

MARKETING

HOW TO MAKE THE MOST OF OMNICHANNEL RETAILING

Your best bet is to get online customers to visit your stores.

One of the biggest challenges for brick-and-mortar retailers is finding a strategy to compete with online-only sellers such as Amazon. Although Walmart and JCPenney, for example, have invested substantially in e-commerce operations to complement their physical stores, the economics facing these hybrid retailers remain daunting. Both chains announced store closings in 2016.

For retailers that operate both stores and websites, the conventional “omnichannel” strategy is to encourage shopping across channels so that customers who shop only in stores will begin also buying online, and vice versa. Promotions and coupons are one way to promote this behavior, and retailers such as Macy’s, Bed Bath & Beyond, and Home Depot routinely use them.

However, few retailers have closely examined the profitability of such promotions. And they typically pay little attention to a variable that may be particularly important when customers are deciding whether to shop online or in-store: the distance between home and the nearest store.

To understand how these variables interact to affect customer behavior and retailer profitability, a research team led by Xueming Luo, a marketing professor at Temple University, worked with a Chinese department store on its coupon strategy. The researchers randomly selected 56,000 members of the store’s loyalty program. On the basis of purchase records, they identified

8,692 who shopped exclusively online and 24,804 who shopped only in physical stores. (They dropped the remainder, who already shopped in both channels, from the study.) Some of the 33,496 targeted customers were sent coupons redeemable only online; some were sent coupons good only in physical stores; and some were sent coupons good in either channel. Members of a control group got no coupons at all.

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The researchers then monitored purchases over the next week and compared the coupon recipients’ behavior—and the effect on the chain’s profits, net of coupon costs—with that of the control subjects. For their analysis, they divided the shoppers into two categories according to their proximity to a physical store. The dividing line was five kilometers, a distance that makes sense in a densely populated urban area where many shoppers rely on public transportation.

Among customers who lived close to a store, no type of coupon made a significant difference to shopping or profits. For those customers, the researchers concluded, the

costs of getting to a store were low, so no added motivation was needed to prompt a trip. Among customers who lived farther away and had previously shopped only online, the online coupon generated twice as much profit as among the control group, and the flexible coupon increased profits by 800%. But when distant shoppers who’d previously bought only in stores were given online-only coupons, profits from them *fell* by 51%. In other words, encouraging online customers to visit a store increased profits, but incentivizing in-store customers to shop online decreased them.

This may seem counterintuitive: Most retailers want customers to shop in both channels, in the belief that it shows the customer has a stronger relationship with and is buying more from them. Driving customers online also helps physical retailers rationalize the huge investments they’ve made in IT to support their websites and mobile apps. However, incentivizing a store-to-online shopping migration ignores several key points: Customers who shop in stores tend to buy more, partly because they make more impulse purchases. They’re also more willing to buy tactile, “experiential” goods such as apparel, shoes, and makeup. And they’re less likely to compare prices, because that’s harder to do in-store than online. “If customers come to your [physical] stores regularly, you should not encourage them to shop online,” Luo advises. The more profitable play is to coax online shoppers to come into your stores, where the environment can induce them to spend more. “That’s the winning omnichannel strategy,” Luo says.

How to do that? The research shows that coupons redeemable only in stores and targeting previously online-only shoppers who live some distance away can work well. Another strategy, which Walmart and some other retailers are already implementing, is



For more about retail and online strategies, see these articles on HBR.org: “Competing on Customer Journeys,” by David C. Edelman and Marc Singer; “Digital-Physical Mashups,” by Darrell K. Rigby; and “The Future of Shopping,” by Darrell K. Rigby.



An analysis of performance reviews at a large tech company showed that women received 32% more comments containing vague praise, and 33% less developmental feedback linked to business outcomes, than men did.

"VAGUE FEEDBACK IS HOLDING WOMEN BACK," BY SHELLEY CORRELL AND CAROLINE SIMARD

to give online customers incentives (such as free shipping) to have orders sent to a local store for pickup rather than delivered to their homes. Finally, reducing the real or perceived costs of traveling to a store (by, for example, locating stores near public transit or ensuring ample parking) may make distant online customers more inclined to visit.

The researchers are confident that their insights apply to retailers in the United States and other markets, although what constitutes living "close" to a store will vary according to population density, car ownership, and suburbanization.

The results of this research are also surprising given that many outside observers believe that physical retailers should be shuttering stores more aggressively. For example, a report issued in April by Green Street Advisors, a real-estate research firm, says that U.S. department stores should close a combined 800 stores—about 20% of their locations—to bring costs in line with sales per square foot, which have dropped by 24% over the past decade. The retailers reject this advice: They say it assumes that the sales from a store that closes can be easily shifted online, but that in fact it is very difficult to win those sales back.

Luo points to another trend that illustrates the advantages of having a physical store as part of an omnichannel strategy: Companies that began as online-only have started to invest in brick-and-mortar locations. For example, in May Amazon announced plans to open additional physical stores (it already operates one in Seattle). In these expansions, Amazon joins formerly online-only retailers such as Warby Parker (eyeglasses) and Bonobos (apparel) that have opened physical stores. "Online shopping is very goal-oriented and transactional," Luo says. "Traditional retailers' strength is the in-store shopping experience, and they need to play that up." 🍷

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ABOUT THE RESEARCH "Omnichannel Couponing," by Fue Zeng, Xueming Luo, Yifan Dou, and Yuchi Zhang (working paper)

THE IDEA IN PRACTICE

"THIS RESEARCH CHANGED OUR WAY OF THINKING"

MMGO Mall is a chain of 15 department stores in Guangxi Province, China. Like most brick-and-mortar retailers, it's trying to get online and in-store customers to buy more from both channels. Xiao Qin, MMGO's director of electronic business, spoke with HBR about how the research on omnichannel couponing has influenced the chain's strategy. Edited excerpts follow.



How much online competition do you face?

Online-only competitors such as Alibaba and JD.com are potent market forces.

They can offer lower prices and wider assortments. But our physical stores have a long-term, trusted reputation, and our in-store customers can try on clothes, smell perfumes, listen to electronics, and play entertainment systems before purchasing. This helps us fend off online competition.

Were you surprised by the conclusions in the research?

We expected that home-to-store distance would be an important variable in offline shopping, because faraway customers incur higher travel costs to visit our stores. But we were quite surprised by how *much* distance affected channel migration. The research changed how we think about promotional coupons within and across channels.

What do you do differently? We now recognize that promotional money can be wasted if we're just mindlessly sending discounts to customers regardless of their initial channel preference. We've also learned that it's a mistake to try to get customers to migrate from physical stores to online. The study shows the importance of conducting rigorous research—beyond simple A/B testing—to assess individual customer values before, during, and after coupon and other marketing interventions. We also realize that if we reduce the pain points of shopping offline (such as travel costs and product returns), we can enhance long-term customer value and loyalty-based repeated purchases.