occurring in the industry.

In competing with Amazon and other pure-play online retailers, traditional retailers must develop strategies that leverage their unique physical advantages in combination with digital advantages to create a compelling, credible, seamless shopping experience.

Physical Advantages	Digital Advantages
Sensuous experience	Anything anytime
Feel and try	Broad choices
Social event	Low prices
Simple returns	Easy shopping
Real people	Rich data
Physical help	Expert advice
Instant access	User reviews

Retailers must figure out how to take full advantage of all of their assets to enhance the overall shopping experience.

"Traditional retailers need to figure out how to turn traditional retail stores from liabilities into assets—and they can be assets."
—*Darrell Rigby*

There is a path for a traditional retailer to become an omnichannel retailer, which requires innovation.

Transforming from a traditional brick-and-mortar retailer to an omnichannel retailer is a process that demands five strategies:

1. *Omnichannel vision.* A company must articulate a vision that touches the hearts and minds of those in the organization. This vision must be based on an assessment of the opportunity that exits and the company's economic model.

2. *Strategic and operating decisions.* Companies must make decisions about strategies and operations. Strategies will include which customers to target; where to locate stores; how to integrate the website, mobile, and

social media; product assortment; customer services; pricing; returns; and much more.

3. *Infrastructure capabilities*. Organizations must determine the technology capabilities needed, as well as the supply chain and delivery capabilities.

4. *Organizational capabilities*. This includes talent and decision processes to achieve the vision.

5. *Transformation management*. Becoming an omnichannel retailer is a huge transformation initiative, which needs to be managed as such.

The overall transformation of a retailer requires significant innovation. This includes incremental innovations that improve a traditional retailer's core (representing perhaps 70% of all investment), new innovation platforms (accounting for roughly 20% of investment), and activities intended to produce major disruptive innovations (which might be 10% of an organization's innovation investment).

Omnichannel innovation requires a customer lens. Instead of engaging in "push innovation" based on a new technology, innovation should focus on important customer pathways and use cases. By understanding how customers want to shop, retailers can create integrated omnichannel experiences that appeal to customers.

The future of shopping is mindboggling.

Mr. Rigby offered a long list of the types of shopping experiences that may be possible in the future—and that retailers are beginning to gain experience with today:

- Shopping for products in a subway store and having them delivered within hours.
- Creating digital store exteriors that create greater excitement and generate more traffic.
- Equipping a sales associate with every customer's history and preferences when a customer walks in the door.
- Having a "magic mirror" (in a store or at home) that shows customers how something will look on them.
- Virtually remodeling a home before making major purchase decisions.
- Using digital mannequins to increase conversation rates by changing based on trends, weather, or customers.

- Harmonizing displays to provide greater product information and choice, with less inventory.
- Utilizing digital signage to provide product information and call for a specialist when needed.
- Resolving any customer questions through a digitally assisted concierge desk.
- Being able to access a remote sales specialist at the touch of a button.
- Creating computers with artificial intelligence and natural language abilities that outperform average sales associates.
- Enabling customers to scan an item and receive ideas on how to combine it with other items.
- Allowing customers to see an item, take a picture of it, and find where they can purchase the item at what cost.
- Equipping vendors to bypass retailers and sell directly to consumers.
- Providing retailers with data on personal preferences and sizes to receive customized recommendations.
- Having robots try on or test products.
- Engaging consumers to vote on the products that a local store should carry.
- Allowing customers to receive real-time offers during the shopping process for relevant items.
- Creating small stores that serve as product showrooms.

Other Important Points

Small retailers. Omnichannel retailing isn't just for large chains. Smaller retailers have advantages in getting to know customers, introducing new products, and localizing their product assortment.

Giving customer what they need. When a consumer in a store uses a mobile device to look for information online or compare prices, it means the store is not providing all of the information a consumer needs. To prevent customers from ever leaving their store, retailers must understand and provide the information that customers want.

BIOGRAPHIES

Darrell Rigby
Partner, Bain & Company

Darrell Rigby is a partner in the Boston office of Bain & Company and heads the firm's Global Retail and Global Innovation Practices. He joined the global business consulting firm in 1978 and specializes in corporate strategy and global retailing. Darrell has led assignments in a wide variety of industrial and consumer industries including high technology, healthcare, retailing and financial services.

In 1993, Darrell founded and launched Bain's *Management Tools Survey*, a global survey on the usage, satisfaction and effectiveness of several widely used management tools among a broad range of senior executives. For the past 16 years, he has published *Management Tools: An Executive's Guide* containing the 25 most popular and pertinent tools. The study has expanded to now include a survey of executive attitudes toward current management trends. The survey results and the guide—collectively known as the Management Tools and Trends Survey—have been widely cited in the business pages of many top-tier U.S. and international publications, including *Forbes*, *BusinessWeek*, *USA Today*, *The Wall Street Journal*, *The Financial Times* and *The Economist*.

Darrell is a frequent speaker and *Harvard Business Review* author on strategy issues, including innovation, managing in turbulence, CRM and change management. He has been a keynote speaker at *The Economist* conferences, and the Strategic Leadership Forum and has made media appearances on CNN, NBC, CNBC, Moneyline and Bloomberg.

Prior to joining Bain, Darrell earned an M.B.A. from Harvard Business School with high distinction (Baker Scholar). He is a graduate of Brigham Young University where he received a B.S. in business management summa cum laude.

Julia Kirby (Moderator)
Editor-at-Large, Harvard Business Review

Kirby is a senior editor at Harvard Business Review, where she develops articles on marketing, as well as other business topics. She manages the Case Study section of the magazine and has written several cases and articles, including "Left on A Mountainside" and "Toward a Theory of High Performance." Among the recent articles she has edited are "Defeating Feature Fatigue" by Roland Rust and coauthors, "Selling to the Moneyed Masses" by Paul Nunes, Brian Johnson, and R. Timothy Breene, and "Executive Women and the Myth of Having It All," by Sylvia Ann Hewlett, which was included in *The Best Business Stories of the Year 2003* anthology by Vintage.

Before joining HBR in 2000, Ms. Kirby served on the management teams of Accenture™'s Institute for Strategic Change for two years, and Cap Gemini Ernst & Young™'s Center for Business Innovation for six years. She played a major role in the development of several business books, including *Blur: The Speed of Change in the Connected Economy* (1998), *Mission Critical: Realizing the Promise of Enterprise Systems* (2000), and *The Attention Economy: Understanding the New Currency of Business* (2001). Early in her career, Ms. Kirby was a director in the management consulting division of Computer Sciences Corporation.

Her formal education includes a BA from Kenyon College and graduate studies at John Carroll University and the Case Western Reserve™'s Weatherhead School of Management.