



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Omni-channel Retail: The future of retailing

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Abstract: With the recent advancement in technology, omnichannel retailing has now become the standard, and enables shoppers to seamlessly switch between various channels for the purchase. This paper brainstorms the ways to structure omni-channel to create a supply chain that is both cost effective and responsive to customer needs. Hybrid structures should be designed to make optimum use of both online and physical channels after considering their complementary strengths. Frequent and predictable needs should be served by the physical channel and the use of online channels should be done to provide variety and serve occasional needs. This hybrid structure can be fruitful for emerging markets where new online players can partner with existing local retailers to benefit both parties and the consumer.

Index Terms – Business, customer, omni-channel, product, retail.

I. INTRODUCTION

In the present world, the customer's journey from product discovery to actual purchase usually involves various shopping channels. They not only expect brand owners to provide the right product to fulfil their needs but also seek a seamless experience in finding the product to purchase using multiple platforms and getting it delivered at their doorstep. Nowadays consumers are becoming smart enough to optimize their shopping experience by extensively considering all possible choices across all possible channels. This imposes immense pressure on retailers to integrate the best of both digital and traditional retail worlds at all customer touch points. Omni-channel retailing integrates the multiple retail channels and uses them to interact with customers and fulfil their orders. Therefore, omnichannel retailing is now becoming the norm in the industry.

The interaction between a customer and a retailer is mainly classified in terms of three flows—product, information, and funds. The retailer provides the information about the product and its price to the consumer. The customer then places an order based on this information. The retailer uses the order information to transfer the product to the customer. Finally, the payment is transferred to the retailer from the customer. For each flow, different channels are used on the basis of the strength and weakness of these channels. A combination of the different channels is more cost effective and responsive to customer needs than any single channel by itself.

II. LITERATURE REVIEW

According to Parker & Hand (2009) and Ortis & Casoli (2009), The "omnichannel" shopper is an evolution of the multichannel consumer who instead of using channels in parallel, uses them all simultaneously. Although as witnessed in the market, the presence of multiple channels has also made the competition harder for sellers on all fronts.

To define the strategy opted by these sellers using the multiple channels, Sopadjieva, Dholakia, and Benjamin suggest, "The omnichannel strategy hinges on the idea that providing a seamless shopping experience in brick-and-mortar stores and through a variety of digital channels not only differentiates retailers from their peers, but also gives them a competitive edge over online-only retailers by leveraging their store assets." According to Rigby (2011, p.4), omnichannel retailing is: "an integrated sales experience that melds the advantages of physical stores with the information-rich experience of online shopping". The brick and mortar stores in relation with the online channels create an ecosystem of credibility, creativity and ease of access for the consumers of all mindsets.

Although omnichannel retail has taken significance over the last few years, it is still a relatively new topic and not much research has been done on this. In one of the few research undertaken, Verhagen & van Dolen (2009) used quantitative methods, a linkage of store atmosphere with multichannel retailing: multichannel store image (as an element of the store atmosphere). In their research, they suggested that by online and offline database integration (managers can provide consumers with online offers that relate to offline purchases). This kind of a strategy is currently used in almost all of the large retail chains with both online and offline presence. Finally, Vrechopoulos (2010) talked about a paradigm shift in multichannel retailing store atmosphere, since for the first time the consumer is able to alter atmospheric elements utilizing emerging technologies in-store. One such example would be the use of AR used by Lenskart on their online platform to show the image of the eyeglasses using their proprietary AR technology Ditto.

In another research, Van Baal & Dach (2005), defined free riding behavior (“when consumers use one retailer’s channel only to obtain information and evaluate products and switch to another supplier to place their business”, p.76) and examined it in a multichannel environment. They found out that in order to deal with this kind of behavior, retailers should offer distinctive cross-channel benefits and also apply distribution integration strategies, as well as apply customer relationship management practices. For example, if one registers for a loyalty program while searching for information on the products, the same information when leveraged on the offline experience can help provide for discounts.

Finally, through his research, Burke (2002) found out that shoppers were fond of shopping features that assisted them in multichannel shopping (e.g. research online – purchase in store, shop online – pickup in store) and concluded that retailers should integrate channels so as to assist consumers to move transparently between them. Some similarity in catalogue helps achieve this purpose whereas some differences in the same help create a sense of exclusivity for brands trying to attract a serious consumer group.

III. ALTERNATIVES IN OMNI-CHANNEL RETAILING

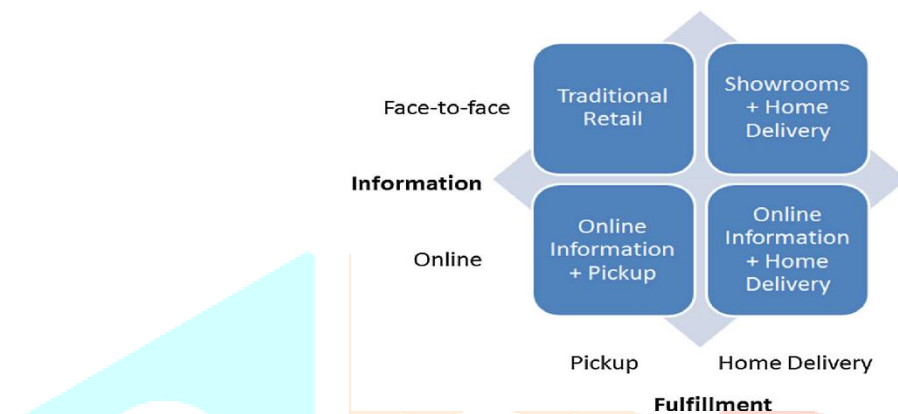


Fig. 1 Alternatives in Omni-channel retail

IV. PREVALENT OMNICHANNEL RETAIL LANDSCAPE

We use omnichannel retail a lot more often than we think. Many famous brands like Amazon, Flipkart, Starbucks, etc., are successfully implementing this strategy. Amazon’s acquisition of Whole Foods Market in the United States, supermarket chains, and its investment in fashion retailer Shoppers Stop in India indicate its aim of building an omnichannel strategy. Alibaba group has invested in Sun Art Retail group for the same reason.

As per stats, enterprises having higher omnichannel customer engagement strategies retain on an average 89% of their customers. Whereas the companies that have a weak or no omnichannel retail strategy retains only 33% of their customers.

Nearly 68% of millennials now prefer and demand the convenient and seamless experience of an omnichannel approach during their shopping journey. Whereas 84% of baby boomers still prefer to buy products from retail stores. According to a study done by Harvard Business Review on 46,000 shoppers, only 7 percent of people preferred shopping only through online platforms and 23 percent of people preferred to shop only from stores. Whereas 73 per cent of people opted for multiple channels for shopping.

V. OMNI-CHANNEL RETAIL OPPORTUNITIES IN INDIA

At a nominal GDP growth rate of over 13% in 2015-18, projected at 11% in 2018-25, India is expected to become a US\$ 4.5 trillion economy by the year 2023 and about US\$ 5.5 trillion by the year 2025, up from about US\$ 2.8 Trillion in the year 2018. Private consumption of India was about US\$ 1.6 Trillion, out of which retail was made for around US\$ 765 billion in 2018. Private consumption is expected to further grow to about US\$ 3 Trillion, of which retail will be about US\$ 1.5 Trillion by 2025. Omni-channel retail is one part of it.

Of the merchandise retail market in 2018, only about 10% (around US\$ 77 billion) is accounted for by modern, organized retail and electronic retail accounted for around 3% (around US\$ 22 billion). By 2025, organized brick & mortar retail is anticipated to grow to 17% (around US\$ 250 billion) of the total retail market and electronic retail to 7-8% (around US\$ 100-125 billion). Currently, Indian organized retail businesses are valued at 3-4x of one year forward revenues. And if this trend continues, India’s organized retail sector, both physical and e-tail, is likely to create an additional US\$ (800 billion –1.0 Trillion) of valuation for investors in such businesses, with omni channel retailing being a major driver.

With these numbers, it is no surprise that Walmart found it prudent to pay nearly US\$ 16 billion for a significant majority stake in India’s home-grown e-tailer Flipkart, valuing the business nearly US\$ 20 billion (estimated Gross Merchandise Value at Flipkart in 2018 was about US\$ 6 billion). Another homegrown and comparatively large-format value retailer D’Mart (parent company: Avenue Supermarts) closed the financial year 2018-19 at about US\$ 3.3 billion in revenues and enjoys a very rich market capitalization of almost US\$ 12 billion. Private equity and venture capital continues to flow into India’s retail and consumer businesses in increasing billions of dollars, year after year.

VI. CASE STUDY- OMNI-CHANNEL RETAILING AT RELIANCE INDUSTRIES

Considering this background, it becomes pretty obvious why Reliance Industries, India's largest private business entity, has such a strong interest in the retail sector.

6.1 A SOLID FOOTING IN RETAIL & TELECOM

Reliance Industries' first retail stores were launched in the year 2007 that comprised multiple formats, addressing almost all major categories of consumer product. Reliance operated 11,784 retail stores in over 7,000 towns and cities covering an area of 28.7 million square ft. till 31st March 2020. It closed its financial year 2019-20 with a turnover of Rs. 1,62,936 crore. Out of these revenue, electronic retail accounted for negligible share. The retail business has been growing upwards of 35 per cent CAGR even at this comparatively high base and by itself, and therefore it should reach US\$ 75 billion–US\$ 100 billion in annual revenue by 2025.

However, Reliance's bigger retail vision is now beginning to unfold. To begin with, Reliance is a sole large global retailer that is also one of the largest telecom operators in the world, and at about 404.12 million subscribers, the largest telecom operator in India with most of them using a smartphone and 4G access to extremely low-priced data.

6.2 A VAST PRODUCT ECOSYSTEM

On the ecosystem side, Reliance has been, organically and through acquisitions, putting together an incredible suite of technology on one side (including AI, Haptics, Voice Recognition, AR & VR etc.) and an equally incredible suite of consumer focused product & services that comprises of music, entertainment, finance, insurance, as well as education. Healthcare is expected to follow soon.

Reliance will have an incredible omni channel retailing advantage over all its competitors, who will have to put in mega bucks and mega efforts to get potential customers to download their own apps and to motivate frequent use.

As Reliance is a completely Indian owned and funded business entity, the company isn't hamstrung by India's heavy policy related to foreign investment in the retail sector that adversely affects Amazon, Walmart, and other international players.

6.3 AN EXPANDING POS NETWORK

Reliance is now set to launch a unique omni channel retailing business platform that is already being piloted across India, and in the coming years it is expected to be rolled out nationally. The master plan is to enlist as many as 8-9 million (out of 22 million) independent retail outlets of the mom & pop variety to become an integral part of Reliance's retail ecosystem.

Each of these 8-9 million independent stores are expected to be networked with Reliance's overall retail enterprise with a purpose-built multi-functional POS (point of sale) system at the heart of this initiative. This will enable these small retailers to gradually shift a substantial part of their own buying through Reliance's B2B omni channel retailing platform (fulfilled by supply chains, distribution centers, and logistics that are owned by Reliance). In addition, it is expected from most of these retail outlets to fulfil the role of 'spokes' from which the last-mile delivery of merchandise (and returns) can be affected for Reliance Retail's B2C e-tail platform.

6.4 PAVING THE WAY FOR OMNI-CHANNEL RETAIL IN INDIA

If the above strategy is executed successfully, Reliance will not only become the largest B2B retail business, but also the lowest cost B2C electronic retail business in India (when considering the cost of deliveries and returns from consumers). By the financial year 2025-26, solely this business can potentially generate revenues in the range of US\$ 50 billion for Reliance, making its overall retail business a US\$ 150 billion (in revenue) company and one potentially valued at upwards of US\$ 300 billion.

This omnipresent retail vision will enable Indian consumers to do just about everything that can currently be done either through a physical retail model or through a digital one, all while carrying out payments, getting entertained, accessing education oriented products, buying financial products, and in future accessing healthcare simultaneously. Such omnipresence may present a unique business model that will be hard to imitate, not only by other retail players in India but also by some of the most successful retailers anywhere in the world.

By enlisting India's millions of independent retailers, companies like Amazon, Walmart, and Metro (Cash & Carry) are also taking their own steps to make a similar B2B environment. However, how far they will succeed is yet to be seen.

VII. OTHER CASES IN POINT

7.1. LENS KART

A classic example of omnichannel retailing including brick and mortar stores, with online buying facility.

ABOUT: Lenskart is an Indian company that sells vision corrected glasses with frames to the customer on their mobile app.

BUSINESS MODEL:

Lenskart has two major channels of operation. First one is the online marketplace where people can use their 3D try on feature and choose a frame that would suit them. This channel has been targeted to the millennials and the Gen Z customers who have easily transitioned to the world of the internet.

The second channel of retailing is the brick and mortar store where one can try on as many frames available to them in the size a customer would want. This channel is for those who need to see it early.

One different thing about Lenskart is that even if you like a frame, you'll have to order it online to get it delivered at your intended place of delivery. The offline channel is only for 'Try and select' products. All the purchase happens using the online mode of shopping.

7.2 McDONALD'S AFTER COVID-19

McDonalds, the behemoth fast food chain in India has become completely contactless due to the intervention of Covid -19. The complete ordering system has been transitioned to the app and website thereby reducing the queue time and maintaining social media.

The over the counter (OTC) channel receives the orders from the app and now the vast McDonald's eating spaces are being used to cater to the people who have ordered on the app.

VIII. CONCLUSION

It is imperative to understand the significance of both online and offline business environments and what role they play in the lives of today's consumers. While the online marketplace provides the flexibility to look and compare hundreds of products without having to face the hassle of storage at each location, the offline marketplace offers assurance, efficiency and credibility to the product purchase even if at a higher price.

Small businesses focus more on the online marketplace because it provides them cost effectiveness which is not possible for old or large brands which prefer to have a store in multiple cities to increase brand visibility and value.

Cloud kitchens are another example of using a single retail strategy where take away is the only kind of facility available while most restaurants provide both Dine-in and Delivery facilities.

The retailers like Reliance Industries, Amazon, Flipkart, Lenskart etc are trying to adopt an omnichannel approach at a great pace.

There is a shift to omnichannel retail in categories other than in household repurchase products such as high value products including durables and luxury products. Especially in the automobile segment these days, there is an increased focus of new and used cars dealers on providing their customers with quality in-shop and online experiences in order to fulfil customer expectations.

In order to sustain a business, there has become a need to create hybrid structures of selling to make optimum use of both online and physical channels after considering their complementary strengths.

The physical channel can focus on recurring needs of the market and the online channels should focus on aggregating the variety of products without having to worry about their storage, shipment costs etc. They act as a reference to the actual product.

In the evident future, more retailers would prefer omnichannel retail, but it will have to be a holistic approach comprising of the age-old and proven fundamentals of retail consisting of location, brand positioning, quality of products, customer support, personalization, interactions, and overall shopping experience leading to improved customer retention and loyalty.

This strategy demands investment which can be possible only by either raising funds or bootstrapping the business for a long time, but in future it should secure the retailers from being disrupted by something that affects any one of the available channels and has long-term payouts.

A successful omni-channel structure does not require to create all capabilities in all channels. It assigns those products and tasks to each channel that the channel is effective in handling. For example, Lenskart. Therefore, businesses need to consider their entire inventory of funds, information, and product flows and assign responsibilities to every channel in such a way that they are segmented to align with their strengths. This view can be mainly effective in emerging economies.

Omni-channel retailing offers a unique opportunity to the countries which combine the strengths of local retailers with the strengths of online players to provide the benefits to both sides. This would also mean large brands leveraging the services of their small scale partners to build an effective distribution system for both product and information distribution.

These countries, however, would need to do plenty of work in raising investments, in improving information and fund flow infrastructure at small retailers and in terms of policy changes by the government.

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