

Omni-Channel Vision, Cross-channel Reality: Meeting the Consumer Where They Want to Buy

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Key Takeaways

- Cross-channel brand interaction has become a must-have capability for retailers, not just a luxury
- Cross-channel is primarily about enabling consumer interaction and participation in the shopping experience—supporting technology is secondary
- Cross-channel shopping is good for stores
- Retailers have already begun building their own cross-channel futures
- Retailers will take unique technological paths as cross-channel reality eventually meets their omni-channel vision

What channel is this?

Imagine—Young-Jae, a South Korean professional, stands on the platform of a subway station. As Young-Jae glances back and forth between the station schedule and his mobile phone, a large ‘flat-screen’ catches his eye. It looks like a digital version of his neighborhood grocery store: milk, juice, bread, soda ... even the shelf height is correct.

The station’s schedule flashes: ICHON TRAIN - 2 MINUTES.

Young-Jae opens an ‘app’ on his mobile phone, logs on, and checks his shopping list. He starts scanning items on the screen. Milk, times two; bread; soda ... diet.

Young-Jae clicks *Finish and Pay*, selects *In-Store Pick-Up*, and confirms his desired store. Because he’s used his loyalty PIN, the app knows the store where he shops.

The station’s schedule flashes: ICHON TRAIN ARRIVING.

The application prompts him, *Pay Now* or *Pay At Pick-Up*. Young-Jae starts walking toward the train doors, takes a seat, and clicks, *Pay At Pick-Up*.

As the train doors close, Young-Jae’s mobile phone buzzes. It’s a text message with links to pick up instructions and a QR code he’ll use to identify himself at the store after work when he picks up his order in-store.

Now imagine you were on the same platform. You watched Young-Jae order with his mobile phone via a retailer-specific application by scanning items on the digital window. The retailer’s order management system handled the fulfillment of his transaction, and when he picks up in-store, he will pay at a typical point-of-sale terminal. Ask yourself, “What channel is this?”

What is cross-channel?

Cross-channel shopping occurs whenever a consumer moves from one channel to another during the course of a single shopping experience. Common examples include order online and pick-up in-store (click-and-pick); order in-store for home delivery; or scanning items on a mobile device then paying at the point-of-sale register.

As shopping—and the supporting technology—has evolved, so has the language used to describe it.

1 Language	1 Consumer Behavior	1 Retailer Enablement
2 Multi-channel	2 Consumers shop across different channels which function independently of one another	2 In-store, e-commerce, call-center channels function in technological and operational silos
1 Cross-channel	3 Same consumers shop across channels and perceive these channels as part of the same brand	3 In-store, e-commerce, call-center, and mobile channels are connected through integration of varying sophistication and reliability
1 Omni-channel	4 Consumer does not perceive channels at all, simply a brand	4 All channels served by common set of technology services, single set of data, and visibility beyond the individual retailer

Most retailers face a cross-channel reality and have omni-channel aspirations. Some retailers may choose to move straight to an omni-channel end-state while others will evolve through a series of cross-channel initiatives. The rate at which these aspirations become reality will be driven by technological path-dependence and by business value delivered from new cross-channel shopping behaviors.

What's at stake?

Young-Jae's shopping scenario may seem extreme, but it demonstrates the shift in how retailers and consumers interact across channels—a shift from emphasizing how retailers sell to how consumers buy. Consumer participation—not just reaction—has become the norm for brand interaction.

As e-commerce emerged, retailers often approached multi-channel shopping as an upside feature. Customers who shopped both in-store and online were measurably more valuable than either store-only or web-only consumers. Retailers could generate incremental value by inducing consumers to expand their brand interaction to multiple channels.¹

Today, the consumer controls and shapes their individual shopping experience across channels. In-store shopping sets the bar for personal service and direct product experience. E-commerce raises expectations for competitive pricing, information availability, and expansive selection. Mobile—by making browsers and 'apps' portable—has made even the smallest slices of time into opportunities for brand interaction and, potentially, into "shoppable moments."

Today's retailers face a constant battle for mind- and wallet-share even when consumers are in their store, on their website, using their app ... Or just waiting for a train.

Consumers in control

Research consistently shows that consumers worldwide embrace technology during the shopping process. Globally, this willingness to use technology has grown over the last few years.²

- Roughly three quarters of consumers are willing to use technology during the shopping process, including web, mobile, kiosk, television, and social media.
- More than four out of ten (42 percent) of consumers globally are to use two or more devices. These "instrumented" consumers have grown steadily as a percentage of the population, with no correlation to gender or income.
- One-in-four consumers is "hyper-instrumented"—willing to use three or more devices—with emerging market consumers outpacing major market consumers more than three to one.

This use of technology to shop has moved beyond the point of purchase to the entire experience from awareness and research, to purchase, taking possession, and obtaining service and support. A shopping journey prompted by an email received at home could jump to a shopping list on mobile a device, move to a kiosk describing complementary products, be paid for at a traditional checkout lane, and finally end up on Facebook or Pinterest as the consumer seeks input from product experts, friends and family, or total strangers. The retailer's brand must be visible and interactive at all of these touch-points, enabling seamless channel-hopping across devices.

Despite recent high-profile rounds of store closures and concerns about "showrooming," consumers' technology- and channel-hopping is actually *good* news for stores.

Consider mobile, which allows consumers to shop anywhere. The top three shopping uses of a mobile phone are to find a store location, compare prices across stores, or check inventory availability in-store.³

Across the purchase cycle, greater consumer use of technology to shop has been paralleled by the rising importance of the store. Globally, the store remains the number one source of product awareness and research—far ahead of digital sources such as search engines, online streaming videos, specific retailer websites, or non-digital sources such as friends and family.

Stores naturally dominate purchase completion. In spite of their continued growth, non-store channels only account for less than 5 percent of all retail spend globally.⁴ Categories such as grocery, pharmacy, and apparel—where a combination of quality, personal selection, urgency, and desire drive most purchases—remain remarkably resistant to outright disintermediation by online channels.⁵

Store-intensity also persists across research channels. Shoppers who conclude their purchases in-store include:

- > 81 percent of those who research in-store, via traditional media, or via friend-and-family
- Sixty-eight percent of those who research via retailer websites
- Sixty-one percent of those who research via search engines
- Fifty-six percent of those who research via social media
- Forty-seven percent of those who research via mobile apps

Non-store channels do remain important, often in relation to the store. While web retail sales remain in the single digits, web-influenced sales transacted in stores account for roughly half of all retail sales.⁶ Stores also “leak” shoppers to other channels. 2012 research shows that 17 percent of those who research in store conclude their purchase in a non-store channel (9 percent retailer website, 4 percent online shopping portal or auction, and 4 percent mobile.⁷) More recent joint IBM and Toshiba research shows non-store commerce most prevalent in the consumer electronics and luxury segments, while apparel, health and beauty, and grocery remain very store-intensive. At the same time, across geographies and segments (excluding grocery), interest in non-store channels is growing, with 9% of consumers saying they will shop online for their next purchase and 35% undecided.⁸

The future is already here—retailers are building it

Science fiction author William Gibson told *The Economist* in 2003, “The future is already here; it’s just not evenly distributed.” Nowhere is this statement truer than in retail.

Tesco already implemented the train station example cited above in South Korea. Adidas, Ahold, Carrefour, and John Lewis have tested similar technologies. All share the same goal: reaching the consumer on their terms, in a shoppable moment, with maximum convenience and minimum cross-channel brand confusion.

Walmart experiments actively with brand experience across channels. Smaller stores aimed at driving Walmart.com traffic appeared in southern California malls during the 2011 - 12 holiday season. Stores nationwide became points-of-payment for cash e-commerce orders during the spring of 2012—attracting many consumers who had never shopped Walmart in any channel. To drive in-store sales of zero-inventory third-party products, Walmart transformed points-of-sale in select electronics departments into ordering stations for Ticketmaster.

In-store mobile also reflects the convergence of channels. Starbucks’ in-store payment application handles **over 275,000** transactions per day.⁹ Numerous retailers, including Ahold, Carrefour, Rewe, and Tesco, offer in-store scanning on consumer mobile devices while Apple has experimented with mobile pre-ordering and has deployed in-store self-checkout via iTunes for certain purchases.

Architecting for the unknown

With no limits to cross-channel innovation in sight, several trends seem likely to continue:

- Consumers demanding a seamless, personalized experience independent of venue
- Proliferation of venues for brand interaction and commerce, both inside the store (smart-screens, payment terminals) and outside the store (Pinterest, television, smart home/shelf/closet)
- Retailers seeking technologies which make keeping pace with these demands easier, cheaper, and faster

Retailers face two paths to address cross-channel needs and eventual omni-channel migration. The first, most common path is a gradual reset of store and enterprise architecture. Store systems—particularly transactional applications such as point-of-sale, mobile, home-shop, and fuel—will leverage a single set of business logic. Enterprise systems—including loyalty, order management, and analytics—will be service-enabled on a selective basis to interact with multiple touch points in a scalable fashion (for example, dropping a web order into an in-store point-of-sale transaction). This approach avoids a “big-bang” in terms of effort and cost while gradually improving the retailer’s strategic architecture.

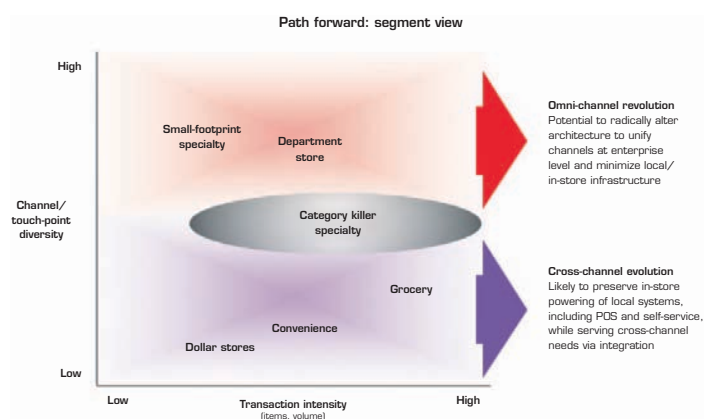
The second path involves a more fundamental change in architecture whereby all transactional systems are powered by a single set of enterprise data and services. Flexible user interfaces, powered by centralized applications, serve individual touch points. A key element of this approach is selecting the appropriate “system of record” around which the other systems will be organized. To date, order management and e-commerce have been the best candidates for this “system of record.” In particular, order management has the capacity to own an order, transaction or basket across touch-points and, in that respect, is truly omni-channel. Unlike order management, e-commerce is a touch-point in its own right and is often purpose-optimized specifically for web sales.

The path a retailer picks may be driven by typical operating characteristics of their segment.

Whichever path a retailer picks, success will involve technology adhering to three key principles¹⁰:

- Flexible support of both cross-channel and channel-specific requirements
- Support cross-channel processes beyond simply transacting (for example, in-store pick-up or cross-channel returns)
- Enable numerous types of retailer- and consumer-owned devices through a variety of deployment models

Finally, in practical terms, the technology must be sustainable, with each step on the path improving manageability while decreasing complexity.



Summary

Cross-channel brand interaction has become a must-have capability for retailers. While technology must be put in place to support cross-channel shopping—and the eventual omni-channel end-state—it matters only as an enabler of consumer interaction and participation in the shopping experience. Stores play a critical role as venues for product awareness, product research, and eventual purchase. While retailers will take very individual paths to enable cross-channel shopping and reach the omni-channel end-state, all successful paths will provide flexible, quickly deployable technology that reduces complexity and can be managed sustainably.

For more information

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- ¹ For example, see Nielsen Online's 2008 study of CVS, Walgreens, and Walmart shoppers, or more recently, RSR Research's 2010 study on cross-channel customer profitability.
- ² "Meeting the Demands of the Empowered Consumer" IBM Institute for Business Value (IBV) released January 2012.
- ³ Sterling Commerce white paper, "Cross-Channel Brand Interaction 2010 Consumer Preferences"
- ⁴ Bain & Company
- ⁵ Though not free from competition or pressure to move cross-channel, as most grocers, drugstores, and apparel retailers have realized and have responded to it with a variety of cross-channel initiatives.
- ⁶ Forrester
- ⁷ IBM Institute for Business value, as above.
- ⁸ "From Transactions to Relationships: Connecting with a Transitioning Shopper" funded by the IBM Institute for Business Value and Toshiba Global Commerce Solutions
- ⁹ Mobile Commerce Daily, "Starbuck App Surpasses 70M Transactions," October 8, 2012
- ¹⁰ See IDC's April 2012 whitepaper "Moving to Point-of-Commerce" for a more on the technological implication of the shift to cross-channel retailing.