

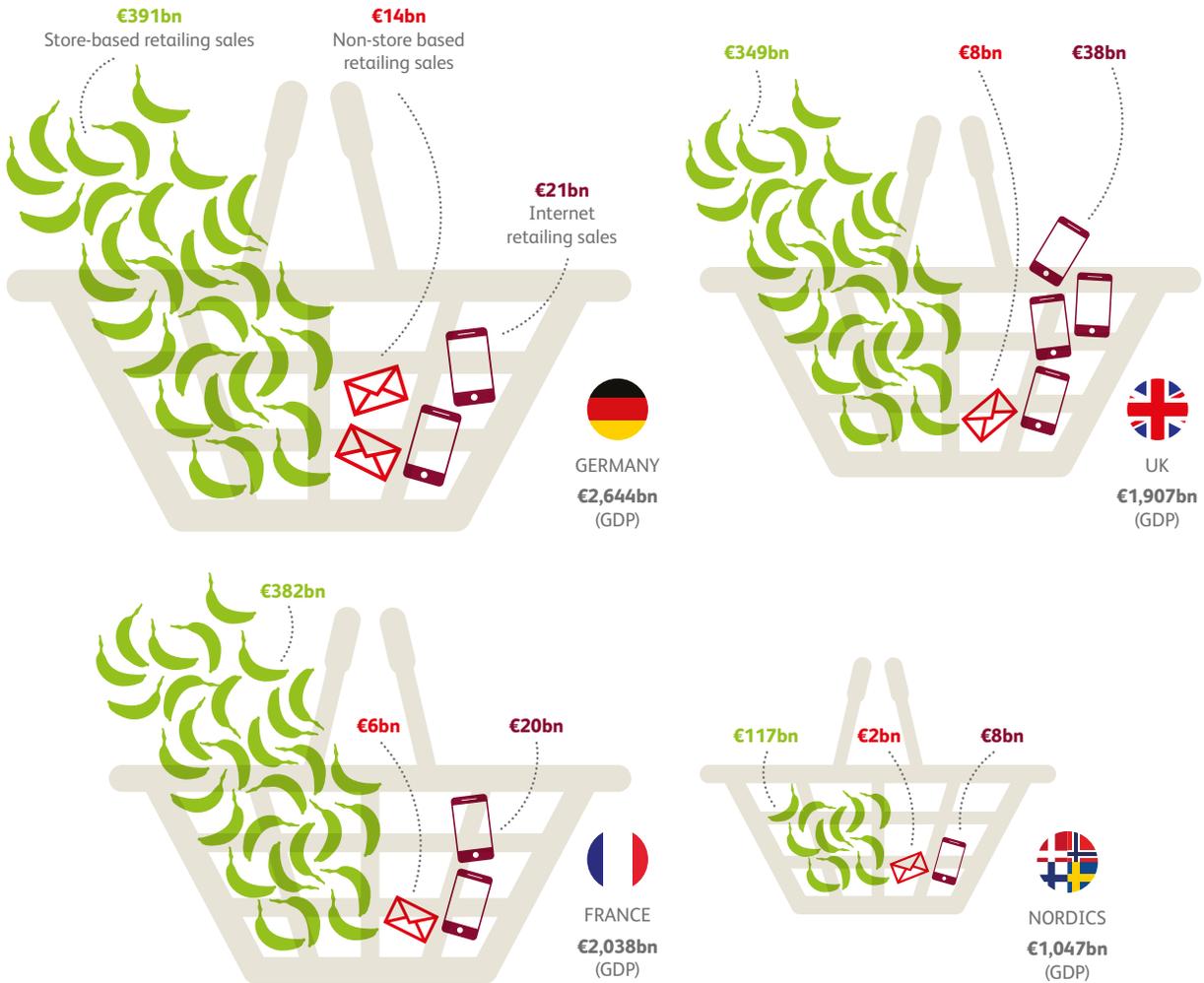
# Can cross-channel offer Europe's retailers a more certain future?

Our survey shows cross-channel commerce is a priority for retailers, yet adoption is slow; we detail the strategy options available to them to avoid the 'race to the bottom'



## Britain keeps on spending ...

The German retail market is the largest by volume. The UK, however, is the largest both as a proportion of GDP as well as in absolute e-commerce figures



Source: IIHD Research, Euromonitor, Statista, ECB, IMF

### ... Germans stay frugal ...

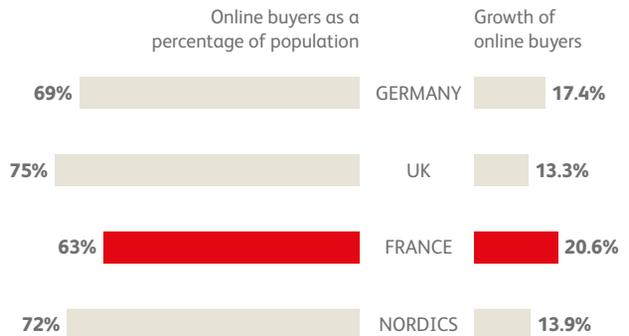
In 2012 selling space productivity in Germany was more than 20% lower than in other European countries



Source: IIHD Research, Euromonitor

### ... while France is yet to 'click'

France exhibits the lowest share of online buyers (63%), whereas the projected growth of online buyers is by far the highest (21%)



Source: IIHD Research, Forrester Research Inc.

# Can cross-channel commerce offer Europe's retailers a more certain future?

Based on extensive research across Europe we look at how retailers can integrate the best of physical, online and other channels for cross-channel success

## The retail 'race to the bottom'

Europe's retailers have not had an easy time over the past five years:

- Figures from Eurostat, the statistical office of the European Union, show a 9% fall in retail sales in the euro area since 2007; the sales index in March 2013 was down by 2.4% compared to one year before.<sup>1</sup>
- In April 2013 even retail giants were struggling, Tesco PLC announced a 51.5% slump in profits and Carrefour SA posted a 1.3% drop in quarterly sales.<sup>2</sup>
- More than 1,400 shops closed in the UK between the end of 2012 and the start of 2013<sup>3</sup>, including high-profile companies HMV and Blockbuster. Meanwhile, prime location retail rents in major cities across the continent are at their lowest levels since 2008.<sup>4</sup>

The economic downturn<sup>5</sup> is not the only factor, as changing customer behaviours and the rise of minimal-margin internet commerce have all put pressure on traditional retail. From the bricks-and-

mortar models of the last millennium, consumers are now familiar with online purchasing; meanwhile mobile devices, smartphones, tablets and television sets are becoming 'store fronts' in their own right. Indeed, online e-commerce is one of the few areas that has shown growth – by an estimated 16% in 2012, according to the Centre for Retail Research.<sup>6</sup>

One response to shrinking margins is a combination of over-expansion and efficiency savings, potentially undermining the shopping experience as less money is spent on presentation or customer service. Many companies have tried such a 'race to the bottom' approach, to their eventual demise – such as UK retailer Woolworths, which began closing its 800 stores in November 2008, having been beaten by more aggressive brands such as Poundland and Aldi. 'The harsh truth is that you can't run a business on nostalgia,' said one commentator.<sup>7</sup>

So, is the only alternative to shut up shop and turn the high street over to housing?<sup>8</sup> Far from it – retailers are facing an inflection point in how they manage customer engagement, and deliver

As today's customers demand increasingly more from retailers, their experience with Honda UK needs to accurately and consistently match their expectations. This applies to each and every one of our interactions and communications – from online, phone and digital, through to their physical visits to the car showroom and aftersales care. It's important to present a unified message across all of these channels, whilst treating the customer as an individual in order to build positive and long-lasting relationships with them.<sup>11</sup>

**MICK DOYLE, RETAIL EXPERIENCE MANAGER, HONDA**

products and services. The key is to work across all channels simultaneously – termed 'cross-channel commerce', which binds together traditional and new retail models. For example, a customer may browse for products online, while checking their availability at a local store.

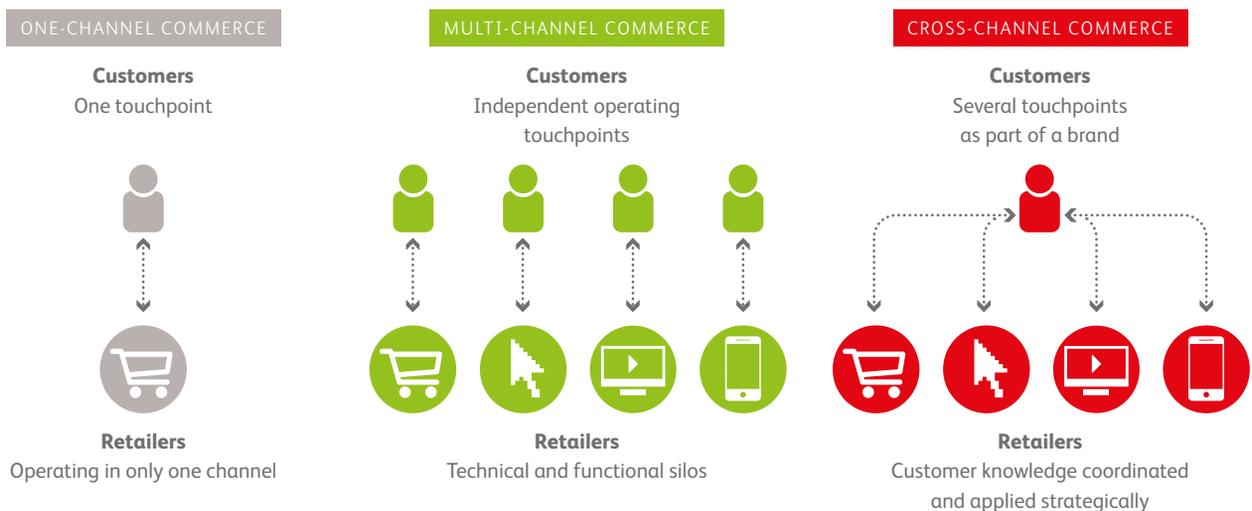
Alternatively a customer could scan a bar code on an in-store product to download additional product information, potentially then ordering an alternative online.

We define cross-channel commerce as the integration of retail systems, processes and technologies, online and offline, in such a way that the customer experience is seamless and consistent across all channels. This is achieved by systematically gathering customer information and apply the insights gained strategically. Even newcomers to the market see the continued role of the physical store within a cross-channel future, as Apple, Microsoft and now even Google illustrate.<sup>9</sup> For traditional retailers, such scenarios can represent a significant amount of work however. For many retailers, the result can be a significant gap between vision and reality.

*We define cross-channel commerce as the integration of retail systems, processes and technologies, online and offline, in such a way that the customer experience is seamless and consistent across all channels*

**Figure 1: Cross-channel enables retailers to exploit multiple touch points with the consumer**

Moving to cross-channel commerce implies integrating customer insights to redefine market processes



Source: BearingPoint

Online e-commerce is one of the few areas that has shown growth – by an estimated 16% in 2012, according to the Centre for Retail Research

# 16%

To understand the state of play of cross-channel commerce in Europe, we conducted an extensive study of more than 100 senior executives and strategists working in the European retail sector.<sup>10</sup> By doing so we have not only assessed the size of the gap between retailers' aspirations and their current situations, but also identified some starting points for success.

In this increasingly cutthroat market, retailers that succeed in delivering on the promise of cross-channel commerce might not only find the key to their own survival, but could also benefit from an increasingly promising future.

## Cross-channel commerce provides a solution – in principle

Cross-channel commerce not only includes being able to coordinate and apply customer knowledge strategically to business and management processes,

but it also allows the presentation of a single view of the retailer from several touchpoints under a recognised brand – whether a consumer is buying a product online, or on a mobile device, or over the telephone or in a physical store. As figure 1 shows, there is more to cross-channel commerce than simply running multiple channels independently.

Whereas multichannel was merely defined as having multiple, independent channels to market, at the heart of cross-channel commerce there are principles of integration and coordination. These do not just go across different facets of customer interaction and engagement, but also other dimensions – inventory management, order management and fulfilment, and the organisational structures of the retail business.

The benefits of cross-channel approaches cover both customer experience and business operations, as shown in figure 2.<sup>12/13</sup>

Figure 2: Cross-channel benefits



### Customer experience benefits

- Increased customer loyalty and brand awareness
- Improved user experience, potentially through customisation
- More consistent communications across different channels (e.g. news about price, improved functionality)
- Innovation opportunities in functionality and services (e.g. 'internet of things': connected retail)



### Business operations benefits

- Increased efficiency and productivity, reduced costs and increased visibility
- Better decision-making and forward-planning
- Synergy effects
- Economies of scale

Source: BearingPoint

## Cross-channel integration requires bringing together a number of activities and disciplines, each of which has traditionally been treated independently

The idea of integration across processes, structures and mechanisms is not particularly new. As early as 1957, for example, Walt Disney Corporation proposed linking all of its product lines and delivery channels – that is, connecting television, film and music with merchandise, books and magazines and, of course, Disneyland – to create a unified experience and to minimise duplication of effort.<sup>14</sup> Figure 3 below shows how cross-channel retail maps on to the tasks and processes, the organisation and incentive structures, and the systems and technologies in place at the retail organisation.

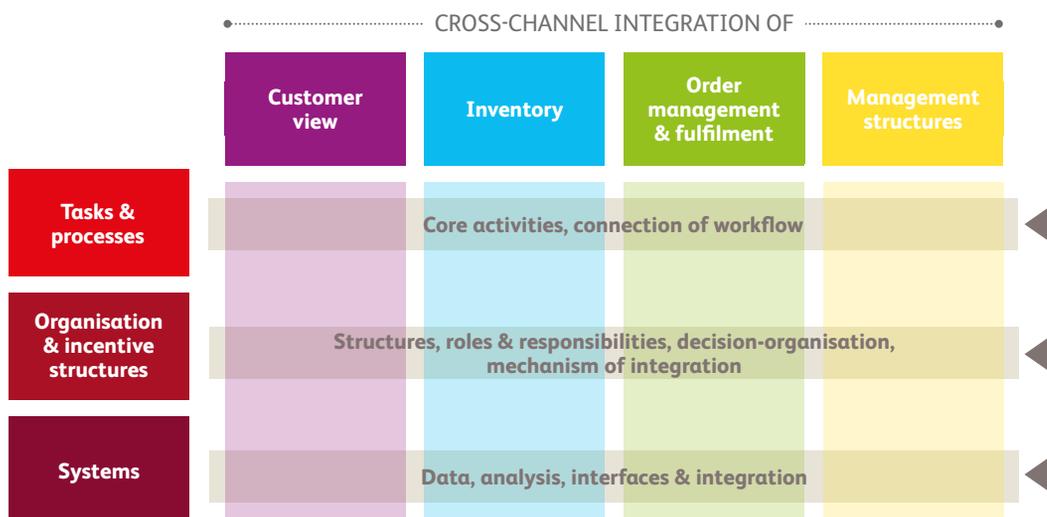
Understandably, almost half of the organisations that participated in the BearingPoint study (47%) view cross-channel commerce as a board-level priority. All the same however, the benefits of cross-channel are not always straightforward to achieve: as we shall see in the next section, the common-sense nature of the principles does not make their practical implementation any easier.

### The state of play in cross-channel commerce

In principle, organisations prepared to commit to cross-channel commerce can get ahead of the competition by increasing their reach at the same time as improving efficiency. This is not as simple as it sounds, given the complexities inherent in the retail business model.

Cross-channel integration requires bringing together a number of activities and disciplines, each of which has traditionally been treated independently (see figure 5). The amount of potential integration illustrates the scale of the problem: it is clearly not possible to address all of these areas without significant change to the business.

Figure 3: Cross-channel should be fully integrated across organisational activities



47% view cross-channel commerce as a board-level priority

# 47%

The BearingPoint survey shows that cross-channel commerce is not simply a case of superimposing a new business model on to existing channels if it doesn't fit the existing culture, structure and approach of an organisation.

We can review the research in terms of various elements of the retail model, starting with the existence of a cross-channel commerce strategy – or otherwise (see figure 4).

**Figure 4: Cross-channel needs and corporate strategy are intertwined**

Information flows driving the processes of supplier and customer management



Source: BearingPoint

**Figure 5: The scope of cross-channel integration is wide**

Customer information	Inventory	Order management and fulfilment	Management structures
<ul style="list-style-type: none"> <li>• Cross-channel fulfilment structures</li> <li>• Aligned price and assortment policy</li> <li>• Consistent customer segmentation</li> <li>• Access to customer information in retail stores</li> </ul>	<ul style="list-style-type: none"> <li>• Broad range of order/pick-up/delivery options</li> <li>• Synchronised inventory information</li> <li>• Hybrid sales management</li> <li>• Return forecasts are integrated via all channels</li> </ul>	<ul style="list-style-type: none"> <li>• Central purchase organisation</li> <li>• Cross-channel open-to-buy (OTB) management</li> <li>• Product availabilities, order status, delivery times</li> <li>• Integrated planning across all channels</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptation of organisational structures</li> <li>• Alignment of incentives structures to cross-channel strategy</li> <li>• Integrated IT landscape – defined interfaces</li> </ul>

Source: BearingPoint

## Cross-channel strategy is lacking



Despite the high level of importance being assigned to cross-channel, we found that this priority didn't translate into top-level business strategy for many retailers. Indeed, the BearingPoint survey

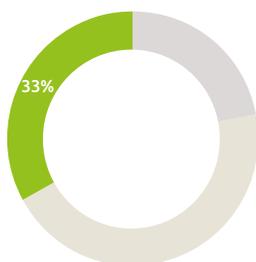
showed that less than 25% of companies have shared a clearly formulated strategy across the whole organisation including a budget for its implementation:

- 54% have defined a cross-channel strategy
- 23% have defined a strategy and allocated a budget

Organisations with a defined strategy have tended to focus on cost reduction, process optimisation and pricing, rather than a broader goal to transform traditional business models. Our research shows that 58% of retailers pursue a consistent price strategy and 67% clearly differentiate their product ranges by channel.

However support is missing for specifying and rationalising corporate direction and prioritising activities at a high level, as well as executing on strategy across the organisation. Lack of a strategy also undermines retailers' abilities to articulate cross-channel strategy to third-party suppliers and partners.

## Absence of cross-channel customer picture



A second factor is the lack of information regarding customer behaviours and habits across different channels. Only 33% of respondents stated that they had a clear, cross-channel picture of their

customers, making the conduct of their customers a mystery for most retail companies:

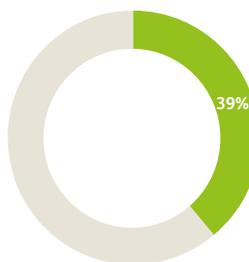
- 22% have channel-specific customer information
- 45% have partial cross-channel customer information
- 33% have a cross-channel synchronised picture

Clearly this is a chicken-and-egg situation – the absence of such information can be seen as a symptom of cross-channel immaturity. The challenge is also operational – only a third of respondents allowed their employees access to cross-channel customer profiles, which has an impact on sales and service.

Without a clear picture of existing customer interactions, it becomes harder to define new value propositions to be fed into corporate strategy. Equally, if stores are cut off from information flow, the overall effect is a negative impact on the shopping experience.

All the same, the research also showed a desire to improve in this area – for example, 56% of respondents could imagine providing mobile devices to customers or have already done so.

## Purchasing is a work in progress



The good news is that a high level of integration exists in procurement, either as a central service or control function. For example, 61% of surveyed companies integrate the purchase quantities made

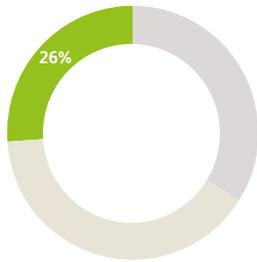
across different distribution channels. But the transformation is not complete – this means that 39% still do not do so.

Procurement management across multiple channels is not in place, however. Only 37% have centralised cross-channel limit management. For 40%, systematic controls are not even possible. This can lead to increased risks around supply of goods and resulting generation of income.

Only 33% of companies have a clear cross-channel picture of their customers

# 33%

## Ordering and delivery is limited



When we looked at ordering and delivery, we found that cross-channel aspects of these processes are only partially implemented. For example, we found that in-store kiosk, mobile and call

centre channels are rarely coupled with the store-based business for many organisations.

Meanwhile, only about a quarter of respondents enable channel-independent access to stock level information. Isolated inventory management makes the cross-channel value proposition less workable. Management of returns can be problematic, making it difficult to counter fluctuations in demand. For example, in one-third of companies surveyed, returns were only available for the channel where the purchase was made:

- 34% manage stock levels per channel
- 40% share cross-channel stock information but not cross-channel access
- 26% share cross-channel information and access

## Cross-channel coordination is fragmentary



The organisations we researched have found that executing strategy can be difficult from a process perspective, due to the sheer complexity of linking up existing internal and external structures,

setting priorities and separating mandatory from optional activities. As a result, less than one-third of respondents have cross-channel coordinated sales, procurement, logistics or finance planning:

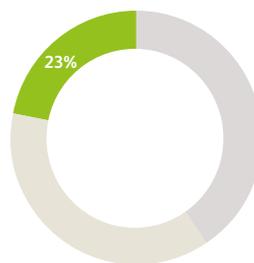
- 16% fully coordinate sales
- 30% purchasing
- 21% logistics
- 32% finance

Equally, alignment of organisational and incentive structures was seen to be poor – 60% still have separate management structures, either vertically or horizontally. Only half of all incentive schemes are aligned to the optimisation of distribution channels, for example. Again, this is a vicious circle. While it is difficult to design integrated cross-channel value chains without clear benefits to all parties, their absence can complicate the customer experience and even cause ‘trench warfare’ between channels.

As a result, potential benefits could be overshadowed by coordination and integration costs.

*As they struggle to achieve their goals, many retail organisations have reached the undesirable state of only paying lip service to cross-channel commerce, achieving only partial implementation*

## IT challenges to cross-channel



Many of the above issues could be linked to the currently ‘siloes’ nature of IT systems, and resulting difficulties in integrating the systems involved to enable master and transactional data to be

shared across all distribution channels. Only 40% of respondents, who stated they would consider price harmonisation, said that their organisation’s enterprise resource planning (ERP) and point-of-sale (POS) systems are fully integrated. Less than 25%

indicated this in the case of customer relationship management (CRM) systems.

If IT systems are unable to supply clear, timely information then retailers have to fall back on mapping information between systems – literally, working through print outs or pulling data into spreadsheets. This can mean that managers are flying blind when making decisions that affect multiple channels at once, for example pricing changes.

### The bottom line – lip service only is being paid to cross-channel commerce

As they struggle to achieve their goals, many retail organisations have reached the undesirable state of only paying lip service to cross-channel commerce, achieving only partial implementation.

As stated, only 33% of companies have a clear cross-channel picture of their customers, as neither information nor processes are sufficiently coordinated. This makes it harder to set strategic priorities or make operational decisions. Business runs less efficiently and risks are increased, particularly around inventory.

The vicious circles involved are problematic enough, but the disconnect between corporate strategy and action is even worse, as retailers don't see the value of changing their approach. While the majority of retailers state that they want to continue with cross-channel, most are not looking to implement the critical elements until 2015, and this would be done in a slow and non-disruptive manner.

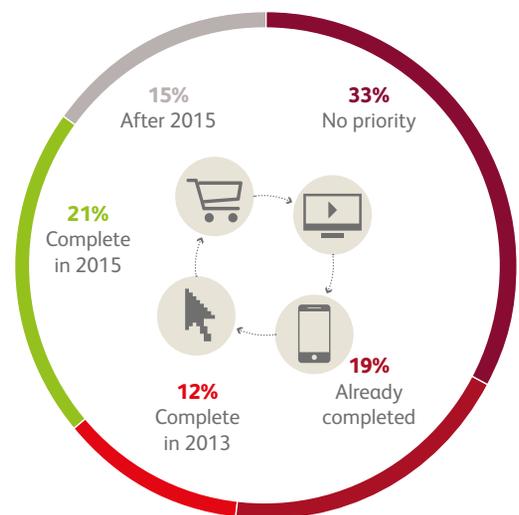
'Muddling through' appears to be the pervading attitude, rather than setting a clear plan and rolling it out strategically. The result is that planning and control processes are neglected and IT integration lags behind process integration (which will make process efficiency and data integration problematic). For 50% of respondents, organisational changes are either not on the agenda or will only be realised after 2015; meanwhile 70% see no need to adapt incentive structure, which can only lead to conflicts between channels and dampen any potential increase in sales (see figure 6).

None of this is good news for physical stores. Many organisations are uncertain about the role of sales space in a multichannel world, seeing stores as cost drivers, rather than a strategic option to centre the shopping experience.

On the positive side, against such weak competition, organisations that choose to fully adopt cross-channel mechanisms have an opportunity to gain a stronger position in the market. In the next section we look at how this might be done.

Figure 6: Cross-channel should be fully integrated across organisational activities

Almost half of retailers have not prioritised cross-channel



Source: BearingPoint/IIHD

### Defining the cross-channel value proposition – the starting point for success

Based on this evidence, what advice can we offer? Fundamentally, the evolutionary approach to cross-channel commerce is often going to be the only suitable option for most retailers, given that massive change is hardly an option: it would be equivalent to changing the rolling stock on a moving train.

To achieve this, the first piece of the puzzle is to define the value proposition for the organisation. It is important to note that not all retailers either desire or require delivery of the ultimate cross-channel experience. From our research we have

For 50% of respondents, organisational changes are either not on the agenda or will only be realised after 2015

# 50%

identified three 'archetypes' of retailer behaviour, each with associated benefits:

**Keeper** – more traditional, focused on optimising services on a more selective basis:

- Protection of market position is in the foreground;
- Selective, high-quality services;
- Primary target: cost control;
- Centralised, often separated functions.

**Analyser** – looking at broadening from a stable base into low-risk, new market segments:

- Avoids risks – but excellent in the implementation of new things;
- Concentration on basic elements;

- Often a leader of quality;
- Cross-functional project groups.

**Adopter** – taking a progressive view of customer interactions across all available mechanisms:

- Reputation as innovative and creative enterprise;
- Focus on new products and/or services and on producing demand;
- Strong decentralisation, encouraging participation.

In our research, we have used these archetypes to model specific characteristics of individual retailers and their strategies. As we can see from figure 7 below, there can be no 'one size fits all' approach.

Figure 7: Mapping retailers to archetypes

ARCHETYPES	KEEPER			ANALYSER			ADOPTER		
	Grocery	General	Electronics	Grocery	General	Electronics	Grocery	General	Electronics
	HYPER MARKET	DEPARTMENT STORE	ELECTRONIC MULTIPLE	DELHAIZE	JCPENNEY	CONRAD	TESCO	MOOSEJAW	BEST BUY
<b>Customer view</b>									
<b>Inventory</b>									
<b>Order management &amp; fulfilment</b>									
<b>Management structures</b>									

NOT INTEGRATED    
 INTEGRATION OF BASIC FUNCTIONS    
 CORE FUNCTIONS MOSTLY INTEGRATED    
 CORE FUNCTION INTEGRATED    
 CORE AND ADDITIONAL FUNCTIONS INTEGRATED

Source: IHD

# The question is not whether or not to have a cross-channel strategy, rather what that strategy should be

Cross-channel principles apply in all cases, to a greater or lesser extent.

Based on a retailer's chosen approach, a number of implementation options exist. For example, a retailer may set a strategy of targeting new customer segments, or may put a focus on dominating a specific customer segment or product category. Each retailer's chosen route involves working with certain variables, namely:

- **Customer experience:** 'How much should we focus on high customer satisfaction, at what cost?'
- **Price:** 'Are we looking to compete on the basis of price alone, or on more general aspects of value?'
- **Product range:** 'Will we attract customers through breadth of product assortment, or depth of specific product lines?'
- **Fulfilment:** 'How will we deliver products to customers, and what support will we offer along the way?'

- **Customer segment:** 'Are we targeting a vertical subset of customers, or looking for a more horizontal customer base?'

As we can see in figure 8 below, each variable affects the cross-channel strategy and the degree of required integration in different ways. For example, should the retailer decide to target a single customer segment, this puts a great deal of focus on the customer experience while keeping the product range and pricing strategy simple – a good example of this is US clothing retailer Abercrombie & Fitch, which has focused on a very specific, younger demographic for its clothing range.<sup>15</sup>

Alternatively, a retailer may choose to dominate a specific product category – in which case the customer experience may be dictated by product type, and the online product range may need to be deeper than the in-store range, as illustrated by a number of electronics retailers, including Apple.<sup>16</sup>

Figure 8: Strategy options and their impact on retail variables across channels

STRATEGY OPTIONS	CUSTOMER EXPERIENCE	PRICE	ASSORTMENT (PRODUCT RANGE)	FULFILMENT	CUSTOMER SEGMENT
Open up new customer segments ●	Different across channels, geared to target the segments	Can either be harmonised across channels or be kept as different	Different across channels, targeted to the segment	Isolated. Partial integration across channels optional	Varies according to channel
Dominate a single customer segment ■	Consistent across channels, not necessarily the same	Same across all channels	Substantially the same across channels	Integrated core functions across channels	Same across all channels
Dominate a category (price/service) ▲	Consistent across channels, not necessarily the same	Same, online extended pricing	Deeper assortment online than in-store	Integrated across channels	Can either be harmonised across channels or be kept as different
Become a cross-channel leader ★	Identical customer experience across all channels	Same across all channels	Same across all channels	Integrated across channels	Same across all channels

A clear strategy option is to become a leader in how cross-channel techniques are used. In this case the same variables come into play. Best practice shows us that the customer experience needs to be replicated across online and offline channels; that pricing and product range need to be the same (while leaving room for online special offers); and that, above all, fulfilment needs to be coherent across all channels.

We can see these practices being implemented by supermarkets in the UK, for example, with both in-store pick-up and home delivery for online purchases. While home delivery of supermarket stock has been in place for over a decade and the challenges are largely ironed out, in-store pick-up requires additional customer service, plus access to up-to-date information about delivery, otherwise much time can be wasted.<sup>17</sup>

This shows how there is no single answer to deciding a cross-channel policy – nor does there need to be. Rather, each organisation needs to set its market strategy and apply cross-channel techniques to it, depending on what the company perceives as appropriate coordination and integration points. It is not a question of ‘whether or not’ to have a cross-channel strategy, rather ‘how cross-channel’ that strategy should be.

## Delivering on the promise of cross-channel commerce

Once a retail organisation has decided on a value proposition and an implementation strategy, it will want to map out how it is going to deliver the policy. First, it is worth putting the value proposition in concrete terms, say by testing it against specific-use cases to be achieved through its implementation. For example:

- Collating consumer response metrics to products, e.g. to enrich online user profiles and/or inform new product development.
- Creating recommendations based on aggregated customer behaviours across the channels they use, for example activity across web sites, physical stores and social media.

- Use of a real-time mobile assistant (e.g. a smartphone app) to guide the customer to appropriate products, e.g. ‘This will fit you’; ‘I know you’ll love this’; ‘Have you thought about this?’
- Dynamic generation of real-time price offers, for example to convert a hesitant customer, e.g. ‘10% off if you buy today!’
- Augmenting in-store facilities to enrich the consumer experience in a relevant way, e.g. personalised POS to appeal, say, to ethical mindsets.

Of specific interest is the question of how to use physical stores. Some leading-edge retail organisations are considering how to respond to ‘showrooming’, where consumers look at products in a physical store, then buy them online.<sup>18</sup> While showrooming presents a clear issue, it can be also an opportunity if a retailer also offers an online purchase option.

*‘Showrooming’ illustrates how stores have to be reinvented to fit with the cross-channel world*

This situation clearly illustrates how stores have to be reinvented to fit with the cross-channel world. We can see numerous examples of good practice starting to emerge, from Globetrotter’s use of ‘playgrounds’, where customers can experience the products, to Adidas (NEO)’s ‘social mirroring’, using virtual (video) mirrors and enabling consumers to post pictures on Facebook or Twitter and exchange images with friends.<sup>19</sup>

Cross-channel models offer a chance for retailers to both reduce physical sales space (potentially closing some stores), enhance the consumer experience, and highlight elements of the product range. While this means that city centres and high streets are going to change as a result, it is those retailers who

successfully integrate their physical and online experiences that stand to benefit the most.

Building on this, the strategic value proposition also determines the degree of integration required in different areas of the business, its structures and processes. In general, it will always be of benefit to integrate the processes of order, supply and inventory management to increase efficiency and reduce overall risks. Customer interaction is also a target for integration.

Deciding a blueprint for integration depends on the specific context, strategy and priorities of the retailer – say, in terms of resources, market and culture. Figure 9 below shows the levels of coordination and integration adopted by a single retailer, depending on strategy requirements. Each of the routes through shows the integration points required, based on a chosen strategy (see figure 8).

Without descending into detail, the model demonstrates two principles:

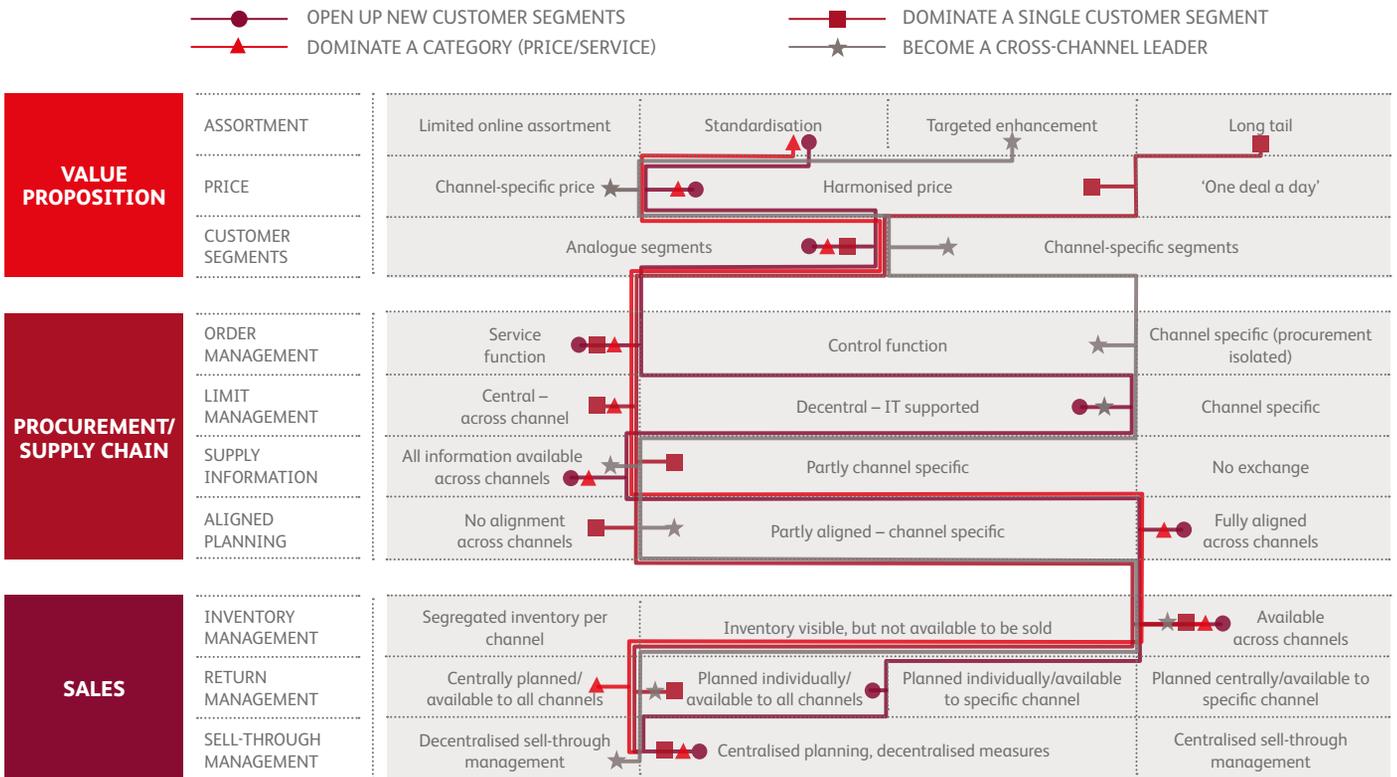
- Not every function needs to be connected to every other;
- Some functions are more important than others when it comes to having multiple connections.

The key to success for any retailer, therefore, is to define a consistent, appropriately integrated model that fits the company ethos – and to deliver this at a strategic level. Looser approaches, based on uncoordinated transformation of single areas (because they are seen as fashionable, or because it is convenient) only increase risk and cost, and reduce the likely impact on efficiency and overall value.

Once a retailer has a clearly defined model, strategy and approach, the next step is to create a roadmap that systematically follows the vision. We recommend a phased approach, which incorporates the following:

Figure 9: Identify integration points for each strategy option

Example for a given retailer of effort required to implement cross-channel commerce



- Full integration of all processes is necessary only for selected strategies

- Only processes of order, limit and inventory management are independent from strategy and must be cross-channel integrated to reduce risks

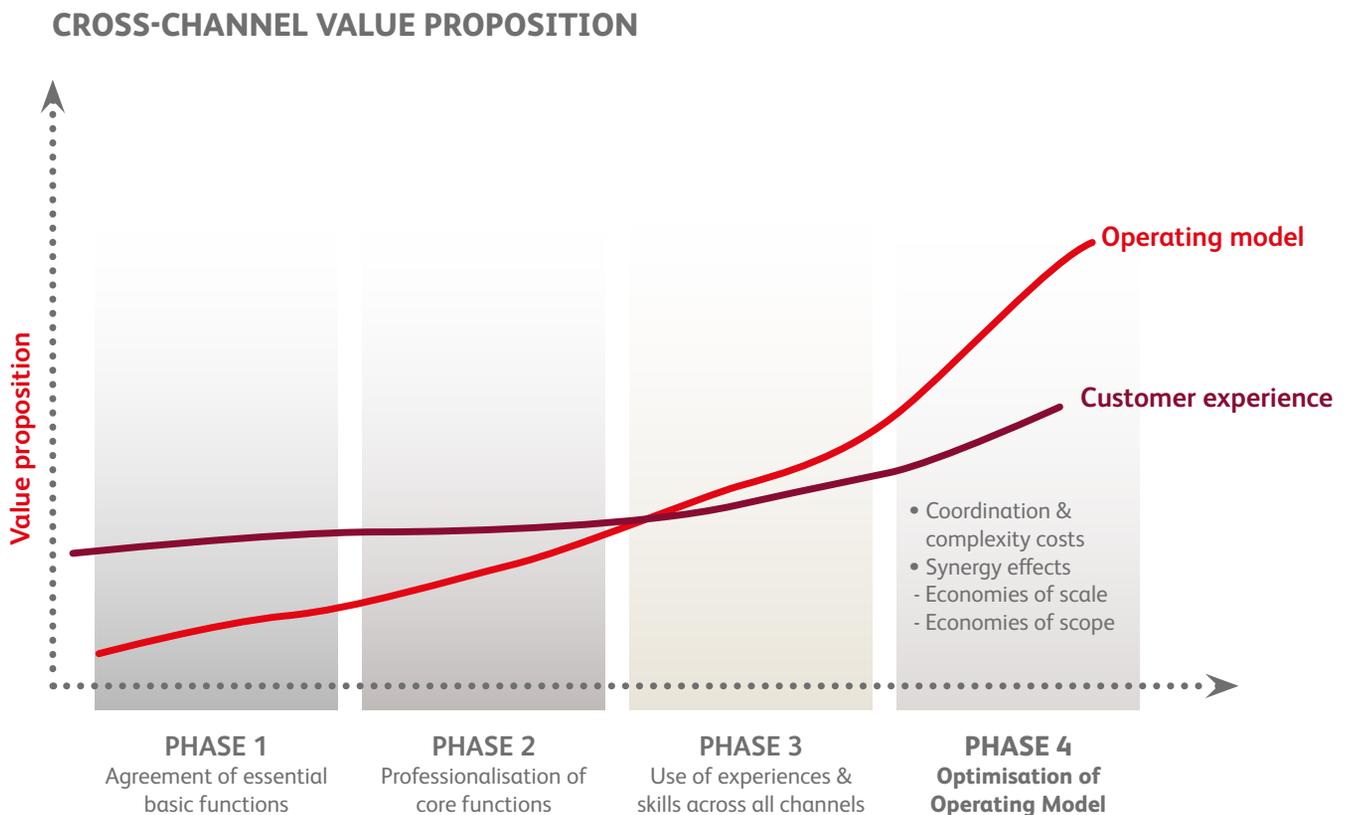
Source: BearingPoint

- Phase 1:** Agreement of essential basic functions  
 The goal of this phase is to ensure the value proposition and positioning are aligned across stakeholders.
- Phase 2:** Professionalisation of core functions  
 This phase aims to ensure that marketing and sales processes are harmonised.
- Phase 3:** Use of experience and skills across all channels  
 In this phase, the organisation ensures the interface definition allows seamless exchange of information between systems, to both steer the business and satisfy the customer.
- Phase 4:** Optimisation of operating model  
 This phase aims to ensure resource allocation is optimised company-wide, by completing the integration of processes and incentive systems.

Even organisations that have already adopted elements of cross-channel commerce may find it useful to start at phase 1 to ensure that the basics are covered – and challenges surmounted – before moving on. As figure 10 below shows, the levels of benefit vary across phases. The operating model for example becomes increasingly efficient as the phases take place, due to reduced activity and interaction costs.

In customer experience terms however, a substantial quantity of ‘back-office’ effort can be required before customers notice any significant improvements. Equally, while each phase can benefit the organisation to an extent, it is the final phase – of adapting and optimising the operating model – that promises the highest value proposition in cross-channel retailing.

Figure 10: Illustrative model of ROI and customer experience benefits of cross-channel



Source: BearingPoint

Given that a high level of long-term, sustained investment is required to achieve this, organisations serious about cross-channel commerce should see it as a strategic goal. Traditional retailers that have sought fast solutions to increase margins on a tactical basis will require a significant change of culture, including senior management sponsorship, commitment on all levels, evolutionary approach, clear responsibility for change, IT as an enabler and limitation and finally, of course, cooperation across channels.

### The bottom line – balancing rationality with spontaneity

The retail sector is in the midst of a revolution. Today's consumers are increasingly cross-channel in terms of their purchasing behaviours and are never going to return to the pre-digital era. The stark truth is, even as

retail itself transforms, retailers that rely exclusively on 'footfall' are already staring into the abyss.

This does not have to mean the ultimate demise of physical retail – indeed, it looks set to have an important role in the cross-channel mix. Traditional retailers with portfolios of physical stores have an opportunity to compete against lower-margin online and other digital models, if they orientate their respective business models to integrate the right components efficiently and to meet the evolving needs of the customer base.

The opportunities from cross-channel approaches are real, but they come at a cost – a level of transformational change that many retailers will find distinctly uncomfortable. Organisations that do not fully engage with the principles of cross-channel commerce at board level are already putting



## KEY TAKE-AWAYS

Cross-channel commerce can lead to better customer insights and be the basis for innovation. Consider these critical success factors as guiding principles:

- Assure project responsibility and sponsorship at the highest level
  - Anchor programme responsibility at executive board and management level (e.g. CMO, CEO).
  - Implement regular steering committee meetings, involving the entire executive board and senior management.
- Build active support for 'innovation thinking' into processes
  - Apply case studies, e.g. 'A day in the life of our customer', to demonstrate how transformation needs to be done.
  - Actively communicate real-world, cross-channel experiences to stakeholders.
- Adopt an evolutionary, not revolutionary, approach
  - Avoid 'big bang' approaches that can end in sub-optimal results.
  - Accumulate competencies along the journey: iteratively develop skills for different maturity levels.
- Objectively evaluate competencies across the organisation
  - Deploy cross-functional teams to review existing competencies across multiple dimensions; existing maturity vs vision of the future, willingness vs capacity for change or the overall extent of transformation.
- Encourage open observation and improvement
  - Develop the cross-channel model as an incubator and catalyst.
  - Enable learning and experimentation without undermining existing P&L.
- Balance centralisation with decentralisation
  - Map principles of a 'centre of excellence' across all parts of the organisation, wherever situated.
  - Balance trade-offs between control (centralised) and speed (decentralised).
- See IT as a peer partner for cross-channel success
  - Incorporate application development, testing, quality assurance and support as core elements of the model.
  - Selectively source specialist know-how and expertise from third parties.

themselves at a disadvantage. Even if the result is not lip service (which remains true for many), efficiency gains of cross-channel can quickly be eroded by the cost of implementation if executive buy-in is lacking.

Retailers wishing to adopt cross-channel commerce need to fully embrace a strategy and to execute it well. Given that no single answer can satisfy all types of retailer, each organisation needs to decide:

- whether to be a 'Keeper', 'Analyser' or 'Adopter';
- whether to own a segment or category, to approach new segments, or become a cross-channel leader;
- how to tackle areas such as price, assortment and customer experience.

While initial cross-channel success may be measured in terms of increased efficiency, and therefore reduced costs, retail organisations need to look beyond this to generate genuine competitive advantage. Each model offers opportunities to differentiate according to customer needs. Online shopping tends to follow a rational path for example, in which consumers plan and research their buying decisions. Outside of the weekly supermarket trip, physical shopping can be more spontaneous, with atmosphere and 'gut feel' driving purchases.

Cross-channel commerce provides a foundation for deeper levels of customer insight, for example by gathering and analysing customer data across channels to identify segment-specific products and services. While it cannot be the answer in itself, such information can be the basis for innovation in terms of building customer loyalty and driving sales.

It may not be the easy answer, or even the only answer to re-invigorate physical retail. If retailers properly embrace the opportunity however, what has in recent years been viewed as a more backward industry may well leap forward with renewed action. And for organisations looking to grow in an increasingly hostile climate, it offers an attractive alternative to the slow shuffle to the marginless bottom of the retail chain. 

*Cross-channel commerce offers a foundation for deeper levels of customer insight, for example by gathering and analysing customer data across channels to inform segment-specific products and services*



## WATCH

Scan this page with Layar, or visit [www.inst.be/003XCR](http://www.inst.be/003XCR), to watch the author's interview.



## About the author



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## About this study

The study was conducted in cooperation with the IIHD and the business magazine *Der Handel*, between November 2011 and March 2013. The study consisted of 20 expert-interviews for structuring and generating hypotheses, from which an online questionnaire was created. More than 100 responses were collated, from a target group of top managers and experts of European retail companies.

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## CROSS-CHANNEL COMMERCE – EINE BESSERE ZUKUNFT FÜR DEN EUROPÄISCHEN HANDEL?

Aufgrund steigender Kundenerwartungen, zunehmendem Wettbewerb online und bestehenden Geschäftsmodellen in der Abwärtsspirale ist der Einzelhandel in Europa seit Langem ein schwieriger Markt. Der Druck liegt vor allem auf den Filialen, da viele Einzelhändler in Bezug auf Kosteneffizienz Schwierigkeiten haben, physische Verkaufsstellen zu rechtfertigen und gleichzeitig auch mit der Steigerung der Präsenz in der digitalen Welt kämpfen.

In letzter Zeit haben viele Händler ihre Hoffnungen an Cross-Channel-Modelle geknüpft, die ein Versprechen auf eine integrierte Sicht auf Verkauf und Services zwischen Verkaufsstellen online und offline sowie mobiler Servicelieferung bieten. Diese Modelle sind dennoch nicht ohne Risiken, weil sie direkt die Kernprozesse und -strukturen sowie Informationsflüsse des Geschäftsmodells der Einzelhändler beeinflussen.

Da sich Händler diesen Modellen annähern, kommen folgende Fragen auf: Welche Strategieoptionen für Cross-Channel-Modelle existieren und welche Ansatzpunkte zur Erreichung eines Cross-Channel-Erfolges gibt es? Die Antwort findet sich in der Umsetzung stufenweiser Roadmaps, die das passende Level an Integration bieten, um auf das wechselnde Kundenverhalten innerhalb der einzelnen Kanäle reagieren zu können.



## LE MULTI-CANAL PEUT-IL ASSURER UN AVENIR AUX DISTRIBUTEURS EUROPÉENS ?

La distribution en Europe est depuis plusieurs années un secteur en difficulté. Les attentes clients sont en perpétuelle évolution, la concurrence du E-commerce s'accroît, et les modèles de marché « tirent les prix vers le bas ». La pression a été particulièrement forte pour les magasins physiques. Beaucoup de distributeurs ont des difficultés à justifier ce modèle en terme de rapport coût-efficacité, alors même qu'ils s'efforcent de développer leur présence digitale.

Récemment, beaucoup de distributeurs se sont orientés vers un modèle multi-canal qui promet d'intégrer ventes et services en ligne, magasins physiques et services mobiles. Ces modèles ne sont cependant pas sans risque. Ils ont un impact direct sur les processus, les structures et les flux d'informations qui sont au cœur du modèle économique des distributeurs.

Alors que les distributeurs intègrent de telles approches, quelles sont les bonnes stratégies à adopter ? A partir de quel moment détermine-t-on le succès d'une démarche multi-canal ? La réponse réside dans la mise en place d'un plan de déploiement en plusieurs étapes permettant un bon niveau d'intégration pour satisfaire l'évolution des attentes des clients à travers chaque canal de distribution.

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