

Online Offline trends in Retailing



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Online-Offline Trends in Retailing

The Internet plays an increasingly essential role in today's society; and this is particularly true for retailers. Research suggests that consumers not only use the Internet to shop online, but also as a source to find products, investigate alternatives, and compare prices, for purchases in an offline (brick and mortar) setting. In addition, the boundaries between online and offline are becoming somewhat blurred, with offline retailers enhancing their online offers, and online retailers engaging in offline behaviour. More so in today's market than ever before, the combination of online and offline services are being leveraged as a tool for competitive advantage among retailers. This ACRS White Paper provides a summary of the online-offline trends in retailing in an attempt to encourage retailers to think outside the box, as engaging the consumer in new and exciting shopping encounters is becoming more 'the norm' than a 'nice to have'.

Online / Offline Retail Channels

There is much to be said for entering a physical store: the store design, the ambience, aroma, aesthetics – which all contribute to the development of the retail experience. In fact, the manipulation of the in-store environment is playing an increasingly common role in contemporary retailing. Through the manipulation of atmospheric variables, a retailer can attempt to create a unique experience for its customers. Underlying this strategy is an assumption that the creation of a retail experience has a positive connotation of something extra for the consumer – something beyond an ordinary retail encounter and may result in the creation, or co-creation of additional value. For many retailers, the general premise of creating a unique experience has been extended from the physical store to the online offering.

The potential benefit of an online presence is not new; however recent research suggests that the Internet is able to drive offline sales. In 2008 the Australian Centre for Retail Studies engaged in a research project for Google Australia, investigating how Australian shoppers interact within the online and offline space for consumer electronics, computers and gaming, and entertainment products. This research found that approximately half of Australian consumers now research their purchases online before heading into a retail store. In fact, a quarter of the shoppers surveyed described the online realm as “the most crucial” source for researching their offline behaviour, ahead of TV, radio, brochures and catalogues combined.

In support of these findings, a survey from Nielsen Online found that of people who had made consumer electronics purchases in a brick and mortar store, 80 percent bought from a store whose web-site they visited first. In addition, 53 percent purchased from a retailer whose web-site they had spent the most time researching. The study also found a high incidence of online research for offline behaviour in a range of product categories including those that require less research effort, such as pet food.

The question for retailers becomes: how can an online presence be leveraged as a tool to provide competitive advantage, particularly in a landscape that is often cluttered with competition. The answer can be discovered when looking toward international emerging trends in the offline / online spheres. Three themes emerge when we consider these trends: customisation, engagement, and convenience. Each of these will now be discussed in turn.

1. Customisation

The online realm has increasingly become a compliment to the consumer's offline experience. The practice of giving customers the opportunity to customise an existing offline product online has been around for some time, from shoes to candy. For instance, Nike allows consumers to customise shoes on the NikeiD website (www.nikeid.nike.com), and M&M's allow consumers to customise candy with personalised messages and images (www.mymms.com). These sites compliment the consumer's offline experience by allowing them to design and ship their own products for consumption in the offline sphere. This approach also allows the consumer to take something that is mass-produced and customise their own piece of the brand to represent who they are, or convey messages to others about themselves through the brand. Some retailers are allowing customers to customise the offer within the retail space. Retailers, like Puma, are taking the web offer of customisation a step further by bringing shoe customisation to shoppers via an in-store computer kiosk called the "Mongolian Shoe BBQ." Customers can select from several colours and materials. Customers then scan the parts onto the computer, where they can manipulate and create their own shoes. Shoes cost about \$130 and take about three weeks to process.

While the Nike and M&M examples relate to offline products that engage with consumers online, the trend works both ways. In a similar manner, traditionally online 'offers' are merging to the offline sphere. With the rise of the virtual world, and the likes of Sims and Second Life, offline brands and designs are being integrated into virtual space. Since the emergence of the virtual world, online brands have been developed in virtual communities and are now moving into the offline realm. For instance, some companies are now allowing consumers to

get 'avatar fashions' made into real-world clothing. In recent times, two fashion brands (EA and H&M) held a Sims 2 Fashion Runway contest where any Sims 2 player could participate by designing an H&M-inspired outfit using the game's design tool and uploading it to the Internet. The winning outfit was made available for purchase in nearly 1,000 H&M retail locations in the US, UK, Sweden, the Netherlands, Belgium, France, Germany, Hong Kong, and China.

A further step toward mass customisation has been developed by Ponoko.com, a New Zealand start-up that allows a consumer to turn any virtual design into something real. Individuals are able to turn two-dimensional designs into three-dimensional objects. Besides creating products for themselves, users can also sell their designs through Ponoko's online system. Figure 1 details the manner in which individuals can customise their designs.

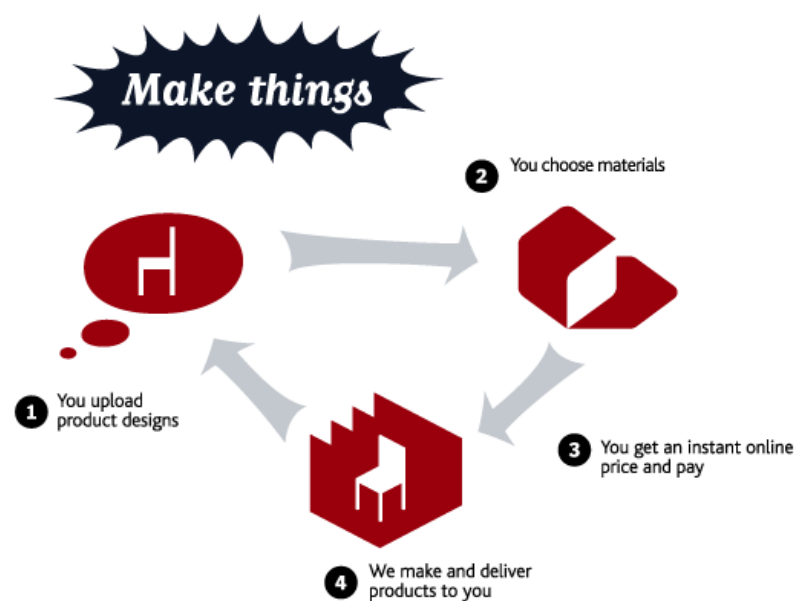


Figure 1: The Ponoko 'make-it-yourself' Model

Not only can customers make any object they wish for themselves, they can also sell these items through the Ponoko web-site, as demonstrated in Figure 2. As a consequence of the interaction between sellers and buyers on the Ponoko site, a virtual community of designers and consumers has emerged. Individuals are able to mingle in discussion forums, read design related blogs, and browse through (or aspire to become) featured designers.

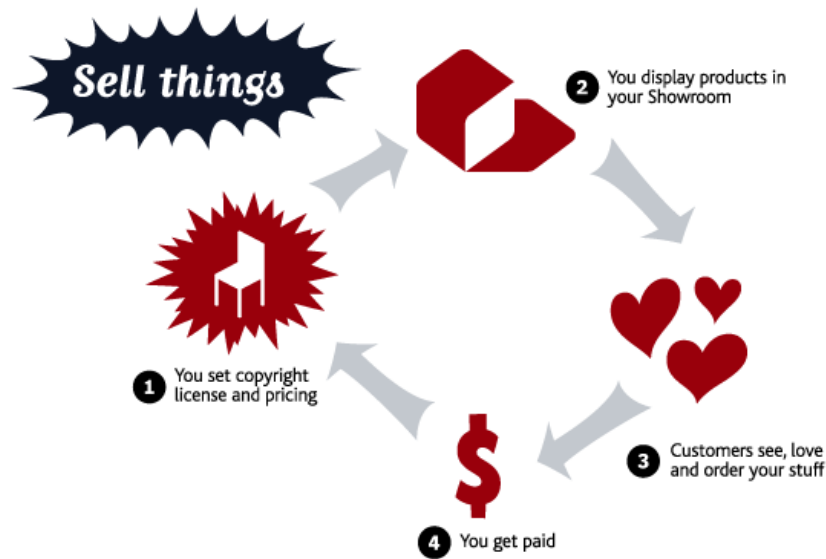


Figure 2: The Ponoko 'sell-it-yourself' Model

This initiative also highlights that development of virtual communities is becoming increasingly common in the social networked world we live in today. One of the major benefits of such communities that brands and retailers alike are realising is the opportunity for engagement between consumers and the brand itself.

2. Engagement

An online community is a group of people who interact using a computer network as their primary medium of communication. Whether a given group should be considered a community depends on the strength and character of their shared purpose and interactions. Fernback and Thomson (1995) define an online community as a social relationship forged in cyberspace through repeated contact within a specified boundary or place that is symbolically delineated by topic of interest.

There are many techniques used by retailers to engage with consumers. While loyalty schemes in the form of card-based reward programs have been common in recent years, the use of online communities is increasing. As an example, the Dorothy Lane Markets are specialist food markets in the US who have established the Dorothy Lane Markets Kids' Club, which is a community supplemented with online tool all designed to make shopping trips fun for kids. Further, whilst not a community in the true sense of the word, the Cartoon Network has a cross media initiative to encourage ongoing interaction with the channel and has a focus on 'virtual trading cards' which can be collected and auctioned. To collect the

cards, children have to watch the network and write down codes. In Australia, Woolworths is also looking for ways to capitalise on the success of social networking websites in their endeavours to improve online shopping options for their consumers. Woolworths have launched an interactive 'kids site' to encourage consumer engagement, offering children the opportunity to discover recipes, play games, and more.

These trends are by no means limited to the retail sector, and in the US a recent report "Social Media: Trends and Tactics in the Financial Services Industry," has found that the evolution of social media such as blogs, forums and online communities has significantly increased among major financial services companies. The report found that online communities are rapidly growing in popularity and that companies are using them for a wide variety of reasons, from collecting customer feedback (Schwab) to educating and marketing themselves to clients and prospective customers (American Express).

The US t-shirt brand Threadless provides a good example of an interactive community that has progressed from strength to strength. The brand established itself as a popular online t-shirt design portal, allowing consumers to log on, design, and sell their t-shirt creations. This online community based store has now opened its first physical store in Chicago. Threadless Chicago incorporates a shopping area and a gallery, both showcasing work by winning Threadless community designers. One of the main goals of the Threadless store was to have real, live, tangible events around the launching of new tees every week. Threadless releases 8 or 9 new and reprinted designs online every Monday, and the Threadless store launches the new tees the Friday before they get released on the website. Threadless is considering opening additional stores in "smaller, artsy communities" like San Francisco, Austin, Seattle, Boulder, Columbus, Boston, Minneapolis and Savannah.

3. Convenience

The third trend in online offline retailing relates to convenience, retailers are increasingly providing customers the opportunity to engage in more convenient shopping by combining online and offline channels. In the past consumers entered a store and decided on the make and model of product desired, and then went home with their purchase. Nowadays, especially for large purchases, the vast majority first undertake their research via the Web, then visit a store to physically inspect the product. Then they return to the Web for further price comparison, then order it online or by phone for pick up or delivery, followed by in-store pickup or research online prior to making store purchases. Today's most experienced multi-

channel consumers see shopping as a multi-step process, with the online and offline channels bringing distinct value at the different stages of their shopping experience.

The buy-online, pick-up-in-store option not only provides added customer convenience, it also makes good business sense. A 2006 study by Shop.org found that 27 percent of online buyers who pick up their merchandise in a store will make additional purchases. Moreover, Wal-Mart customers on average spend an additional \$60 on purchases in-store when picking up their orders. By offering online products that aren't normally available in stores, retailers are effectively increasing the number of products they're offering their customers, thereby increasing not just market share but “share of wallet,” or share of customer (Selbert, 2007).

U.S. retailer of consumer electronics, Circuit City, has been identified as demonstrating best practice in the area of in-store pick up (Mendelsohn, Temkin & Tesch, 2006). In 1999, Circuit City created an in-store pickup program using its existing integrated order management and inventory systems. The program was moderately successful. When Circuit City asked its customers how it could offer a better multi-channel experience, the number one request was for an in-store pickup program - a service that it already offered. So the retailer launched its 24/24 Pickup Guarantee program, actively marketing the capability for customers to buy products online or through the call centre and pick them up within 24 minutes of inventory confirmation. If the 24-minute guarantee is not met, Circuit City gives the customer a \$24 gift card.

Implications for Retailers

Savvy retailers are effectively combining online and offline channels and are using various technological platforms to provide consumers with access to online functionality within the store. For instance, retail kiosks provide convenient services to customers such as bridal and gift registry, non-stock product ordering, way finding directories, employment, product information, company information, and targeted offers. Prada allows customers to compile the outfits that they have tried on and create their own web page, which they can then email to friends to solicit their opinions. While these units can support a multitude of applications, the most successful applications are those that replace waiting in a time-consuming line. This may include e-ticketing at airports and train stations, vending in stores and events, check out services at retailer front ends, or information kiosks in product aisles.

However, not all retailers are pursuing the seamless integration of online and offline offerings. There is an emergence of online offerings servicing the offline world. Some retailers compete with no brick and mortar store, and recent developments such as social networking sites are making these concepts viable. Social Flowers is an online flower store that has created a way for consumers to send flowers to their Facebook friends without having to ask for their personal details. Users install the Social Flowers Facebook application, select a recipient from their friends list, pick a floral gift and pay. Social Flowers then sends the recipient an email and a Facebook notification requesting their address, and the flowers are delivered by one of 30,000 local florists in the US and Canada. Closer to home, New Zealand dry cleaner, Dry it Online is an online service that “takes the hassle out of dry cleaning”. Clothing items are picked up and dropped off direct to customer’s workplace with online payment facilities. With convenience a major driver of modern consumer behaviour, offers such as these are likely to see increased success.

Conclusion

At the outset of this paper the question was posed as to how an online presence could be leveraged as a tool to provide competitive advantage. Drawing on the examples of emerging trends in the offline / online spheres provided some possible answers to this question. First and foremost, rather than operating as separate entities, many organisations are using the online experience to complement, or enhance, the consumer’s offline experience. Paramount in any integration between offline and online is the need to provide the consumer with a succinct experience, the most effective techniques are likely those that allow the online experience to compliment the offline experience, allowing the consumer to more easily execute their task, be it to shop or to browse. As this paper has demonstrated there are three emerging trends in the integration of the offline and online experience: customisation and engagement. These aspects could be adapted by retailers to enhance the total shopping experience of consumers in today’s multi-channel retail environment.

About the author

Having recently completed his PhD which investigated the effect of themed service setting on consumer behaviour, Sean is particularly interested in the way in which emerging technologies can be adopted by retailers. He is particularly interested in how the lines between offline and online retailers are blurring and the opportunities that exist for retailers to capitalise on emerging technologies. As a Researcher at the ACRS, Sean is responsible for managing and coordinating both primary and secondary research projects, including research design, data collection and analysis, research report writing and communicating results to retailers.



About the Australian Centre for Retail Studies

The Australian Centre for Retail Studies provides research driven education to those involved in the retail sector through broad based research and information generation, management education programs and the promotion of retailing as a career.

As a commercial centre within Monash University's Business and Economics Faculty and Department of Marketing, the ACRS is a bridge between the academic and the commercial retail worlds, enabling clients to access resources and knowledge that may not be otherwise available to them.

The centre engages in the following areas of activity throughout Australia, New Zealand, South East Asia and Asia.

- Management development programs
- Presentations, conferences and seminars
- Retail research, reports and publications
- Study tours

The ACRS builds skills, knowledge and understanding at all levels of management from first line appointees to CEOs; because of its unique retail focus the Centre offers advantages over other general management training providers.

Enquiries

Please contact us if you have any enquiries about the ACRS. Also if you would like further information about this paper or contributing please feel free to contact **Sean Sands**.

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