

The Journey Toward Omni-Channel Retailing¹

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It's hardly news that several years of price deflation and intense competition have left traditional bricks-and-mortar retailers reeling—in the UK, in Europe, and across the Atlantic.

Here in the UK, once-iconic retailers such as HMV, Woolworths, Austin Reed, BHS, and La Senza are no more. In the United States, the country's Chapter 11 bankruptcy law prolongs the agony, but equally iconic names such as J.C. Penney, Macy's, Sear's, Aeropostale, and KMart are engaged in wholesale retrenchment.

To blame—well, a varied list of causal factors ranging from over-expansion and poor management, to changing consumer tastes and expectations. But high on anyone's list is the rise of online shopping, as consumers switch to e-commerce for a growing proportion of their spend.

In the UK, for instance, online retail sales are expected to reach £126 billion in 2016, according to the IMRG Capgemini online sales index. And while bricks-and-mortar retailers these days count even tiny positive growth rates as a success, online sales just soar. That £126 billion, for instance, is up 11% from 2015's figure.

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Hence the rise of what's known as *omni-channel retailing*: a (hopefully) seamless fusion of all that's best in the combined worlds of e-commerce and bricks-and-mortar retailing.

In its simplest form, a consumer might browse a Tesco e-store online, for instance, and have their purchase delivered (free) to their local Tesco store, using the company's Click+Collect service. Or, alternatively, a consumer might buy online, have the purchase delivered to their home—but using their nearest store to return it (free), if it proved faulty. Additional layers of complexity might involve social media monitoring, e-mail, and call centres, or using a physical store to inspect a product, while choosing to purchase it online and have it delivered to a consumer's home.

In each case, the idea is for the retailer to present one seamless face to the consumer, with a brand, range, fulfilment and returns service that stretches agily across the online and physical world, leveraging the best of both to provide an omni-channel offering that is better than either the physical or online world in isolation.

[subhead] Deceptively complex

That's the theory, anyway. In practice, omni-channel retailing is tantalisingly difficult to achieve, requiring retailers' merchandising, marketing, customer service, and supply chain functions to not only think and act *differently*, but think and act *together*.

So, while an effective omni-channel retail operation is better than either a physical or online operation on their own, the converse applies in the case of an *ineffective* omni-channel operation: it can be worse than either a physical or online operation on their own.

Moreover, omni-channel retailing requires a *vision* and a change of *culture* that the traditional bricks-and-mortar retail managers who comprise the senior leadership of most retailers can find difficult to grasp—and, especially, deliver both effectively and profitably.

America's Walmart, for instance, has been mocked for a supposedly improved 'click and collect' service that majored on nothing more than better instore signage to locate the collection point, and developing a smartphone app for identification purposes.

"Walmart's online and mobile teams aren't ever given free rein," complained longstanding Walmart watcher Evan Schuman. "Sure, they can dream up great products and services for generating the most revenue and profits for online sales. But, it seems, they absolutely are not allowed to do anything that would truly threaten in-store revenue and profits. Result: those services never go nearly far enough. Walmart's top bean-counters never forget on which side their bread is buttered."

[subhead] Required: a framework

So in the face of ever-advancing 'pure online' retailing, omni-channel looks to be the future of physical retailing, offering not only a chance of survival, but of profitable survival, to boot.

But how to square this awkward circle? The blunt answer is that no one knows. Omni-channel is simply too new, with too little by way of a theoretical framework to guide effective omni-channel thinking by retailers. What academic papers that do exist on the

subject date from comparatively recently—chiefly 2015 and 2016, for instance.

At Cranfield School of Management, we have been undertaking our own research into the omni-channel phenomenon, with the objective of developing a conceptual framework capable of addressing two key questions. First, what are the main elements of an effective omni-channel system? And second, how can they be operationalised and integrated in order to actually create that effective omni-channel system?

The research was based on three different sources of insight: business literature, in which the latest omni-channel ideas, plans, and actions are shared; academic literature relevant to the omni-channel concept; and finally secondary data reflecting the operations and performance of the major retailers in the UK, which comprises a leading market for omni-channel retailing and its supply chains.

[subhead] 3 elements of channel: buying process, medium and provider

To develop a holistic conceptual framework for omni-channel systems, the emphasis needs to shift from marketing-based descriptions to more operational explanations. Critically, this approach can help to represent the elements of omni-channel retailing.

Drawing on what literature there is, it is possible to distinguish three elements in omni-channel systems. Understanding different elements of omni-channel retailing eases the application of multiple channels in each dimension. Usefully, it also facilitates the identification of the integration requirements both within and between elements, a

necessary step in the journey towards achieving total omni-channel retailing.

The first element is the customer buying process that a particular end-to-end omni-channel transaction has reached—eg, pre-purchase, purchase, delivery, and return. The second is the medium via which a product or service is delivered to consumers at each stage of their overall interaction with a retailer. Finally, the third element is the provider, owner or manager of the channel who provides the product or service—a retailer, manufacturer, payment processor, or logistics provider, for instance.

[INSERT FIGURE 1 HERE?]

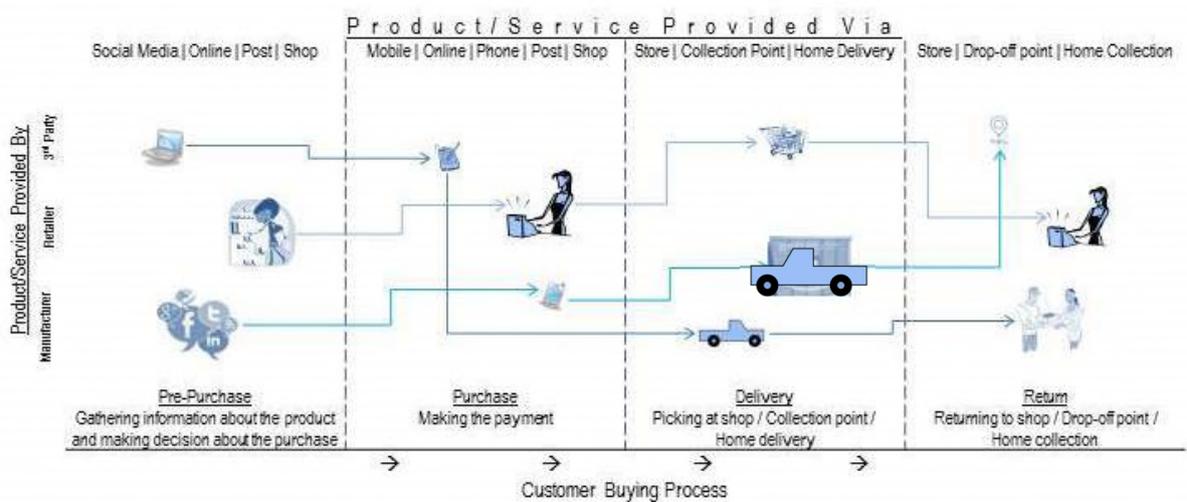


Figure 1 illustrates just such a multi-element framework for omni-channel retailing. The customer buying process is reflected in four main steps, as illustrated in the bottom of the figure: pre-purchase, purchase, delivery, and return. In each step, products or services are

provided via a number of mediums, as shown in top of the figure. Finally, providers of products and services are shown in the left-hand side of the graph, and indicate the main players (i.e. manufacturer, retailer, and third-party) in the customer's buying process.

[subhead] The important of integration

It is obvious that ideally, customers should be able to switch seamlessly between an omni-channel system's buying process steps, mediums and providers. Less obvious, perhaps, is the requirement this places on *integration* within and between each of the three elements.

Data integration, in the form of product, payment, delivery and return information should be visible throughout the omni-channel system, for instance. Changes and updates of product information should also be synchronised across all three elements. Moreover, data should be shareable and reusable, ensuring that data concerning products, consumers, orders, payments, deliveries returns, and inventory, is accurate, up-to-date, and consistent.

For omni-channel to really succeed, though—and especially in terms of the end customer's experience—such integration needs to go beyond the *passive*, to the *active*. *Passive integration* provides a single consistent data view within an omni-channel system; *active integration* builds on this to ensure a set of consistent actions and decisions.

It is active integration that makes the flow of material within and between channels possible, improves resource utilisation, and avoids conflicts between channels. As a result,

integration improves the consumer experience of omni-channel retailing by providing a higher variety of products and services, and makes the consumer more loyal to the company or brand.

Moreover, it is active integration that makes it possible to explore the synergies achieved through integration across channels. This might include, for instance, sharing market information and decisions, leveraging resources and physical assets, cross-channel promotions, cross channel consumer interaction, and wider product and price comparisons.

Once again, it is possible to conceive of three distinct types of integration, corresponding to the three elements of the omni-channel framework: integration in the buying process; integration among mediums; and integration among providers.

Integration in buying process makes the customer purchasing experience very smooth, where all product or service providers are fully aware of what happens to the consumer in earlier and later stages of the buying process.

Integration among mediums can refer to synchronised operations and decisions among them. In other words, the online, offline, and mobile channels should communicate and work together properly.

Finally, providers of information and products should also be linked with each other, in order to make sure they are sending the same message, and providing the same product

and service to the consumer.

[subhead] Conclusion

There is no doubt that online shopping offers a compelling proposition. And a key part of that proposition is online retailers' ability to provide a holistic and integrated service: comparison shopping, transparent availability visibility, simple transactions, smooth fulfilment, expert aftersales support, and straightforward reverse logistics.

To compete, many traditional bricks-and-mortar retailers are transitioning to an omni-channel model, attempting to match the online retailers' holistic and integrated service with their own, through a combination of in-house and third-party capabilities.

Success is not assured: some retailers will master the transition to omni-channel; others will do so only partially. This paper has attempted to delineate a conceptual framework for both retailers and observers of retailing to describe and evaluate those disparate journeys towards omni-channel retailing.

The journey toward omni-channel retailing

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