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Navigating multi-channel retail in Australia
Moving from if to how

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Overview

- multi-channel retail means expanding the ways for customers to engage and trade with you. This goes beyond the store to include online delivery, mobile devices, phone, self-service kiosks and/or mail. Integrated multi-channel retail is about linking some or all of these channels to provide a consistent brand experience, contextual to each channel

- multi-channel retail is attractive to customers because it provides improved choice and convenience and can therefore differentiate a retailer

- Australian retailers can find new sources of growth as well as a lower cost of doing business by taking a more holistic multi-channel approach

- the case for multi-channel retail is now overwhelming – technology is driving different customer behaviours and multi-channel sales are bucking the downturn trend

- Australia has lagged behind much of the developed world in adopting multi-channel retail capability and is suffering overseas revenue leakage as a result

- developing a multi-channel strategy can seem daunting, particularly as money is currently tight. This means initiatives are often small-scale and under-funded, resulting in more questions than answers – customers' interest is excited then disappointed and internal supporters begin to question the value

- how do you avoid this scenario?

- the answer lies in full senior management sponsorship, good customer research, not treating multi-channel as a new strategy, adopting a capability-based design, building a business case based on customer behaviours not academic projections, and planning manageable steps.

The case for multi-channel retail

Multi-channel retail allows retailers to expand the ways customers are able to engage and trade with them. This expansion goes beyond the store to include online delivery, mobile devices, over the phone service, in store self-service kiosks and/or mail. Integrated multi-channel retail is about linking some or all of these channels and stores together to provide a consistent brand experience, contextual to each channel.

Multi-channel retail provides improved choice and convenience

Multi-channel retail is attractive to customers because it provides improved choice and convenience and can therefore differentiate a retailer. It's not just about selling online. It is a fundamental approach to serving your customers in all aspects of the engage/research/compare/select/buy/use/return cycle, and provides excellent opportunities to develop customer intimacy and generate deep consumer insight. In short, it's about making it easier for your customers to do more business with you and for you to serve them better. For example, by recognising that many customers research online then shop in store, some retailers are improving their public websites by adding things like extended search capability, detailed product information, usage tips and advice, and stock availability. Other retailers are providing the ability to purchase online because they know that online purchasing will, in fact, draw more people into their stores (for pick ups or returns).

Against a background of flat, or declining, like-for-like sales through traditional channels, going multi-channel offers one of the very few opportunities to generate real, incremental revenue growth. Equally importantly, however, multi-channel retail can also deliver sustained cost-reduction through the evolution to a new business model that can reduce the overall cost of doing business. This latter benefit arises as the new revenue streams can be serviced without the capital and ongoing operating costs needed to open and sustain new stores.

Multi-channel retail offers real revenue growth

What is driving the uptake of multi-channel retail? In other words, why are customers wanting to shop in different ways; at times going to a store, and at other times going online, calling a store or using their mobile phone?

The true answer is complex and relates to a range of factors, including:

- advances in technology, particularly online and mobile
- better access to online technology, including faster speed, lower cost and better security
- generational differences in the use of technology
- demographic shifts, including moves away from major urban areas
- rising workforce participation rates, particularly of women and parents
- rising customer expectations of convenience and choice based on online experiences with overseas retailers
- social trends, such as parents spending more time with children on weekends having less time for shopping
- the impact of the tightening economy on customer price elasticity.

Combined, these factors point to the need for retailers to stop and think:

- how are these issues affecting my brand?
- how are these issues affecting my customers?
- how are these issues affecting my cost structure?
- do we need to adapt and change?

Multi-channel retail – stats and facts

Australia has broadband penetration levels above 94%
Source – Nielsen Online research data, published 15/01/09

Australia's Gen-Y population, who are internet and mobile 'natives' and represent 26% of the adult population, will hold the largest share of the consumer market by 2015.
Source – Y-topia- Capturing Retailer's Paradise, Jones Lang LaSalle, 2008

IBISWorld predicts that electronic shopping media will grow at rates 50% higher than traditional retail channels in the period to 2012–13.
Source – IBISWorld Industry Report – 'Online Shopping and mail-Order Houses in Australia X0004', 02/02/09

Google Australia saw 45% growth in online retail searching in the 12 months to May 2008, and estimates half of Australia's shoppers' research online before they purchase.
Source – 'Three online insights to grow your store revenue' – Presentation to National Retail Forum, August 2008

Multi-channel shoppers who first research products online spend an average of $30 on additional items once in store.
REI Case Study 2005

International data for Christmas 2008 is strongly supportive of multi-channel retail as a source of revenue growth and the view that shoppers are habitually engaging across channels, for example:

US monitor comScore reported 4% year-on-year sales growth of apparel online compared to a year-on-year fall of 20% in traditional channels in the crucial pre-Christmas trading period.

Similarly, year-on-year sales performance of consumer electronics and home garden and furniture outperformed traditional channels by around 15%, while year-on-year sales of jewellery and watches outperformed traditional channels by 10%.
Source – ComScore press release – 'Despite weak season, online spending trends outperform brick-and-mortar across several key retail categories', 02/01/09

UK IMRG survey data for Christmas 2008 showed that almost half of respondents engaged across channels and that, crucially, those who did the majority of their Christmas shopping online had actually increased their spending, despite a general fall in retail sales. This suggests multi-channel capability is key to sustaining, and even growing, market share.
Source – Capgemini research supporting the IMRG Capgemini e-Retail Sales Index for December 2008, quoted in Business Week, 15/01/2009

Of the 11.3 million Australians who accessed the internet in 2006–2007, 61 percent of people aged over 15 (6.9 million people) used it to make a purchase or order goods and services.
The ABS (2008)

Multi-channel shoppers are found to more profitable by 62% of retailers.
RSR Benchmark Study 2008

Multi-channel shoppers spend nearly 50% more each year.
Shop.org 2007

Multi-channel shoppers produce 4.5 times more lifetime business value.
AMR Research 2005

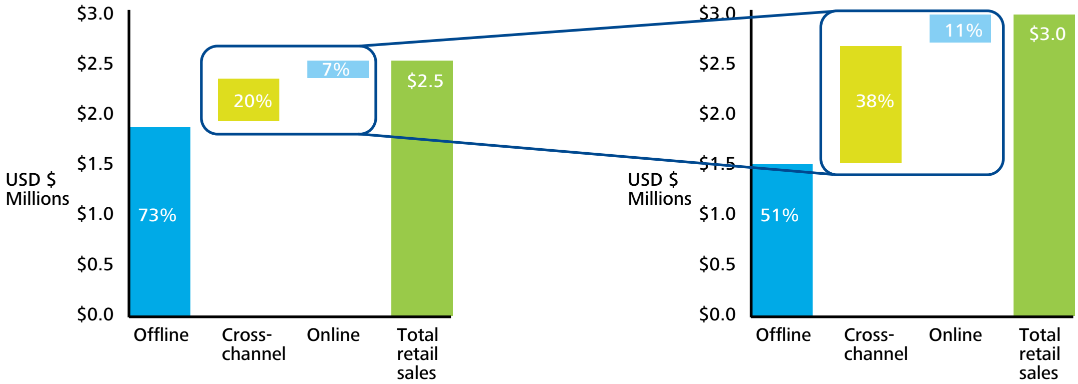
Figure 1 below illustrates the growing prevalence of cross-channel behaviour by customers. Retailers should make themselves 'open for business' across channels or risk missing out on sales.

Figure 1 – Forecast growth in US cross-channel engagement 2007 – 2012

Chart A: Cross-channel customer behaviour

In 2007 cross-channel* shopping accounted for $510B or 20% of total retail sales...

...by 2012 cross-channel shopping will capture $1,121B or 38% of all retail sales.



*Cross-channel shoppers research products online and then purchase them offline.

Victims or opportunists?

Are Australian retailers victims or opportunists when it comes to multi-channel retail?

For the purposes of answering this question, Australian retailers can be broken into three categories:

- the victims who feel they must invest in alternative channels just to stay competitive, but fail to see the potential upside
- the opportunists who can see how putting a 'store' in everyone's home (via a website) can drive significant profit and revenue growth
- those mired in indecision.

With a few exceptions, Australian retailers are, on the whole, taking small steps towards a multi-channel future. Why?

Firstly, the negative perceptions of the high-profile online retail failures in the initial wave of e-commerce a decade ago have taken a while to dissipate.

Secondly, the past ten years has seen little or no multi-channel competitive tension. During this time, the major Australian retailers have adopted an 'after you approach' and kept a close watch on what their competitors were doing while remaining reluctant to be the first to commit. Inaction in one organisation was therefore seen as a rationale for inaction in another – and multi-channel retail has proceeded at the pace of the 'slowest common denominator'.

However, three factors have now moved Australian retailers to the threshold of multi-channel.

Firstly, the evidence from both Australia and the more mature multi-channel markets of the US and Europe regarding multi-channel customer behaviour is becoming overwhelming.

Secondly, Australian retailers in many sectors are struggling to generate true like-for-like sales in their existing brick-and-mortar stores.

Thirdly (and this is the clincher), in sectors such as health and beauty, electronics and specialist apparel, as well as many others, retailers are seeing revenue leakage to offshore competitors. These competitors, whose offers may be broader and whose prices remain competitive, even after international delivery and exchange rates are factored in, have changed the landscape, posing an additional competitive threat.

Suddenly, merely 'keeping up to speed with the local opposition' is no longer an adequate market share defence strategy.

As a consequence, we have seen a flurry of activity over the last year in all sectors to get into the multi-channel retail space. The majority of retailers we speak to are actively considering or trialling multi-channel approaches. However, in a capital-constrained environment, much of the multi-channel retail focus we are seeing appears to be on small trials and 'suck it and see' approaches. Given the inevitable hurdles of systems constraints, accurate inventory visibility, item master data quality and fulfilment complexity, multi-channel retail initiatives have floundered.

In our experience, underperforming multi-channel retail initiatives share a number of common characteristics:

- **a website in search of a strategy** – this amounts to selling whatever you can online. Taking an ad hoc approach to what can be marketed and sold leads to confusing or bizarre ranging (widely different categories, sparse ranges within a category, no consistent 'offer')
- **online as a silo** – online presence alone, not integrated with any other channels such as stores, call centres or other media, resulting in customer annoyances and lost opportunities to engage further
- **messy marketing** – confusing and contradictory marketing and branding across online, in-store and traditional marketing collateral
- **inconsistent fulfilment** – given the difficulties of establishing effective 'last mile' fulfilment operations, the customer often feels that they are being served by a different company
- **dropping the ball on consumer insight** – failure to collate and analyse consumer data (perhaps the largest single lost value opportunity).

Together these characteristics result in multi-channel retail initiatives failing to get off the ground, gain momentum and worse still, excite consumer interest but fail to live up to expectations. This destroys brand equity and customer intimacy. The numbers (sales and profit) are consequently underwhelming, which causes further funding and continued internal stakeholder support to dry up in equal measures.

Why do these situations arise?

Functional-centric strategies

Multi-channel retail is a way of orienting your business to meet and exceed your customers' expectations around how they want to trade with you. It is fundamental and involves a change in mindset. It requires the combined support and involvement of all major business functions, from marketing to merchandising, from IT to finance and from store operations to supply chain. It cannot, therefore, be delivered by just one or two functions. In such situations, the initial design (i.e. offer, range, order and inventory management approaches, fulfilment solutions etc.) is often unrealistic and can become increasingly marginalised as other functions impose their own constraints. The result is a mess of compromises in which the original strategy and the power of the overall 'offer' are lost.

Failure to take a capability-based view

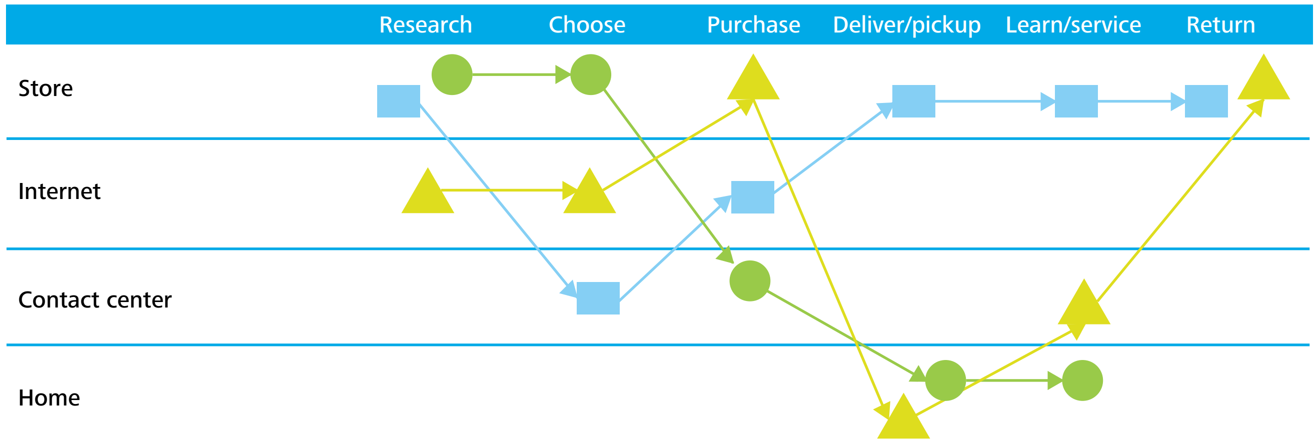
Retailers have to truly understand and document how their business will function differently in a multi-channel world. For example, even the relatively simple 'research online, buy in store' transaction, when done well, requires accurate content management, item master data alignment between channels and systems, accurate and effective allocation of inventory, familiarity in store with the key product information online, and the ability to track both browse and buying behaviour.
This, however, is just one of several hundred potential multi-channel retail permutations through the extended 'engage, buy, use' cycle, which involve all key functions in an integrated operational model – see Figure 2 below.

Figure 2 – Three examples of how customers engage across channels

Buy online, pickup in-store
In this scenario, the customer:
- browses the selection in-store
- calls the contact center with detailed questions about the item
- purchases the item online
- travels to the store to pick up the item
- takes the item to the store for service
- exchanges the item in the store.

Product and service bundling
In this scenario, the customer:
- selects the product in store
- calls the company to purchase and arrange for delivery/installation
- has an in-home consultation with a company representative to learn how to set up and use the product
- purchases any additional required accessories from the service rep.

Save the sale
In this scenario, the customer:
- browses the selection online
- visits the store which is currently out of stock
- purchases the item in-store for home delivery
- calls the company to ask questions
- returns the item for a different colour.



Source – Multi- channel retail; Lessons learnt from US Market, Deloitte 2008

The design phase of multi-channel retail solutions often concentrates solely on the transactional dimension of the offer – e.g. what is to be ranged, how orders and payments will be managed and orders fulfilled. While this is vital, it is not enough.

Put simply, retailers need to understand what it means to be multi-channel, not just how it might look – they need to design capabilities, not just processes, infrastructure and systems functionality. For example, capability design for the above examples might include, amongst many other things:

- a description of the new skills required in the marketing department to support the call centre with scripts that maximise cross-sell and up-sell across channels
- the specific capabilities required of logistics service providers undertaking direct to consumer deliveries
- the knowledge and skills store team members need to have around the online or mobile offerings
- the ways in which finance will measure, manage and report revenue reallocations across channels or a description of how the demand forecasting processes need to change to incorporate demand from new channels.

The technology and systems implications of this can be significant. For example, the integration of inventory and ordering, maintaining consistent pricing and customer history analytics. In failing to think through the required capabilities, retailers are delivering pieces of the solution but not the glue to hold them together profitably.

Business cases which are under-cooked or over-blown

In a trial and error, low investment scenario, the business case for multi-channel retail often amounts to little more than 'give us some seed funding and we'll prove we can trade online and not cannibalise store sales'. This approach relegates the initiative to the realm of a 'hobby' project in which the business never gets to understand the full potential of multi-channel or its true cost to develop.

Conversely, many multi-channel business cases use extrapolated (often US-generated) projections for online sales in which stellar top line growth is used to justify any cost to develop. Even if successful in pulling the necessary seed funding from the Chief Financial Officer, these business cases set unrealistic expectations which are not met in early results and never truly pass the 'sniff test' of key internal stakeholders, who then passively resist throughout.

Without visibility, the true 'seamless, cross-channel' experience is comprimised

One of the most significant and challenging capabilities, which forms the very foundation of a mature multi-channel model, is having cross-channel visibility of order, customer, inventory and price and promotions. Without this visibility, the true 'seamless, cross-channel' experience is compromised.

How can these traps be avoided?

In Deloitte's experience, the following six approaches can help retailers avoid the common traps and achieve a successful multi-channel retail approach:

1. Manage multi-channel retail as a 'whole of business' initiative
Getting the entire executive team to agree to act as the sponsorship group reflects the fundamental nature of multi-channel. It sends a message that you are serious and avoids multi-channel retail being seen as a silo.

2. Get educated about the experience (your customers will help you)
It pays to do detailed research among your customer base about how they are already engaging across channels elsewhere and what would be likely to enhance their experience (and increase their propensity to buy). Ask them who they are trading with and why, and how they wish you traded with them. Finally take the time to browse yourself, call a helpdesk or two and maybe even give the Board a shopping list to complete requiring them to engage across channels.

3. Regard multi-channel retail not as a new strategy, but an extension of current strategy
A retailer's corporate strategy is about its brand and position in the market. Multi-channel retail is not about changing that strategy, e.g. it is not about moving from being a discount fashion retailer to an upmarket retailer. Your strategy is your strategy. Multi-channel retail simply helps you to execute on your strategy in a way that is consistent with your customers' wants and needs. Retailers are best served by taking the key strategic elements (branding, market positioning, range and service differentiators) into the multi-channel retail approach.

4. Take a capability view (make it real)
Build a multi-channel retail capability model for all functions as part of the strategic design process. This model should be at a level below the operating model design but above the process, systems and organisational design layer. This helps to translate strategic vision into actionable change.

5. Create 'line of sight' to incremental value
When talking to clients about why their customers might shop online, reasons frequently given include physical distance from stores, lack of time and ability to access extended ranges – all of which point strongly toward these sales being genuinely incremental. The revenue line in your business case should be founded on a view of how your customers will engage – i.e. how they will transact across channels, what is driving them to engage in this way and what the revenue implications are. This boils down to new customers, new products or revenue streams, increasing spend propensity from existing customers or increased margin opportunities on existing products/services. Look at your customer research for evidence of the type of feedback above – pointers to incremental value in these categories.

6. Don't dabble, but don't overreach – long-term value is delivered in a series of meaningful but manageable steps
Conceive a series of interim states between the current and desired future state. A reasonable starting point for the 'conditions' around each state could be:

- improving the customer's perception of you and your offer through a better experience
- delivering the future state in a timescale that maintains the pace of innovation for your customers whilst giving the business time to evolve new capabilities (perhaps 9–15 months between major states)
- ensuring the majority of processes, systems and organisational elements are there for the long term – this minimises investment in temporary solutions
- developing a positive investment case which stands on its own, without reference to other states.

Conclusion

Australian retailers can see the benefits of making the journey to multi-channel retailing, however, in many cases they lack a roadmap to guide them around the twin obstacles of lack of available funds and the operational and technical complexity of multi-channel retailing

An enterprise-wide capability-based strategic design, backed up by a realistic business case provides an effective roadmap. Building this roadmap may take just a few weeks. What matters is its quality. It must be well thought-through, based on the voice of the customer and embraced by all business functions. Without it, Australian retailers will either fail to start the journey and lose out to local and overseas competitors, or continue to stumble along, learning the hard way.

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