

Omni-Channel Retailing

By James Rowell

james.rowell@buckingham.ac.uk



Abstract

Since the advent of the internet, shopping has been a key component in its commercial use and usefulness. Products and services such as books, clothing, household goods, theatre/cinema tickets and holidays were some of the original offerings. Over time the range of products and services available has been extended significantly. However in the last few years it is not the product set that is the area of dynamism, but the ways in which retailers and shoppers are using the internet to purchase goods and services. The most recent expression of this is “Omni-Channel Retailing” as coined by the John Lewis Partnership (JLP) in the UK.

Key words: Internet Shopping, Multi-Channels, Customer Benefits and Loyalty

JEL Classification: L81, L86, M31

This discussion paper explores the different channels which retailers are implementing to remain competitive in their respective markets. The paper outlines the different channels for ordering, processing and delivery, and then uses key examples from an international basis to show how different organisations are attempting to remain ahead of their competitors.

Firstly the possible channels to market using the internet as a key component of the infrastructure are described.

Model	Pre-transaction	Transaction	Post-Transaction		
			Processing	Destination	Delivery mechanism
1	Browse internet	Order	Pick from warehouse	Deliver direct to home	Courier / Postal service/ Retailer
2	Browse internet / Retail Store	Order	Pick in store	Deliver direct to home/ office/	Courier / Postal service/

				workplace	Retailer
3	Browse internet	Order	Pick in store	Collect at Retail Store	Shopper
4	Browse internet	Order	Pick from warehouse	Collect from "Click and Collect" store	Shopper
5	Browse internet	Order	Pick from warehouse	Collect from local store / Convenient location	Shopper
6	Browse in Store	Order in Store / Shopper mobile phone	Pick from warehouse	Deliver direct to home	Courier / Postal service/ Retailer
7	Browse in Public Space	Order in Public Space – mobile phone	Pick from warehouse or in store	Deliver direct to home	Courier / Postal service/ Retailer

Figure 1: Different internet shopping and delivery models

The first well-known, and still existing internet retailer is Amazon; famous originally for selling books direct to consumers. Since its inception, it has developed the range to include almost any product that consumers wish to purchase. This now includes having other companies (partners or concessions) with their own products, promoted on the Amazon website. Their model was and is still, to pick from warehouse and deliver direct (Model 1). The original advantage, in selling books in this way, is that they could promote and provide one copy of any book independent of the customer's location; in contrast to the customer's "local" bookshop. This meant they could supply to the demand, across the whole country, with relatively little stock of a very wide range of book titles.

At the turn of the 21st century grocery retailers also started to realise the possibilities for selling their products via the internet. Companies chose, broadly, one of two approaches – pick from a warehouse (Model 1) or pick from the retailer store (Model 2). Using either of these methods involved the retailer becoming once again responsible for the final delivery; using either method grocery retailers provided their own vehicles to carry out the delivery.

Why two choices?

The obvious advantage to choosing Model 2 is the significantly reduced capital investment involved in the picking stage – there is no need to construct a specialised warehouse/picking centre to support the new style of shopping. Of course at the time those original decisions were being made no one was certain if consumers wanted to shop for groceries online, in the numbers to make the facility a financially viable proposition. The additional delivery cost was either borne by the customer (e.g. £5 per delivery) or was absorbed by the retailer if the purchase order was above a certain level (e.g. £50).

On the other hand, assuming the demand was great enough, then Model 1, similar to that used by Amazon, would become viable, and probably more effective for the retailer and the shopper. This was attempted in the grocery sector by Webvan, in the US, starting 1999 but dramatically retreating from the market in 2001 (<http://www.venturenavigator.co.uk/content/153>). In the UK, Ocado starting in 2002 in the grocery sector, followed Model 1 (ocadogroup.com). However, sceptics still point to the fact that the company, even though supported by its major customer (Waitrose) has yet to publish a profit in its annual report.

Pressure for Change

These models have persisted and are still in operation in many markets.

However, with consumer and technology sophistication the models for internet shopping are changing at an increasing pace. Other drivers for these changes include the demise of some

traditional retailing sectors (e.g. recorded music – now sold predominantly via the internet) and similarly the popularity of purchasing online, e.g. electronics, computing and photographic equipment. These have alerted other retailers to the need to change / develop their proposition in the retail sector.

The New Dynamics of Internet Shopping

Even though internet shopping is perceived as a universal proposition, the details of what to do and how to, have been different in different countries.

For example in France the use of delivery to a customer's office/workplace, a variant of Model 2, has been much more prevalent than in the UK. Similarly in France the method of "Click and Collect" for grocery products has developed and advanced more rapidly too. This has led to the development of Model 4 – click and collect either from an original supermarket store ('attached'), or more recently collect from a "Click and Collect" store, dubbed - 'solo'.

In France, "Click and Collect" stores have been developed by retailers such as Leclerc Group – 169 new outlets (mostly 'solo'); and Auchan Group who have opened 85 under two brand names, all of which are 'solo' (a warehouse with collection point) (Colla and Lapoule, 2012). At these are newly constructed outlets, the customer simply drives up and has the goods placed into the car trunk or boot by the retail assistant and drives away. Therefore the customer doesn't normally get out of the car, and does not see the inside of the 'store'. For the retailer, this is obviously a more cost-effective form of outlet than the 'traditional' supermarket/ hypermarket model. An additional benefit for the retailer is the lower cost for geographic expansion.

In the UK companies such as Tesco, have developed a form of "Click and Collect" by adding additional facilities (on the outside of the store – the 'attached' format) to enable a similar operation, rather than the 'solo' format. To some extent this is not so different from the philosophical idea of choosing pick in store versus pick from a central warehouse (Model 2 vs. Model 1). It must also be recognised that in the UK Tesco has "over 2000 stores nationally" (tesco.com) and therefore already has significant geographic coverage, reducing the need to use the new model as a means of territorial expansion.

In both these scenarios the retailer is assuming a proposition of significant or bulk purchases of grocery goods in each transaction by the customer to ensure financial viability. Even so, the retailer immediately benefits as the cost of delivery is once again returned to the customer.

An example from further afield, Tesco, branded as Homeplus in South Korea, offers its customers the facility to shop online at a 'virtual store' on the subway station platform whilst waiting for their train (Model 7). Areas of the station carry images (like and Advertisement billboard) with QR codes which can be read through the shoppers smart-phone. In 'ideal' circumstances the delivery of groceries is "right after you get home" This has proved to be successful for Tesco Homeplus, it has become the Number 1 online grocery store in South Korea. (<http://www.youtube.com/watch?v=nJVoYsBym88>).

Omni-Channel Retailing

The fact that customers may purchase groceries from their preferred retailer in different ways is being exploited by many grocery retailers. Many have a range of store formats – small (local) convenience stores with limited product range and higher prices, supermarkets with a wide range of grocery goods + some non-food items (clothing, electrical goods) and larger stores/hypermarkets (very wide range of food and non-food items), in addition to their internet channel.

However, multi-channel is often seen as a non-integrated means of access to customers, they simply choose a channel that is most convenient at the time of and purpose for purchase. Now many more retailers are recognising the possibility and benefits from using the multi-channels in an integrated manner. This is why one major retailer in the UK, John Lewis Partnership, has coined the title 'Omni-Channel Retailing'.

John Lewis Partnership (JLP) is a partnership organisation, theoretically owned by its employees (known as partners), and operates a chain of Department stores (Clothing, Furniture, Household goods, Electricals etc.) under the John Lewis name; and closely associated with this, its sister organisation – Waitrose, a premium-priced grocery chain.

To support their online grocery retailing they originally adopted Model 2, using the facilities and expertise of Ocado (in whom they have a financial holding). In the last year they have instituted a number of other internet retail models – 3,5,6,7. For some time now, JLP has implemented 'click and collect' from store (Model 3). Even more recently to support a Model 5 operation they have introduced delivery to a local store (JLP or an even more local Waitrose store) dependent on the location of the customer. Further to this, they have also negotiated delivery to other stores (local to the customer) not owned by the partnership, to provide a wider geographic coverage.

Consumer Response

According to Andy Layton, Director of Multichannel Operations at the John Lewis Partnership the effect of implementing what is now known as 'Omni-Channel Retailing' has been tremendously successful for the organisation. Shoppers can now shop in-store, shop online, and then either collect at the store, have goods delivered direct to home, or collect from one of the many outlets (including JLP, Waitrose and other tie-in outlets); whichever is most convenient for the shopper.

This appears to be simply a successful implementation of multi-channel. However, statistics collected by the company show how shoppers' behaviour has been changing:

29% research in-store then shop in-store; 63% research in-store then order online. But what JLP has noticed is that shoppers buying on-line also return to the store to shop, meaning that the process of on-line shopping is driving additional purchasing in the store itself.

Further to this, shoppers are encouraged whilst in the store to order online, either at a JLP terminal or through their own smart-phone or tablet connected through free in-store Wi-Fi. The benefit seems to be that the familiarity of purchasing online is developed and encouraged with their customers. As Andy Layton states, "This increases footfall into stores" generating even more loyal, customers.

Dynamic and Competitive Environment

Earlier this year Ocado announced a licensing deal with UK-based supermarket chain Morrisons in the UK.

"London, May 17 2013: Ocado has today announced a licensing partnership with Morrisons. This licensing agreement allows Morrisons to access Ocado's technology, software and expertise to support the creation of its own online grocery shopping service" (ocadogroup.com/media, 2013).

More recent reports in the UK business press highlight this competitive issue even further – Amazon are looking to Ocado in the UK, for its skills and expertise in online grocery retailing, to create its own grocery retail business unit (Daily Telegraph, 2013). From books to baguettes, this mighty internet retailer sees business extension into the grocery sector as a profitable opportunity.

Clearly, managing these multi-channels is not easy, which is why Ocado has been searched out for its warehouse management and fulfilment capabilities. Although stock management and logistics increase the complexity of the “back office” operations in organisations, as in the John Lewis model, it is imperative for 21st century retailers to create customer benefits and loyalty in an increasingly dynamic and competitive market.

References

Colla E, Lapoule P, (2012), "E-commerce: exploring the critical success factors", International Journal of Retail & Distribution Management, Vol. 40 Iss: 11 pp. 842 – 864

Hawkes S (2013) “Amazon ‘among retailers looking at Ocado’ Daily Telegraph, UK

Layton A, (2012) Presentation at Operations Management Workshop, Roehampton University, UK

<http://www.ocadogroup.com/about-us/key-facts.aspx> accessed 24/6/2013

<http://www.ocadogroup.com/~media/Files/O/Ocado/pdf/Ocado%20to%20license%20technology%20to%20Morrisons%2017052013.pdf> accessed 18/4/2013

<http://www.tesco-careers.com/home/about-us/locations> accessed 24/6/2013

<http://www.youtube.com/watch?v=nJVoYsBym88> accessed 12/6/2013

<http://www.venturenavigator.co.uk/content/153> accessed 12/6/2013

© James Rowell 2013