

Omnichannel Retailing – Digital Transformation of a Medium-Sized Retailer

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Abstract

Most retailers are currently undergoing a major transformation in the process of becoming omnichannel retailers. This case addresses the challenges of an Irish company in the transition from an offline focused retailer to an omnichannel company. Building on its strong expertise in traditional offline retail, the company is aiming to establish itself as an omnichannel retailer that allows for increasing its customer base in Ireland and overseas. The case describes actual challenges along the journey, including the strategic, operational, and technological challenges. It provides an opportunity for students to discuss and understand the practical aspects of the retail transformation process and the linkage between technology and business strategy. The case enables discussions on the multiple aspects in the process of transformation towards omnichannel retail and promotes the development of innovative solutions for transferring customer experience provided in offline retail to online platforms.

Keywords

Omnichannel Retailing, Digital Retail, Digital Strategy, Channel Integration, In-Store Experience, Customer Experience, COVID-19

INTRODUCTION

The ongoing and dynamic changes in the retailing industry can be considered as a disruptive development and a transformation process into “Digital Retail”, the combination of traditional retailing with digital technologies (Hagberg *et al.*, 2016; Verhoef *et al.*, 2015; Rigby, 2011; Brynjolfsson *et al.*, 2013). Consumers utilize multiple channels, move across them during their customer journey, and expect a seamless transition among all channels (Hansen and Sia, 2015). Along with these developments, “Omnichannel Management” emerged as a new strategic approach to manage the simultaneous and synergetic interplay between channels in order to provide seamless customer experience and meet those expectations (Verhoef *et al.*, 2015; Piotrowicz and Cuthbertson, 2014; Shi, 2017). Studies show that an omnichannel approach is positively related to the retailer’s performance as, for example, omnichannel customers spend more than traditional ones (Sopadjieva *et al.*, 2017; Cao

and Li, 2015; Criteo, 2018). However, implementing an omnichannel approach to generate a seamless customer experience requires the retailer to coordinate and integrate all existing channels along various perspectives (Bijmolt *et al.*, 2019; Rigby, 2011). Especially for small and medium-sized retailers, this poses an extremely challenging task. On top of that, the dramatic impact of the COVID-19 pandemic on the retailing sector revealed the vulnerability of many retailers dealing with this exceptional situation and their insufficiency in committing to digitalization initiatives. In 2019, however, a medium-sized traditional Irish retail company started already its initiative to “Go Digital” with the ambition to become an omnichannel retailer and was confronted with difficulties in transferring its exceptional in-store experience to the web-shop environment. This case study describes these difficulties from various perspectives and demonstrates the complex task of achieving channel integration in order to provide a unique and seamless customer experience.

The teaching case is structured as follows. The next section provides general background details about recent developments in the retailing industry and insights about the Irish retail landscape. After that, the retailer’s background along with its motivation to follow a digital strategy is described. In the subsequent main section, major challenges are outlined. Concluding case questions complete the article in the last section.

BACKGROUND

The Changing Face of Retailing Industry

The retail industry is undergoing a rapid and dynamic digital transformation process. According to Gartner, global investments in retail technology has reached \$200 billion and will continue growing up to \$225 billion by 2022. This rapid growth of technologies such as Artificial Intelligence (AI), mobile technologies, augmented reality, virtual reality and the Internet of Things (IoT) is essentially changing the interplay between customers and retailers – therefore altering the retail landscape. Without a doubt, the COVID-19 pandemic has heavily accelerated the digitalization process in the industry. Drastic changes in consumer behavior force retailers to rethink their approach towards the customer as more and more transactions are shifting towards digital channels (Roggeveen and Sethuraman, 2020; Pantano *et al.*, 2020). Not only short-term needs during the crisis are required to meet but more importantly, the long-term implications need to be recognized and addressed in the course of a sustained digitalization strategy. It is expected that many new behaviors which are adopted by consumers as well as by retailers may last and even become “the new normal” (Roggeveen and Sethuraman, 2020).

Most retailers are trying to differentiate themselves from competitors by offering customers a positive shopping experience across different channels to increase customer loyalty and thus create a competitive advantage. Customer experience is a multidimensional construct which comprises

customer's cognitive, emotional, behavioral, sensorial, and social responses to a firm's offerings whether they are transactional or non-transactional in nature during the entire customer's purchase journey (Lemon and Verhoef, 2016; Mosquera *et al.*, 2017). In this respect, insufficient efforts towards the implementation of digital initiatives can result in negative customer experience and erode a firm's competitive advantage (Grover and Kohli, 2013). As the recent bankruptcies of hugely successful retailers of past such as RadioShack and Toys "R" Us and dwindling profits of many other traditional retailers expose the fact that old assumptions about customer experience are no longer valid. Also, from an objective perspective, the growing role of customer experience as a strategic non-financial goal can be considered a significant change in strategy development (Cakir *et al.*, 2019).

However, recent research highlights that the long-term success of digitalization is far more convoluted than just transforming all the physical assets to digital ones (Bharadwaj *et al.*, 2013; Ross *et al.*, 2017). The integration of multiple retail channels implies important decisions on the allocation of resources (Li *et al.*, 2017).

The Irish Retail Landscape

To drive sales, Irish retailers usually follow an active discount strategy, especially during the Christmas season, Valentine's Day, Black Friday, or Cyber Monday. For instance, 97.5 % of all online purchases on Black Friday were discounted with a reduction of up to 30% (KPMG, 2018). Furthermore, the presence of large online market players significantly affects offline retail in Ireland. In fact, 18% of Irish consumers shop less often at regular retail stores because of Amazon (PwC, 2018). Additionally, consumer expectations are rising through concepts such as free same-day delivery, return shipping, or package tracking. However, these concepts and tools can represent a huge commitment to small and medium-sized enterprises (SMEs) and affect their profitability negatively.

Today, Irish retailers are increasingly investing in new technologies and store refurbishments to create a more sophisticated customer experience and greater engagement in order to drive sales (Retail Ireland, 2018). Retailers who struggle to keep up with the dynamics run into the danger of being outplayed by their more digitalized competitors who manage to provide their customers with a better experience (Grewal *et al.*, 2009). Additionally, boundaries in the competition are vanishing since international competitors such as Amazon are entering the physical world and threatening small and medium-sized retailers.

The Retailer's Background

The retail company in the current case study was originally established over 50 years ago by the Government to help develop Irish craft makers into self-sufficient entrepreneurs and to create sustainable design jobs in Ireland. Today the company is one of the largest retailers specializing in high-

quality Irish design products with numerous stores nationwide and an e-commerce platform with over 25 000 stock keeping units (SKUs). It employs over 350 people and has a strong relationship with Irish designers and an established and loyal customer base. The firm's strength lies in quality products and strong customer experience delivery in brick and mortar stores. The product line is extensive and includes a wide range of items from fashion, knitwear to accessories, art, and others. However, the firm's main distinguishing feature compared to competitors is its outstanding in-store experience their customers get through atmospherics and interaction with knowledgeable, empathetic, and ready-to-help sales associates. The firm's key strategic direction is to be a customer-centric company that sells products in the middle range. In most categories, it competes on quality rather than price, putting customers at the heart of what the company does. According to their top management "every decision we make is based on whether it's going to add customer experience and if the customer is going to come back to us". Currently, the organization is facing drastic changes in the retail industry and is transforming and aligning resources towards an omnichannel approach, with the major goal to integrate on- and offline channels to provide a seamless experience across all channels to their customers.

ANALYSING CHALLENGES IN ALIGNING ON- AND OFFLINE CHANNELS

In 2019, the management set up a "Go Digital" initiative and defined a range of important steps and investments around channels, technology, and organizational restructuring to realize an omnichannel strategy. In this ambitious and challenging endeavor, due to its digital coverage and scalability, the web-shop represented a particularly important role. However, since its introduction in 2011, it was still considered to be behind expectations and not developing its full potential regarding sales performance – unlike the flourishing offline business. The retailer's aspiration was to become the gifting platform of choice which is interpreted as becoming "Amazon of gift shopping". However, the first strategy meetings revealed several shortcomings to overcome first in order to realize the vision.

The web-shop was characterized by a weak performance and inefficiency as it merely accounted for around 5% of the company's overall revenue but still made use of about 25% of the overall marketing budget in 2018. One of the reasons was attributed to the fact that a substantial amount of resources was invested in short-term campaigns that failed to bond customers and ensure customer retention. The performance mismatch of both channels was also evident through a significantly lower number of online repeat customers compared to offline buyers. In fact, most of the online sales the company achieved were largely generated from customers located in counties where the retailer owned physical shops. Especially, value-driven customers were prominent as online customers, underlying a discrepancy to quality- and service-driven offline customers. Moreover, online sales were over-reliant on two to three major brands. From a website metrics perspective, organic search was dominating and substantial referrals from the company's social media presence failed to appear. This indicated a weak connection to customer activities on social media. Another issue concerned the continuous downtime

of the website and issues such as product listings not being displayed. The company recently moved its website from Magento 1 to Magento 2 and was still coping with operational issues arising from the change. However, the most significant aspect the retailer was concerned about was the company's web-shop providing no experiential features as such and not being able to deliver a similar shopping experience as the company's physical shops do. The management agreed that this issue represented a major flaw in the online channel.

In this context, a problem was also the quality of product images and videos provided by the suppliers for the web-shop. The retailer could not use around 80% of the content provided by designers since they were either of poor quality and/or were inconsistent across suppliers. More importantly, the fact that many of those suppliers were setting up their own websites and selling their products directly was, in fact, a bigger concern for the management. The lack of an efficient and integrative customer relationship strategy with Irish suppliers of high-quality design products was addressed in this regard and considered another major shortcoming. The management realized early that one of the reasons the company was facing such difficulties was the fact that going digital represented an afterthought. Before the idea of following an omnichannel approach, physical store and online shop managers were judged based on the performance of the channel they were responsible for. Store managers were only looking after sales in their shops and were completely indifferent about the performance of the web store. The same applied to online managers who were focusing on their efforts on online performance.

Another difficulty the retailer was facing, concerned content personalization. The company had a lack of knowledge about its own customers and was not capable of identifying if the customer were online or in-store shoppers, whether they were frequent shoppers or the occasion and seasonal shoppers if customers were gifting shoppers or looking for something for themselves. The major reason was assumed to be the absence of a well-established practice to capture customer data and use the data stored into a database to understand clients' interests, preferences, genders, and names to establish a well-organized and advanced procedure to customer segmentation for better targeting of customers and connections with them. On top of that, the retailer did not utilize any loyalty program and email targeting system to provide precise and personalized offerings. Instead, all email sending campaigns were based on common sense on occasions like Valentine's Day or Christmas.

Interestingly, during the meetings, the management made another critical observation concerning the general lack of effort towards international exposure despite tourists representing a substantial number of customers. The missed potential in this regard was accompanied by the fact that there was no strong relationship management with tourism customers. However, sales associates play a significant role in building up and keeping a relationship with customers. With tourists who are very likely not returning to the shops, bonding is made difficult. Certainly, tourists are able to visit the web-shop anytime and anywhere.

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DISCUSSION

On the way towards an omnichannel approach, the retailer identified several key problems along the strategic, operational, technological, and structural levels. The management agreed that the online channel plays a major role in becoming omnichannel. It is designed to scale quickly, but there are no volumes to realize this. In fact, “the web-shop could be four to five times more profitable than the physical stores, once substantial sales volumes are reached.” In order to facilitate digital growth beyond physical scalability, these issues need to be resolved in the course of the retailer’s digital strategy formulation.

CASE DISCUSSION QUESTIONS

1. What are the current developments and important aspects of the retail industry?
2. What kind of challenges is the retailer confronted with while transitioning into omnichannel?
3. What main challenge do you see as critical?
4. How to characterize the retailer’s distinguishing feature in their offering?
5. What are the viable technology solutions which can help to transfer the offline experience to the online environment?
6. How should the retailer compare different technology-enabled solutions in the transformation process?
7. Are there other viable alternatives for the retailer instead of going omnichannel?

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