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Rethinking the Funnel for the Omnichannel Age

Are You Ready for the Retail Revolution?

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ARE YOU READY FOR THE RETAIL REVOLUTION?

Rethinking the Funnel for the Omnichannel Age

By GUILLERMO D'ANDREA

In little more than a decade, smartphones have radically reconfigured how we socialize, engage politically, stay informed, study and consume entertainment, providing a big boost to many sectors and putting at risk those that don't keep up with the times.

People born after 1995 have never known a world without internet connectivity and mobile devices, though we are all, to some extent, part of what's being called the Mobile Generation.

This technological revolution has already left a trail of corporate corpses in its wake,

including such household names as Kodak and Nokia. Newspapers have been forced to redefine their business models. Bookstores and music stores are increasingly becoming a rarity, to be enjoyed only by the most committed bibliophiles and music purists. Television broadcasters have also had to reconsider their business models, having been forced to shift from terrestrial to cable and now live streaming.

Still, millions of photographs are published every day on social media; professional and home videos are broadcast and shared in staggering volumes; music is heard and exchanged more than ever; news is instantaneous; and virtually all forms of information and knowledge are just a click away.

How does all this affect consumers? And how can brands and businesses adapt to these changes?

Over the past few years, I have conducted several studies whose findings point to a number of strategies that would enable companies to take full advantage of this sweeping digital transformation. In this article, I highlight some defining traits of the future consumer and suggest how brands and businesses ought to be adapting to them.

The New Consumer

Consider the world today: digital entertainment is available on demand; online socializing has exploded, shrinking vast physical-distance barriers; and communication gets cheaper by the day and in some cases is even free. It should come as no surprise, then, that consumer patterns are shifting at a dizzying pace.

CONSTANTLY CONNECTED. In most places, even in the remotest corners of the world, consumers own a smart device with full 24/7 access to

news and information. From the first known webpage in 1991, the World Wide Web now hosts more than a billion websites. Since the introduction of the iPhone in 2007, more than two million mobile apps have been developed. Content has grown and devices have shrunk in both weight and size.

In 2015, Apple set another technological milestone by launching the Apple Watch, which quickly became the first-ever mass-consumed wearable device. If recent trends are any indication, the wearable revolution is almost upon us. According to Forbes, the number of wearables shipped could double by the year 2021.

More and more market players are joining the revolution. Levi's has designed a jacket with Google tech woven into it, enabling the wearer to communicate, navigate and listen to music at the touch of a sleeve. And Callaway has introduced smart sunglasses to its range of premium products for golfers, allowing wearers to get music or phone calls without missing a swing. Wearable tech will also make it easier for consumers to execute online purchases on the go.

MORE FREE TIME. The more companies automate, the more free time they open up for consumers. While automation at check-ins/check-outs or call centers may still be relatively new to us, factories, warehouses and distribution centers are near fully automated, with robotics increasingly supplanting the human workforce. The hours freed from work affords more hours for other activities.

It also raises profound questions about the possible need for a universal basic income, given that roughly half the world's jobs are at risk of being automated. Some countries are already experimenting with giving their citizens a baseline income, regardless of whether they work or not. Finland is in the middle of running a two-year pilot, giving 2,000 unemployed Finns aged 25 to 58 a guaranteed 560 euros a month, which doesn't stop even if they find work. The jury is still out on whether this could help or hinder the process of people finding alternative work arrangements or more quality time.

Cars are another area undergoing automation, transforming the hours we spend behind the wheel. Uber has agreed to buy 24,000 self-driving cars from Volvo, while numerous other carmakers are integrating Amazon's Alexa virtual assistant into their vehicles to free up not only drivers (checking fuel levels, locking or unlocking doors, starting the car and warming it up for you) but also consumers (Alexa can

EXECUTIVE SUMMARY

Wearables, self-driving cars,

AI displacing people who will spend less time working and more time searching for memorable experiences to share on social media. These trends are already triggering a seismic shift in consumer patterns toward a constantly connected and engaged omnichannel model. From his research

on retail sector trends and the challenges posed by digitization, the author offers a series of tips so that brands and businesses can adapt to the consumer of the future. As the success of firms like Zara, Mango, Uniqlo, Apple and Amazon show, the keys to survival in this new age are unforgettable customer experiences and efficiency.

Although the physical store remains a key point of contact, its importance is diminishing. Stores will have to become much more attractive places for customers to justify a visit instead of buying online.

order your shopping and have it waiting for you by the time you get home).

Meanwhile, longer life expectancy in most developed nations means there will be many more old people in good physical shape who are health-conscious and lead active, fulfilling lives for longer.

HIGHER-LEVEL SKILLS. It is becoming less and less useful to memorize dates, events and other encyclopedic information. More relevant is knowing the right questions to ask and interacting well with other people. For this reason, education systems are increasingly focusing on teaching students critical thinking and social intelligence.

As Edward D. Hess pointed out in his recent book, *Humility Is the New Smart: Rethinking Human Excellence in the Smart Machine Age*, our traditional definition of intelligence has its roots in the Industrial Revolution. But “in a new era in which technology will, in many more cases, be smarter than us,” we need a new mental model that prioritizes “higher-level human thinking and relating,” whose hallmark is openness, learning, adaptability and humility.

EXPERIENCE-FOCUSED. As people gain more disposable income, they may engage in conspicuous consumption, splashing out on flashy goods or expensive status symbols to display their new acquisitive power. However, in many advanced economies, particularly among millennials, the trend is toward socially meaningful consumption, personal improvement or wellness. People prefer to spend their hard-earned cash on an evening class or an art exhibition. It’s substance over style that matters.

IESE’s Iñigo Gallo has written extensively about the rise of experiential consumption that’s being driven by millennials. Consumers’ desire for experiences over material possessions increases the “talkability” of the product, which is highly relevant for social media. As a Harris Poll of U.S. millennials noted, “Companies that are built on experiences or have experiential components will capture

added economic value and win the hearts of consumers.”

The New Consumer Journey: From Funnel to Fish

It’s not just the consumer that’s changing; so, too, is the sales channel. Today’s consumers begin their search for products with an unclear need to satisfy. The need gradually becomes more defined as they gather more information about the different options available along their way to the purchase. Most of this journey is digital.

Traditionally, the consumer decision journey has been presented in the shape of a funnel, in which the options narrow the closer you get to the point of purchase. Now, that journey looks rather different. As soon as you express an interest and start weighing up your options, rather than narrowing down, the choice sets open up and go extremely wide, as new windows pop up or you consult different sources on different screens. The journey only closes with the purchase. However, it opens up again as you share opinions, swap stories, offer advice or give ratings about your experience online. For this reason, the market research agency Kantar has presented the new consumer journey not as a funnel but as a fish. See **Exhibit 1**.

From retailers’ point of view, they can connect with consumers through multiple points of contact, including email, physical and electronic catalogs, websites, call centers, social networks, television, computers, mobile phones, tablets and home deliveries.

Although the physical store remains one of the key points of contact, its importance is diminishing. As markets continue to adapt to technology, visiting a physical establishment will become a voluntary rather than mandatory choice. As such, stores will have to become much more attractive, interesting places for customers to justify a visit instead of buying online.

This multiplicity of contact points – called omnichannel – represents a revolution in the consumer journey that is forcing retailers to

Organizations must develop better analytical capabilities to understand customer needs while offering an attractive experience that complements the digital channel.

offer a fully integrated consumer experience so as not to be left out of the game. Joining them are the manufacturers of branded products that need to reach customers who, with each passing day, are abandoning traditional channels.

Survival Tips for the Omnichannel Environment

Where does this leave traditional stores and brands? Above all, what can they do to keep up with this rapidly changing environment?

STRENGTHEN YOUR CAPABILITIES. First, organizations must encourage their teams to develop better analytical capabilities to understand customer interests and needs, optimize their store capital and adjust their stock to meet demand – all while offering an attractive, friendly experience that complements the digital channel offerings.

THINK EXPONENTIALLY. Working through networks is one way of growing exponentially. But more than leveraging a network, companies should try to transform themselves into open, flexible, interactive organizations – or what the Canadian tech entrepreneur Salim Ismail termed “exponential organizations” in his book of the same name. Traditional companies have limited resources and tend to grow linearly. Exponential organizations, on the other hand, aren’t asset heavy but operate according to a principle of abundance. So, rather than investing in hotel rooms, Airbnb taps the abundant supply of homes for tourist accommodation. And ride-sharing platforms, rather than owning

a fleet of taxis, tap the abundant supply of drivers on the road to pick up passengers for a fee. By tapping into such abundance, exponential organizations are disrupting, disintermediating and transforming business models, sectors and industries.

MAKE THE SHOPPING EXPERIENCE UNFORGETTABLE (FOR ALL THE RIGHT REASONS). In this customer-centric environment, the quality of the shopping experience becomes all the more important. Consumers often start their journey online but finish offline with a store visit. This visit needs to be as engaging and convenient as possible; otherwise, customers will just order the product from the comfort of their own home. To make customers feel at home, the retail setting must be as stimulating and inspiring as going to the theater, a people-focused space for experimentation, observation and learning.

Ultimately, the final purchase must become the defining memory of the experience. To that end, stores have begun to complement their usual offering with social activities, such as group classes, art exhibitions, cultural talks or a party with friends.

Stores are also incorporating technologies that drastically improve the customer experience. Can’t find the exact size or color you were looking for? Just place your order on a large-screen touchpad, as Kiabi and Mango are offering in their stores. Want to see how that garment looks on you in another color without changing clothes again? Uniqlo has a “magic mirror” that lets their customers do just that, by modifying the reflection using special display technology.

Zara’s new flagship store in London combines several of these features. The store is essentially a showroom where customers try on clothes but buy them online. If the order is placed before 2 o’clock, it will be available to pick up the same day at the store of the customer’s choosing.

It is this kind of multichannel versatility that consumers ultimately want. In a world of empowered consumers, stores need to provide

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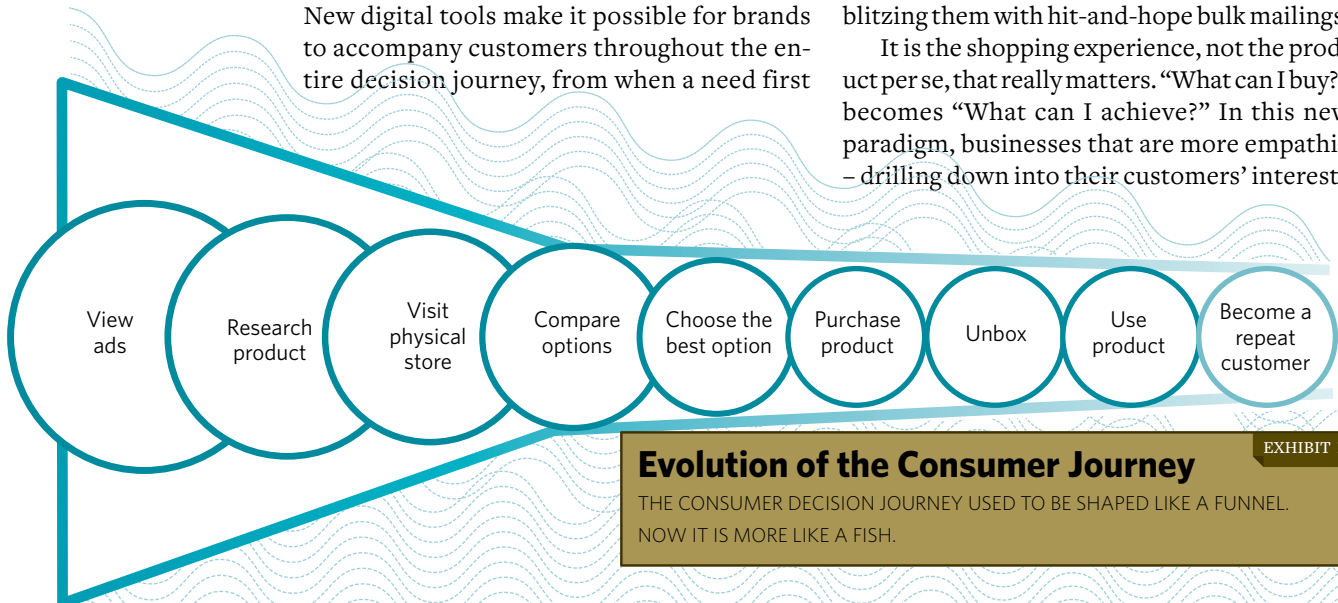
high-quality, positive service experiences at every stage of the decision journey, from the initial online search to the final physical purchase. With proper training, shop assistants can be better utilized as brand experts with deep knowledge of the products and who know which store applications are best suited to help their customers. It's no longer a question of "What can I sell you?" but rather "How can I help you achieve your goal today?"

appears, through the various phases of exploring, finding and purchasing the product, to finally complementing the purchase with related products.

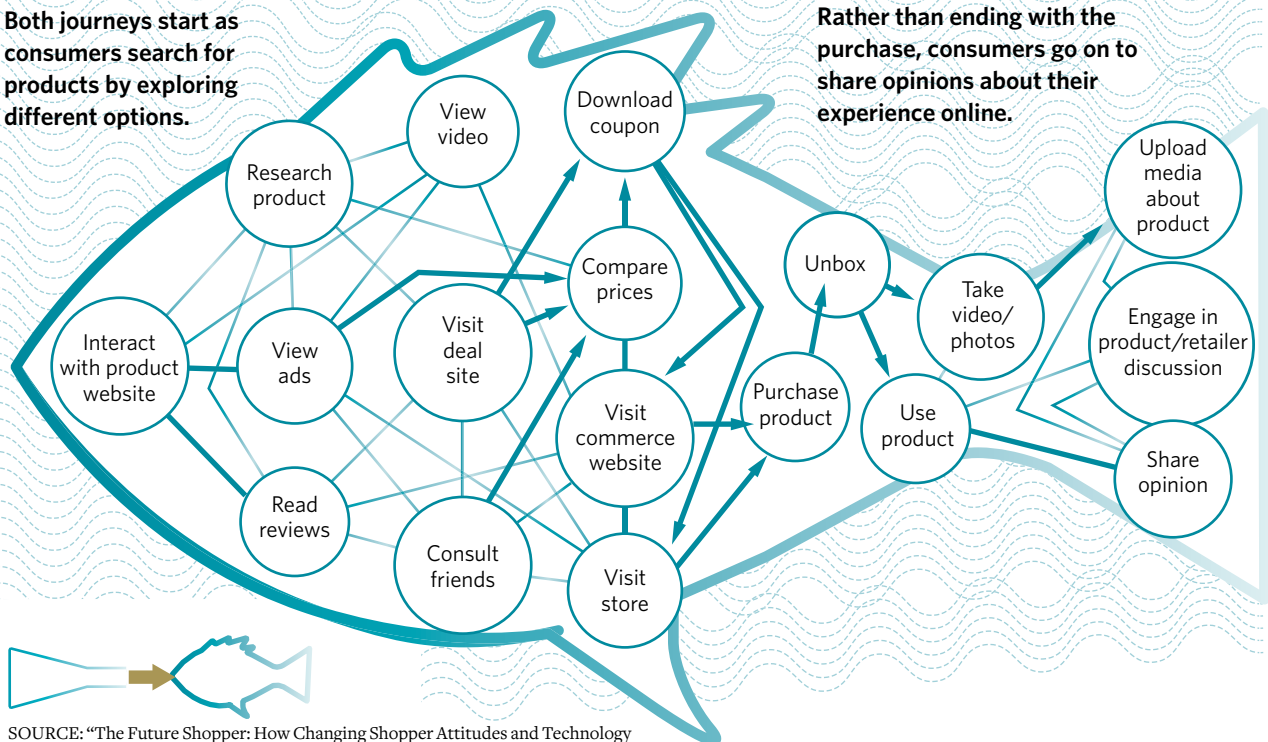
A physical presence is no longer enough. Customers expect virtual, round-the-clock attention. And the focus should be on the customer's needs, not just on scoring a sale. With people consulting their mobile phones anywhere from an average of 50 to 150 times a day (for millennials), it is far better to send your customers regular, personalized offers than blitzing them with hit-and-hope bulk mailings.

It is the shopping experience, not the product per se, that really matters. "What can I buy?" becomes "What can I achieve?" In this new paradigm, businesses that are more empathic – drilling down into their customers' interests

ACCOMPANY CUSTOMERS ON THEIR JOURNEY. New digital tools make it possible for brands to accompany customers throughout the entire decision journey, from when a need first



Both journeys start as consumers search for products by exploring different options.



Rather than ending with the purchase, consumers go on to share opinions about their experience online.

SOURCE: "The Future Shopper: How Changing Shopper Attitudes and Technology Are Reshaping Retail" by Lloyd Burdett, J. Walker Smith, Andrew Curry, Bryan Gildenberg and Steve Mader © 2013 The Futures Company/Kantar Retail.

Companies need to strengthen their “retail brain.” Thanks to artificial intelligence, it’s now possible to see beyond the store’s walls and incorporate data from online and offline channels being used by customers.

and needs, and doing everything they can to satisfy them – will be better positioned to shift from a B2C to a C2B model. By doing so, they will reap huge competitive advantages and sustainability benefits.

PRIORITIZE EFFICIENCY. All of the above requires a substantial financial commitment. Price transparency and employees working fewer hours will squeeze revenues and margins. In such an environment, efficiency becomes key. It’s no coincidence that Zara, H&M, Uniqlo, Starbucks, Ikea and Walmart are global leaders for their disciplined approach to process efficiencies that likewise generate value for customers.

As such, comprehensive, flexible planning is an obligation, not an optional extra. The goal should be three-pronged: optimize inventory management; cover growing operating costs; and improve cash flows. With regard to stocks, make the most of hot sellers and “hook” products, enhance low-turnover products, and use low-margin, low-volume products to introduce new features that make the store visit more attractive for customers.

Encourage continuous improvement, such as regularly exchanging best practices, empowering individual stores, and aligning the firm’s operations with its logistics, supply and brand strategies. Instead of trying to play hard ball or squeeze suppliers and manufacturers, retailers will have to work much more closely with them to generate a superior shopping experience.

Companies need to strengthen their “retail brain” – the IT systems that help managers track what’s happening in their stores and anticipate future demand. Thanks to artificial intelligence, it’s now possible to see beyond the store’s walls and incorporate data from online and offline channels being used by customers. The end result is a more nuanced understanding of customers’ interests and behavior, making it possible to offer a more tailored customer experience.

Another key component in the efficiency equation is logistics. From the agile design of Zara’s “fast fashion” operations to the

sophisticated processes of online behemoths like Amazon or Alibaba, logistics plays a pivotal role in on-time delivery for customers, the optimal movement of inventories, cost reductions, and the maximization of turnover and cash flow. By fine-tuning and streamlining your logistics, you can offer more attractive prices while at the same time providing a better overall shopping experience. It’s arguably the most important factor behind the spectacular growth of distribution firms.

In short, we are witnessing the formation of a radically different consumer reality, brimming with opportunities, threats and challenges for both retailers and distributors alike. The good news is that, for some time now, the markets have been signaling the way with greater clarity. They also provide the necessary tools – namely technological ones – to ensure that we all join the sprint from the same starting line. In that sense, the future of retail is already here. □

■ TO KNOW MORE

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