

## Chief Marketing & Sales Officer Forum

# Seven strategies to beat the retail apocalypse

Retailers need to understand and exploit their multichannel advantages if they want to survive in a digital world.

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Welcome to the retail store apocalypse – tumbleweeds skittering across empty aisles, shoppers scanning bar codes and buying products online for cheaper, shuttered storefronts on barren streets. Many retailers have greeted the advent of the mobile shopper with this sort of “end-is-nigh” panic.

Though the idea of a retail store apocalypse might make for a good zombie movie setting, it doesn’t have to be a real world scenario. Yes, showrooming – the customer practice of checking prices in store then buying somewhere else online – is a problem for many retailers. But showrooming shouldn’t be a show stopper. These digital shoppers are ready to buy. Excelling at multichannel sales is today’s must-have capability, and retailers need to get better at it if they want to survive.

### **Clear advantages in the battle for market share**

The dominant player in the retail field is Amazon, whose agility and savvy is the envy of many a retailer. Unencumbered by physical stores, the retail giant is poised to grab ever greater offline market share too. Brick and mortar retailers, reeling under the digital blows that have already pushed many of them out of business, have assumed the role of challengers.

In the battle for the customer, however, multichannel retailers are not without strengths of their own. They have physical locations where shoppers can touch and feel products. They have real, live people who can provide the kind of in-person advice and service that’s essential to certain product sales. And they have shoppers who increasingly go both online and in-store to buy. While overall retail sales in the US grew at an annual average of just 3 percent between 2006 and 2011, digitally-influenced in store sales grew at an average of 13 percent.

With shopping behavior changing so quickly, we have identified seven ideas and thought-starters multichannel retailers should consider to remain relevant and profitable in a digital world.

- **Be the authority**

Amazon’s effort to offer all things to all people risks making the company a jack of all trades and

master of none, especially where advice and presentation are a big part of the purchase experience. Multichannel retailers can exploit this opening by making themselves category experts through best-in-class service and advice, positioning themselves as “curators” of the finest and choicest SKUs. By representing the best of a given product category, retailers subtly take the customer’s side in the matter. They become an advocate for the customer.

Guitar Center turned its sales around by exploiting the expertise of their sales teams. They published the profiles of roughly 4,000 sales associates on their web site, and created a “store experts” page for each location. Visitors to the site were encouraged to email and ask associates questions, mostly about instrument selection and comparisons. Some experts are also featured in the company’s print catalog. After adding the ability to email associates at the start of the holiday shopping season, nearly 12,000 sales leads poured in during the first eight weeks.

Providing expert reviews and recommendations, building a community of experts who can help each other, developing specialized searches for products (search by style, personality, occasion, etc.), and creating rich, engaging content are all ways to communicate expertise and help customers make informed choices. In stores, train sales staff so they have deep expertise in their category. Some retailers have even set up video chat functionality to call on remote experts to answer customer questions on the spot.

- **Use that data**

With the increasing availability of data, marketers can move from identifying segments to targeting micro-segments based on patterns in individual consumers’ research and purchase behavior. This kind of cold analysis enables a warmer relationship with customers as the data specificity allows retailers to cater to specific needs and wants. Williams Sonoma, for example, integrates its customer databases with external data on some 60 million households, tracking income, housing values, number of children and so on to create targeted e-mails based. These personalized messages obtain 10 to 18 times the response rate of generic e-mail promotions.

This approach can also help to target underserved segments, such as teen-age consumers or Hispanic mothers, with distinctive marketing, experience, and product offerings tailored to the unique association these micro-segments have with their retail brand. Target, for example, developed micro-sites targeted at specific segments, such as its Club Wedd microsite for couples that includes registry and planning tips as well as a suite of services provided by partnering vendors.

And if you can’t build it, buy it. Wal-Mart last year paid \$300 million for Kosmix, the social media start-up that developed “social genome” technology to make sense of customer information. This technology analyzes the geographic area around a Wal-Mart store to find out what people living there would likely want to see stocked in that store.

Getting smart with data also means being more efficient. A leading retailer analyzed data from multiple sources (including point-of-sale data, external research, price perception data, and competitive assortment data) to decide which products to carry, where to place them in the store, and how and when to adjust prices. These changes helped it reduce its assortment by 17 percent, while increasing the mix of higher-margin private label goods and overall revenue.

### • **Re-imagine the retail store**

As digital becomes more integral to the shopping experience, traditional retailers need to “re-conceptualize” the role played by their stores. Emerging innovations are redefining what convenience means to customers. This is more than allowing customers to pick up or return products ordered online to a physical store. It’s about using the store as a service hub, refashioning store set up and rebalancing space allocation across channels, and altering the character and atmosphere of a store to put customers in the mood to buy, an approach the sociologist George Ritzer calls “retailtainment.”

Any US parent is likely all too familiar with American Girl Place retail stores, for instance, where movies incorporating the fictional characters represented by the dolls show next to museum-quality displays of carefully curated artifacts from the era in which the fictional characters live. A revenue engine for its parent company, Mattel, American Girl stores also have a themed café nearby. Most shoppers spend 20 minutes in a toy store; at American Girl, shoppers spend an average of two hours. The stores also draw customers from a 200-mile radius, a much larger pull than most other retailers. Elsewhere on the retail scene, movie theaters are incorporating restaurants, malls are adding upscale bowling lounges, and outdoor recreation stores such as Cabela’s are bringing in wildlife exhibits and aquariums. At the entertainment rich Mall of America, for example, the average dollar amount spent per visit is 52 percent higher than the nationwide average spent at more traditional shopping malls.

Technology that melds the online and the in-store experience is also developing quickly. One large grocery chain, for example, has provided shoppers with in-store scanning units that display coupons for related items (e.g. coupon for creamer when you scan coffee), enables shoppers to scan and bag their own groceries, keeps a running tally of the bill (with a budgeting feature), and even enables out-of-stock items to be shipped directly home. Customers using this technology spend about 10 percent more than average. Smartphone users, meanwhile, are earning reward points every time they enter one of 1,300 Best Buy stores. And they earn even more by scanning or purchasing products. Best Buy has also focused on helping customers see the full potential of the technology to up- and cross-sell more effectively. Instead of selling just a TV, for example, Best Buy offers customers a true TV “solution” allowing them to record and share shows across devices, pull down targeted video content from the Internet, and play games in real-time with friends and family who live elsewhere. This experience, which is hard to replicate online, creates the opportunity to sell bundles of higher-margin products and services.

In another example, Tesco has moved much farther into the digital realm. They have put up billboards of groceries on the subway platforms in Seoul and Pusan, South Korea, where people can shop for groceries by scanning product QR codes with their smart phones. The company’s online user base jumped by 76 percent and online sales increased by 130 percent from 2009 to 2011.

### • **Make it personal**

While technology has allowed for ever more sophisticated targeting, it’s important not to forget the personal touch. Offers such as personal shoppers across multiple channels can bring a similar personalized experience that is supported by just-in-time data. Neiman Marcus, for example, is looking to enhance its service legacy with an app that identifies when customers enter the store and prompts staff to engage with them consumer based on purchase history and preferences.

An important part of making personal connections is creating local connections. Wal-Mart introduced local Facebook pages for each of its 3500 locations, allowing consumers to interact with its local stores and get information on new products, events, and discount offers. In Japan, McDonald's, meanwhile, provides a free app that customers can download to receive, store, and redeem coupons. The mobile apps Shopkick and Foursquare are offering local businesses innovative ways to use digital offers that lure shoppers into their stores, and keep them coming back. Shopkick has reported driving more than \$110m in in-store revenue for its partners.

#### • **Partner up**

Retailers need to find new partners and allies to get capabilities, expertise, and access that they can't easily develop on their own. Cross-retailer loyalty programs, for instance, could help create the same multi-category loyalty experience that Amazon has created through their Prime offer. Retailers can look to promote products and services across the on- and offline worlds through personal one-to-one marketing delivering email and text offers to mobile phones, potentially when the consumer is near or in one of the retailer's stores.

This opportunity can make for strange bedfellows. Wal-Mart and Target, for example, are among roughly two dozen retailers working together to develop a mobile-payments system for the increasing number of shoppers who are using their smart phones as e-wallets. Visa is already expanding the successful collaboration it pioneered with Gap, whereby consumers are sent targeted promotions based on spend and location data captured through Visa's payments system. Similarly, retail partnerships with social networking and search companies could provide complementary access to information about a substantial number of current and potential customers.

#### • **Be unique**

We already know that competition in the world of commodity goods is fierce. To break the commodity perception, you need to develop unique products.

Partner with fashion brands and celebrities, for example, to launch exclusive lines of merchandise. Kohl's has done just that with its "JLo" clothing line and collection, created with the singer and actor Jennifer Lopez. They can also double-down on exclusive private label offerings and get more control over operating margins. A variation on this theme is to make it more difficult to compare products by partnering with suppliers to change package size and price markings. One well-known Chicago-based store, Lori's Shoes, is asking vendors to give the shoes that Lori's carries different model names than it gives other stores, or to put a different label inside so shoppers can't compare prices as easily. This approach may make comparing prices difficult but retailers should be careful because it could also draw criticism from consumers.

#### • **Be first**

Finally, traditional retailers can move into new, untapped markets. This might mean entering emerging markets where competitors don't have a foothold yet, especially in highly fragmented, but heavy online emerging markets where there are opportunities to bring a lot of buyers and sellers together. China and India in particular are fruitful targets because of the rapidly growing middle class and wide access to technology. Even some economies in Africa offer a mobile-savvy consumer

base and a rising middle-class. Political risk will be higher, to be sure, but entry costs require less capital investment.

Exploring opportunities to sell in adjacent markets – for example in Eastern Europe – by opening a localized store could reveal opportunities for growth with low initial investment. Those with aspirations to dominate new markets as they emerge could preempt competitors by acquiring leading local online players to gain a foothold. But they’ll need to move quickly. Amazon, for example, recently launched Jungle.com, a marketplace site, in India. If history is an indicator, Amazon will move quickly where they see opportunity.

Multichannel retailers need to nail the digital shopping experience – customers expect nothing less. . But retailers’ ability to turn physical stores into profit centers will determine if they are able to prosper or become another victim of the ongoing digital revolution.

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