

Omni-Channel Retailing: the changing battleground

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Abstract

The world of shopping is continuing to change, and the parameters for success or maintaining an advantage are also changing. There are recent and important changes in this business ecology. With new market entrants, changes in consumer behaviour, the introduction of consumer technology, Omni-channel has become even more competitive. Retailers are reviewing from marketing and operations perspective the range(s) of products made available through different channels and/or locations. Speed has become a crucial competitive factor. There is a real need to develop the operating model(s) which are attractive to their market segments and customer base, and retain their loyalty.

Key words: Omni-Channel Retailing, Pressure for Change, Customer Benefits and Loyalty

JEL Classification: L81, L86, M31

Introduction

The use of the internet for shopping has almost become ubiquitous, from books to holidays, entertainment to insurance, and none more so as in areas such as groceries, clothing and household goods.

In recent years the different channels for internet shopping have become more diverse, leading to the phrase 'Omni-channel' being coined, and emanating from the UK-based John Lewis Partnership (JLP), as reported by Rowell (2013). In that 2013 article I concluded by stating "Clearly, managing these multi-channels is not easy... it is imperative for 21st century retailers to create customer benefits and loyalty in an increasingly dynamic and competitive market".

At that time the JLP department store had already recognised the positive impact on customer behaviour, and sales through this multi-pronged access of customer to products. Andy Layton, Director of Multichannel Operations at the John Lewis Partnership (Rowell, 2013) quotes,

“Statistics collected by the company show how shoppers’ behaviour has been changing:

29% (of customers) 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.”

However, the world of shopping is continuing to change, and the parameters for success, or maintaining an advantage are also changing. This article discusses some of the most recent and important changes in this business ecology.

Omni-Channel Retailing

In simple terms ‘Omni-channel’ retailing means we (customers) can order goods however, wherever, and whenever we want, and furthermore have those goods delivered however, wherever, and whenever we want; to meet our needs at the time (See Appendix 1 for details of fulfilment models).

Companies have been providing an internet shopping experience, made famous by Amazon’s books, since the early 1990s. Major grocery stores on the other hand followed this channel from the early 2000s; very tentatively at first. They tended to use one of two methods to support the fulfilment processes; Model 1- pick from a centralised warehouse, or Model 2 – pick from a convenient existing store. (See Appendix 1).

At about the same time, in 2002, Ocado, an independent fulfilment service provider, focussed on their own operation, to support internet shopping of the grocery chain Waitrose. Their model was to pick, pack and deliver to customers’ homes from their centralised, and very sophisticated fulfilment centre. These developments were successful for some (e.g. Ocado), but not for others (e.g. Webvan in the US, Rowell (2013)).

Alternatively some grocery retailers such as Leclerc, and Auchan in France, took a third route which was to build new ‘solo’ stores (Colla and Lapoule, 2012). These ‘solo’ stores are really only a warehouse where goods are picked by the retailer; and the customer drives to it in their car to collect their goods – referred to as “Click and Collect” in the UK, or in France, ‘Click and Drive’. The additional benefit to the retailer is the ability to expand their geographic footprint with a far lower level of investment needed; whilst at the same time providing an ‘up-to-date’ service. In the UK grocery retailers such as ASDA (owned by Walmart), Tesco, Sainsbury’s, have added this ‘click and collect’ operation alongside the regular store.

To outline a schematic model for grocery shopping on the internet – a shopper logs on to the retailers website, tags the products required, pays by credit/debit card, and selects a delivery ‘slot’. The delivery slot can be made in the future, or at best the next day. The order contents may be changed (for some retailers) up to midnight the

day before delivery. Depending on the actual retailer the delivery slot is set as a 1-hour (e.g. Ocado) or 2-hour window (e.g. Tesco). In addition some delivery times are more popular than others and customers can select a convenient one for them; this will vary the delivery charge (£2 or £4-5; between 2.5 – 6 euros).

Pressure for Change

As we move into the middle 2010s how convenient it would be for retailers if the simple service of picking, packing, and delivering goods would be attractive, and satisfy their customers. However, with new market entrants, changes in consumer behaviour, the introduction of consumer technology, Omni-channel has become even more competitive.

Firstly, it is worth noting that in the UK over 70% of grocery shopping is controlled by the 4 major companies, ASDA, Morrison's, Sainsbury's and Tesco. This has been the situation for over a decade, and whilst there are other renowned grocers, e.g. Waitrose, Marks and Spencer, plus a number of 'discounters' such as Aldi and Lidl, the 'majors' have been in a fairly stable position in the market.

To explain the changes in consumer behaviour, and particularly in the grocery sector, what we find is that more and more customers are doing a "large shop" of everyday, heavy, goods via the internet each two-weeks or monthly (<http://www.bbc.co.uk/news/business-29442383>). This cuts out the need to spend lots of time in the supermarket, and removes the chore of lifting lots of 'heavy' goods. Subsequently they then "top-up" with more frequent small shopping expeditions for 'fresh' goods (e.g. fruit/vegetables, milk) on a daily/two daily basis at a local/convenience store. This has the effect of changing the shopping experience at the store, and what customers might expect to see there, and the range of products available on the shelves.

At the outset of internet shopping users accessed the internet from a PC at home, at the office, and mostly from a desktop PC; later via a laptop computer. More recently user devices have become more mobile with the introduction of tablets, and smart-phones. In particular the take-up of smart-phones has changed the way in which mobile 'phones' are used, and have almost ubiquitously become mobile computers. This enables customers to access the internet, make product/price comparisons, and order goods, independent of the user's physical location. For the retailers this has meant that they need to provide service to its customer by developing a phone 'app' suited to the screen size format of a smart-phone.

In a different way, 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. (<http://www.youtube.com/watch?v=nJVoYsBym88>). Areas of the station carry images with product QR codes which can be read by the shopper's smart-phone. In 'ideal' circumstances the delivery of groceries is "right after you get home". Before being sold by Tesco (<http://www.hl.co.uk/shares/shares->

[search-results/t/tesco-plc-ordinary-5p/share-news](#)), Tesco Homeplus had become the Number 1 online grocery store in South Korea.

From the organisations' perspective, there is recognition of these trends and a host of other competitive factors from close and distant competitor organisations. These include:

- New entrants
- Accessibility
- Delivery speed
- Loyalty mechanisms
- Product range

New entrants

Whilst not exactly new to the UK, the two German retailer discount stores, Aldi and Lidl, are finding their proposition more attractive to the general public in the UK. An interesting change that Aldi, well known for its "flash sales", made at Christmas 2014 was the proposition to offer caviar and champagne at low prices; not the usual products for a 'discounter'.

This set it on the road for an Aldi shopping bag becoming "acceptable" to carry, amongst the middle classes, thereby extending its target market. As reported by The Telegraph, almost 1 in 3 people now shop at Aldi or Lidl quoting - "and that's why you now see plenty of Audis, BMWs and Mercedes parked outside Aldi and Lidl - it's now seen as a badge of honour." <http://www.telegraph.co.uk/news/shopping-and-consumer-news/11473701/>

In 2015 Aldi and Lidl set out its plans to enter into the field of internet groceries. Aldi (in the UK) is to use the same distributor as Fortnum and Mason (a very high class retailer) for its wine deliveries. Lidl in its German market is planning to offer a limited range of products that can be collected by the customer from a lockable storage box ('Vorratsbox' in German), <http://retailanalysis.igd.com/Hub.aspx?id=117&tid=11&trid=4&nid=13938> this follows a similar launch by competitor Amazon, in Germany, under the branding of Prime Pantry.

In the UK Amazon has launched its internet home delivery offering (Amazon Fresh), but limited to only two major cities, London and Birmingham <http://retailanalysis.igd.com/Hub.aspx?id=117&tid=11&trid=4&nid=13938>. To make this choice customers need to be Amazon Prime members (£79 (105 euros) p.a. subscription) and pay a delivery charge of £6.99 (9 euros) to have goods delivered within one hour.

In the US, Amazon has been running its internet Amazon Fresh since 2006, and has been developing its capability and market presence; but Amazon is not the only non-

grocery company entering the market there. In response, in October 2015, Google announced its Google Express offering for fresh food products, and that will be competing with Amazon for grocery distribution in the major US cities by 2016.

Accessibility

The first company to explore here is Doddle, it has invested in a new infrastructure by creating independent collection locations, e.g. at Rail stations, and Metro stations; developing some 300 outlets in 2014-15. Goods, mostly clothing (initially) can be delivered to these locations from any retailer/supplier (who have an agreement with Doddle). The customers can collect, try on the new clothes, and even return them, at the same outlet. Being based at a rail station, the convenience for many customers is that it is on their regular commuting route (Dorfmann, 2014).

People shopping at John Lewis 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). This extends its geographic footprint from the 45 JLP stores (<http://www.johnlewispartnership.co.uk/about/john-lewis.html>) to add the 300 Waitrose stores (<http://www.johnlewispartnership.co.uk/about/waitrose.html>) to its collection locations, making it even more convenient for the shopper.

Sainsbury's supermarket has also attempted to increase the convenience for its customers. The company has a market share of around 16% (Kantor Worldpanel, reported <http://www.bbc.co.uk/news/business-29442383>), so a close second to ASDA in the UK. They had installed grocery collection points at London Underground (Tube) stations, but found the take-up in terms of usage could not support an on-going development of that particular method. Rather than people collecting their groceries as they exit the station, the lockers were mostly being used by people to drive to. Sainsbury's thinking that the additional cost outweighed the benefits, have dropped their plans for this expansion, to focus on 'Click and Collect' sites at existing stores.

Whilst Tesco is, by far the largest, grocery retailer in the UK market with 30% market share (Kantor Worldpanel, reported (<http://www.bbc.co.uk/news/business-29442383>)) its fortunes have recently been dented by poor financial results, and the uncovering of misreporting in the annual report. Some element of retrenching and restructuring the company has been taking place. Some overseas assets have been sold (e.g. Homeplus in South Korea; (<http://www.hl.co.uk/shares/shares-search-results/t/tesco-plc-ordinary-5p/share-news>)) and significant retrenchment in the UK market. The changes in shopping habits is making their large store format look old-fashioned, and costly to run. Their breadth of target market, very wide in previous years, is no longer working for them in the new economic environment. In a positive move they are re-arranging product on the shelving, to group products together that would be used

together (rather than by product type) – to make the shopping experience more pleasant and easier.

On the other hand, Lidl are taking advantage of the trend by shoppers to make small purchases and are opening over 280 new (small) stores in London, including affluent areas such as Chelsea and Mayfair

(<http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=14485&ecid=12670>).

As discussed above retailers are reviewing from a marketing and operations perspective the range(s) of products made available through different channels and/or locations. Examples such as Amazon in the UK, and Walmart in their US market are limiting the geographic coverage of their internet offering. Similarly the examples of Aldi and Lidl are (initially) limiting the range of products available through their different channels. Undoubtedly the product range available through the internet channel will extend as the companies find their place in the market, already Amazon has added both chilled / frozen foods to their UK listing

(<http://retailanalysis.igd.com/Hub.aspx?id=23&tid=3&nid=14378&ecid=12580>).

Delivery speed

As discussed above the typical model of shopping by internet for grocery products is “next day” delivery, or maybe you can plan in advance for a longer time period, e.g. ordering on Wednesday for a weekend delivery. But speed has become a crucial competitive factor.

In the grocery market Amazon Fresh (available to Amazon Prime subscribers) have launched their same day delivery, with the delivery allocated to within one hour of ordering. See above for the full Amazon Fresh proposition.

In a similar vein a non-grocery company, Argos, have launched their delivery service Argos “Fast Track”. Argos are a household goods store (everything from wardrobes, to lawnmowers to watches) that uses a catalogue/ website, with its traditional collect in store model. Large items could always be delivered to the customer’s home. Now with “Fast Track” for a delivery charge of £3.95 (5 euros) products can be delivered on the same day, it emphasises this, its publicity states – “*Buy before 6pm, delivered by 10pm*” (<http://www.argos.co.uk/static/ArgosPromo3/includeName/fast-track.htm?tag=ar:home:editrow1:slot2>). Until their new service was launched a customer would have only the possibility of selecting the day of delivery; and previously a delivery slot would have been anytime that day between 07.00 and 20.00.

Whilst Argos is not a grocery retailer, it does add to the competitive arena, and customer expectations are set in the public arena.

Loyalty mechanisms

Supermarkets have for many years attempted to create loyalty amongst their customers, the most significant method being a 'loyalty' card, e.g. Tesco (Clubcard), Sainsbury's (Nectar).

The most obvious example of a different form of loyalty card is that promoted by Amazon, with its Amazon Prime subscription; by holding this it enables the customer to access other superior service options not available to non-subscribers; e.g. Amazon Fresh (see above).

Recently the grocers, Waitrose, have added to their 'myWaitrose' loyalty proposition by encouraging members to "Pick your own". This new facility allows members to select 10 of their favourite products through their 'myWaitrose' account, and by doing so will receive a 20% discount on the regular price every time they buy those products.

A different form of mechanism to encourage loyalty to a particular retailer has been implemented by the French retailer Carrefour in Belgium. According to IGD, Carrefour Belgium has unveiled the Afterwork Pick-up Point at the offices of television and radio stations RTBF and VRT in Schaerbeek which house more than 3,000 workers

(<http://retailanalysis.igd.com/Hub.aspx?id=117&tid=11&trid=4&nid=13938>). "Users place orders via a dedicated website, which offers 7,500 lines including fresh daily bakery products, by 11.00 on the day required. Orders can be collected between 15.30 and 20.00".

For Carrefour this launch of 'Private Drives' in Belgium (as they are titled), and with others coming on-stream in France, its expectation is to make online shopping more convenient; and therefore translate into customer loyalty.

Product range

Over the decades the major UK supermarkets have prided themselves on providing a range of products, being able to offer products at different price/quality ranges. Amongst the very large ones, supermarkets such as Tesco and Sainsbury's differentiate their ranges with designations such as: Everyday value – Finest (Tesco); and Basics – Taste the Difference (Sainsbury's). With this they have been able to serve a breadth of market segments. In addition the major supermarkets have over the years developed the ambience of their stores to be more attractive, and provide a pleasant shopping experience.

More recently with the influx of the 'discount stores' e.g. Aldi, Lidl, the business model is changing. For them their proposition has been based on a limited range of goods, low prices and a simple operating model. Alongside this, until the current year they had little interest in developing an online presence; thinking it to be too costly and add additional complication to their operating model (Daily Mail b 2015).

As discussed above their proposition has become more and more attractive, with focussed excursions into offering product types not normally associated with the discounters. This has attracted new customer types, and has enabled Aldi to open over 40 stores in 2014, with plans to open 65 more in 2015 (Daily Mail b 2015). It is also developing its store-based product range; and it has launched itself into the internet shopping arena, albeit offering a limited range of products through this channel.

In contrast, under pressure Tesco is reducing their 90,000 item product range by one third, to refocus their market targeting and save costs (Daily Mail a 2015). Some 20,000 items will no longer be available on the shelves. At the same time it is promoting its internet shopping – home delivery and click and collect to retain its market share.

These developments are summarised in Table 1 below.

Table 1 Internet Shopping Developments in 2015

Company	Process /Focus	Details	Constraints
Aldi	Internet shopping	Wine online / using same delivery Co as Fortnum and Mason, and Waitrose	Limited product range for this channel
Amazon Fresh	Internet shopping / Same day delivery	Adding Chilled and Frozen foods to a total of 10,000 skus	London and Birmingham only. Amazon Prime £79 pa + £6.99 delivery
Argos (non-grocery)	Internet shopping	Same day delivery Nationwide distribution	£3.95 per delivery
Carrefour (Belgium)	'Private Drive'	Onsite delivery /collection point for office workers	Commercial relationship with TV and Radio company
Doddle	Independent collection stores	Collection, and return locations based at mainline train stations	Network of Retailers / Logistics companies
Lidl (Germany)	Internet shopping	Wine Tea coffee. Uses 'Vorratsbox' – storage box as a collection point	Limited product range for this channel
Google (USA)	Internet shopping / Same day delivery	Fresh foods	San Francisco only
Sainsbury's	Tube station lockers	Company is dismantling these collection points	Not used by the expected targets, so removed them
Tesco	Store layout Reduced Product range	Grouping products together by use 90,000 items reduced by one-third (minus 20,000 items)	To make shopping easier To compete more easily with Aldi /Lidl 's focussed in store product range

Source: Author

Dynamic and Competitive Environment

In the UK the grocery market has been dominated by the 4 major supermarkets with over 70% (Kantor Worldpanel, reported <http://www.bbc.co.uk/news/business-29442383>). But changes to how the market will be served is characterised by the Institute of Grocery Distribution (IGD) forecasting that the market for internet shopping of groceries in the UK alone is to double by 2019 to £17bn (12.5 million

euros); (<http://www.telegraph.co.uk/technology/google/11853317/>). With shoppers response to the economic crisis, the accessibility and sophistication of internet shopping and new entrants it is clear that it is a fiercely and divergent ecology.

New players, in the area of internet shopping for grocery products (in the UK, such as Amazon Fresh, Aldi) will have to establish their markets, and generate a customer following; whilst the existing organisations will need to adapt to changes in shopper's behaviour and continue to create benefit from their large footprint stores. All the international major supermarkets (e.g. Carrefour, Tesco, Walmart) have some very large footprint stores.

All these organisations will need to develop the operating model(s) which are attractive to their market segments and customer base, and retain their loyalty. At the same time they will need to recognise that the overall fulfilment operation (product supply, management and delivery to the customer, and the customer contact point) may be supported by external or partner companies.

As competition becomes stronger this will become an even greater challenge for their management teams.

Table of Omni-Channel Retail/Fulfilment Models

Appendix 1

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/ workplace	Courier / Postal service/ 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 or in store	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
8	Browse internet, Public Space/Mobile	Order	Pick from warehouse	Collect from convenient Independently owned location	Shopper

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