trial run
A FRACTAL ANALYTICS PRODUCT

The Role of Retail Stores in an Omnichannel World: A Transformation Journey Led by Experimentation

All roads lead to an omnichannel retail world. In an increasingly competitive market, retailers are starting to lay the foundations for omnichannel. Yet, there is a lot to be done before the retailers can harmonize all the touchpoints to their customers.

Companies have historically focused on improving operational capability, but they have so far struggled to convert this into an enhanced retail experience.

Online retail made up just 8.4% of total U.S. retail sales in 2016, and Forrester research predicts it will account for only 11% of total U.S. retail sales by 2018. As per an AT Kearney study, around two-thirds of customers shopping online use physical stores before or after the transaction. In such cases, stores are essential in converting the sale. Physical stores provide consumers a sensory experience that allows them to touch and feel the product, immerse in brand experience, and engage with sales associates who provide suggestions and reaffirm shopper enthusiasm for their new purchases. Nothing can replace these aspects of in-store shopping. This suggests that physical stores still dominate the retail landscape, and will continue to do so in the near future.

Online retail made up just **8.4%** of total U.S. retail sales in 2016.

2/3 of customers shopping online use physical stores before or after the transaction.

However, there are certain aspects of online stores that physical retailers can take inspiration from to enhance the customer experience. Prominent among those aspects is the aspect of experimentation known as A/B testing in the e-commerce space.

Retailers must test many ideas, quickly and accurately before they decide what works and what doesn't.

Retailers should innovate, start new initiatives, and bring new technology into existence to transform the store experience. Retailers must test many ideas, quickly and accurately before they decide what works and what doesn't. Those who have understood this have already started to build a culture of business experimentation within their organizations and are seeing its benefits. For those who haven't, this is the right time.

New role of the physical store

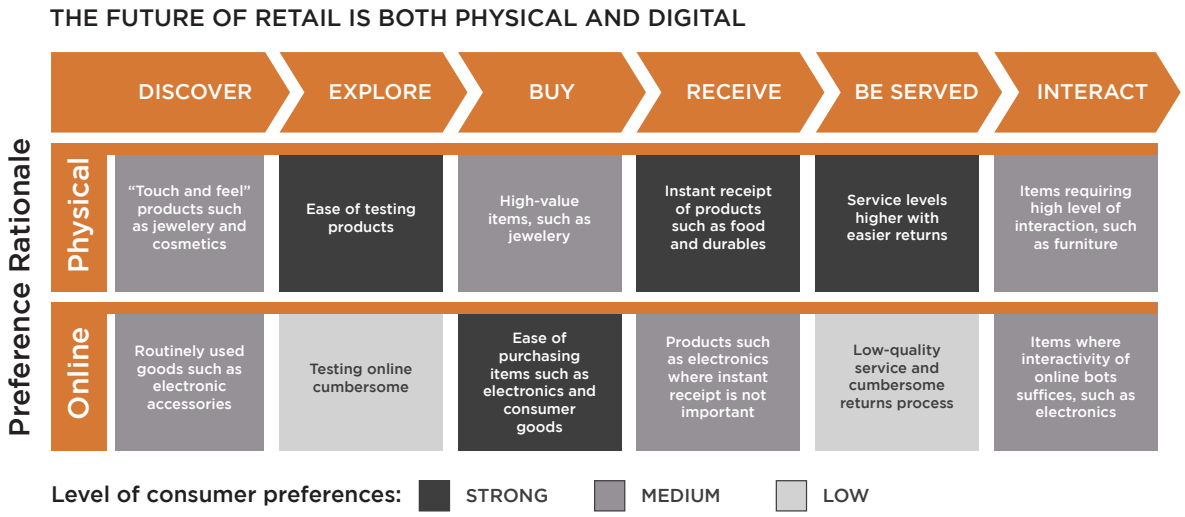
The new retailer needs to be a combination of store retail and non-store retail. Retailers need to integrate the online and offline advantages to provide a seamless experience across channels.

An indication of how the role of stores is expected to be transformed is evident in the fact that 40 percent of Best Buy's and more than 50 percent of Walmart's online sales already are picked up in stores.

According to a McKinsey Insight article, to make informed network choices, retailers must take a long-term view of their real-estate. Beyond building stores, what expansion models are available when they look for growth? How can they enable new multichannel experiences?

The new retailer needs to be a combination of store retail and non-store retail. Retailers need to integrate the online and offline advantages to provide a seamless experience across channels.

The future of retail is both physical and digital



Source: A.T. Kearney analysis

As prices and inventory availability become more transparent, retailers will not survive just by being "pass through" sellers of national brands. They will have to give consumers a reason to choose their stores over competitors.

No longer will consumers shop at a retailer simply because it happens to be where a product is distributed. Retailers will need to offer deep product expertise and a unique product education.

There are enormous possibilities where modern stores can bring new experiences to customers. The following scenarios will help paint a picture:

- Customers browsing online, locating the nearest store and purchasing from that store.
- Customers picking up the product in the store and paying online to avoid long checkout queues.
- Customer making an online purchase but returning the product at the physical store.

- Access to an in-store interactive screen where customers can browse through various products, read reviews and pick up from the shelf.
- Sensors which can understand the interest of a customer and send the data to a screen which displays relevant product information.
- Experience zones within a store that simulates the environment in which a product is designed to be used.

- In store assistants carrying mobile/tablets with information on each customer's profile and personalizing the experience for a customer.
- Personalized promotions sent directly to the customers mobile, based on the location within the store.

Some stores have already incorporated a few of the above scenarios.

Amazon Go
is pioneering the 'Just Walk Out' technology, enabling the customer to completely bypass queues.

Kate Spade Saturday and SONY
are experimenting with shoppable windows and revolutionizing the concept of window shopping.

Macy's and Waitrose
have started sending personalized recommendations and offers based on the location of the customer in the store.

Oasis
is a U.K. fashion retailer that's fusing their ecommerce site, mobile app, and brick-and-mortar stores into a simple shopping experience. If you walk into one of their stores, you'll find sales associates armed with iPads that are available to give you on-the-spot, accurate, and up-to-date product information.

The iPad also acts as a cash register, making it easy for associates to ring you up from anywhere in the store. And the cherry on top? If it appears that something is out of stock, the staff can instantly place an online order for you to have the item shipped directly to your home. This is true seamless customer experience.

For many retailers, future store layouts will need to foster greater customer learning and experimentation. Technology will need to be fully integrated into how stores and employees engage customers.

For many retailers, future store layouts will need to foster greater customer learning and experimentation. Technology will need to be fully integrated into how stores and employees engage customers. And the lines between physical and digital will have to blur.

Store transformation journey: Ask a lot of questions

It is important to note that none of the stores have adopted a big bang strategy to invest in the latest technology. Amazon Go is currently open only to Amazon employees in their Beta program. Similarly, SONY has installed shoppable windows at only one store. And rightly so. Technology adoption is a high risk, high investment venture. It is important to understand whether making a change translates to an increase in the metrics that matter, be it sales, customer engagement, footfalls, or any metric that the store decides is an objective metric.

It is important to understand whether making a change translates to an increase in the metrics that matter, be it sales, customer engagement, footfalls, or any metric that the store decides is an objective metric.

There are several customer touchpoints in the purchasing process of a product:

Modifications to these existing processes can increase the chances of a sale considerably. It is important to ask the right questions to identify which modification will be most effective.

Digital presence

Once a customer identifies a need, the next step will be to browse online for the relevant product. A considerable digital presence can go a long way in attracting the customer. For a retailer, the key is to understand which digital channels are the most effective.

Will a significant web presence lead to more views or is mobile the more effective channel? Will ads placed on other websites get those views? Are these channels an effective space for running promotions? Are these promotions resulting in additional footfalls to the store?

Once a customer identifies a need, the next step will be to browse online for the relevant product. A considerable digital presence can go a long way in attracting the customer.

Will sending personalized promotions and coupons entice the customer to the store? Or is this a privacy concern? Will adding a Google Maps plugin make it easier for the customer to reach the store, resulting in additional footfalls? The permutations and combinations are many, but incremental changes and accurate measurement will simplify many of those. Walmart has recently introduced an app that lets customer buy products online and pick them up in stores. This helps customers conveniently manage their shopping cart while maintaining their in-store experience and loyalty.

Store design

Store designs and layouts strongly influence in-store traffic patterns, shopping behavior, and the shopping experience. Understanding the cause-effect relationships here will help retail stores arrive at the optimum store design.

For example: Will changes in the exterior of the store result in more footfalls? Will a redesign of the zones within a store help customers navigate better and reach their desired products faster? Will a change in the shelf layout increase the visibility of a product, which in turn lead to an increase in sales? Why do more than half of customers, as soon as they enter the store, walk towards the beverage section despite visible promotions on packed foods? Who went without purchasing anything? What did the shoppers not buy?

Store designs and layouts strongly influence in-store traffic patterns, shopping behavior, and the shopping experience. Understanding the cause-effect relationships here will help retail stores arrive at the optimum store design.

The design of a store is also greatly influenced by the persona of its customers. The Amazon Go store, at roughly 1,800 square feet, is conveniently compact to suit the needs of its target customers: busy shoppers who want to get in and out as quickly as possible. A store which serves leisurely shoppers may want to incorporate more open spaces.

In-store assistance

Now that customers have arrived at the product location, they may want to compare different brands, specifications, and prices.

Will the presence of a screen that automatically displays the relevant information add to a positive experience? Will a store assistant, armed with behavior patterns and demographic data of that customer, make it easier for the customer to make a choice? Or is this another privacy concern? Is it feasible to add a premium on the price for the enhanced in-store experience?

Now that customers have arrived at the product location, they may want to compare different brands, specifications, and prices.

Augmented reality (AR) is touted as the next big technology in retail due to encouraging feedback from several customer surveys. However, it is not yet clear whether AR will actually increase sales. For example, will a virtual mirror that can quickly learn preferences and show customers new looks without requiring them to try out any of the products result in tangible benefits for the store? Will sales increase if the retailer rolls out an app that lets customers imagine what a pair of shoes would look like on their foot without actually trying them on?

The key here is to take one step at a time, make gradual changes, and measure each change through controlled experiments.

Store transformation journey: Find answers to questions through experimentation

Organizations have ideas and they spend an immense amount of money to execute/implement them, but very few companies succeed in the end. For any retailer, effective implementation of ideas is the key challenge. Dearth of talent, limited budget, high operational cost, and lack of technical infrastructure reduce a retailer's appetite for change. Hence, they lag in innovation.

For any retailer, effective implementation of ideas is the key challenge.

On the other hand, online players like Amazon, Best Buy, etc., frequently bring new features to lure customers.

As per Jeff Bezos, *"If you double the number of experiments you do per year you're going to double your inventiveness."*

Clearly, companies like Amazon do not hesitate to try new ideas and thrive on innovation. They also have the advantage of technical infrastructure to experiment with new ideas.

Experimentation as a concept is not new. Conventional retailers have been using some form of manual methods to try and test their ideas and it has very limited scope. But today, to transform an entire store, retailers need to bring gradual changes in the store and test them in more sophisticated and agile manner. Whether the desired change works or not, it is vitally important to gain insight on scales large enough to assess results but small enough to reduce the large investments and risks that come with full scale execution. With numerous options, factors and possibilities in play, a robust approach is necessary for testing ideas.

...today, to transform an entire store, retailers need to bring gradual changes in the store and test them in more sophisticated and agile manner.

The first step to transform the role of retail stores is to build a mechanism of testing new ideas in an agile manner. It will empower business users to increase the risk appetite, efficiently manage their budget, and evaluate their ideas to maximize ROI.

A transformation story

Store remodeling is an investment-heavy process of producing an incremental change in a store's physical design to enhance customer experience. It is very difficult to accurately predict whether a store remodeling exercise will generate returns. The best way to know this for certain is to test the change in a subset of stores and based on the assessment, make a decision on whether it should be rolled out.

A leading US retailer decided to conduct a remodeling experiment to test the effect of introducing customer experience lounges, changes in exterior signage, and upgrade in the existing lighting system to introduce smart lights.

The retailer designed an experiment to measure the impact of remodeling in select representative stores, analyzed the results by comparing with a list of similar control stores, and devised the future action plan.

The retailer designed an experiment to measure the impact of remodeling in select representative stores, analyzed the results by comparing with a list of similar control stores, and devised the future action plan.

Challenge

Quanitfy impact of remodeling

A remodeling exercise is a significant investment sometimes ranging into millions of dollars. Additionally, at times store operations need to be put on hold for few days, which impacts the sales and revenue further. The retailer had to quantify the impact accurately to decide how they wanted to make this change for any subsequent set of stores.

Solution

27 stores remodeled

The retailer decided to remodel 27 stores (to include both large and small stores) and wanted to assess its impact. These 27 stores were spread across the US. Control stores were simulated algorithmically for each test store Overall experiment could generate 6% lift in sales.

Results

22 stores generated a positive lift with few stores experiencing a lift of more than 15%

22 stores generated a positive lift. Few experienced lifts more than 15% in sales. In addition, break-even for large stores (sales greater than $10 million) was expected within 2.5 years whereas that for small stores (sales less than $5 million) was expected in 5-7 years. Based on the results, the retailer decided to prioritize remodeling for large stores.

Conclusion

The role of the retail store remains essential for today's consumers. Retailers that use technology to transform the in-store experience can capture new opportunities to create true omnichannel customer experiences. It will take innovative thinking, experimentation, and data savvy to create the seamless digital and in-store experiences of tomorrow.

As in the case of the retailer that successfully remodeled its stores, those that take an intelligent approach to experimentation, powered by measurement and data, will drive real results, while minimizing risk. The opportunity is ripe for retailers that take smart action and strive to innovate. The leaders have already started. For those that haven't, the time is now.

References

1. https://hbr.org/2011/12/the-future-of-shopping

2. http://sloanreview.mit.edu/article/competing-in-the-age-of-omnichannel-retailing/

3. http://knowledge.wharton.upenn.edu/article/omnichannel-2010-retailers-still-struggling-adapt/

4. http://www.middle-east.atkearney.com/consumer-products-retail/featured-article/-/asset_publisher/S5UkO0zy0vnu/content/getting-in-on-the-gcc-ecommerce-game

5. http://www.mckinsey.com/industries/retail/our-insights/how-retailers-can-keep-up-with-consumers

Authors

Ankit Bhardwaj – Senior Manager, Client Development, Fractal Analytics
Gourav Chugh – Product Manager, Fractal Analytics
Nachiket Sane – Product Manager, Fractal Analytics
Shivendu Mishra – Director, Product Management, Fractal Analytics

trial run
A FRACTAL ANALYTICS PRODUCT

At Trial Run, we are redefining business experimentation. Trial Run is a cloud-based product that reduces the number of uninformed decisions businesses make by making experimentation simple, scientific, and scalable. Trial Run overcomes current experimentation obstacles by making it possible to run multiple robust experiments quickly and affordably. While Trial Run is simple enough to use, our team of experts is always there to guide businesses in their experimentation journey.

Trial Run is a comprehensive software that covers the entire life-cycle of business experiments – from defining objectives to making business decisions. Our proprietary algorithm and top notch data science ensure that the results are statistically sound and impact is precisely measured to provide actionable insights. Trial Run has inbuilt capabilities to handle practical problems that experimenters commonly face when running experiments. Trial Run is an idea born from Fractal Analytics, a global leader in predictive analytics.

Trial Run helps experimenters:

Design and deploy experiments across different test sites using many different variables.

Evaluate and analyze test results and performance as compared to other experiments, historical trends and control sites.

Improve decision-making and prediction on which experiments should be turned into full-scale market roll-outs.

Ongoing experiment analyses and repository

Real benefits. Real outcomes.

With Trial Run, your organization can achieve new heights in experimentation success:

- Vastly improve the number, quality, accuracy, and speed of experiments
- Gain new, deep insights into which experiments will succeed
- Explore more options than ever before, boosting creativity and innovation
- Spend more time experimenting and learning, and less time planning and collecting data
- Create efficiency, simplicity, repeatability, scalability, and lower risk in complex experimentation environments
- Drive new sales and profitability in new business idea roll-outs

See what Trial Run can do for your experiments

Are you ready to see how your experimentations can bring more power, success, and performance to your business? Let's start a new and energetic conversation about your experimentation needs, your vision for how experiments could improve your business, and how Trial Run and our superior service model can deliver high value for you.

Learn more at www.trialrun.us

For more information, contact us at:
201 469 0600
trialrun@fractalanalytics.com

Follow us