The Future of Shopping

By Darrell Rigby, Harvard Business Review, December 2011

The advent of digital retail technology in the 1990s was rather shaky, almost becoming a complete failure, when the dot-com bubble burst. But now, the picture is completely different. Digital retailing has grown in volume and is highly profitable, too.

Today, the buzzword is "omnichannel retailing". As the name suggests, it refers to retailers interacting with customers through every possible channel – physical stores, websites, kiosks, mails, call centres, social media, mobile devices, televisions and more. Unless traditional retailers come up with a truly novel game-plan, they are likely to fade away.

Digital retailing will continue to grow fast because of the vast selection of goods, the reasonable prices, the convenience of shopping from home, and the access to product reviews and recommendations.

Meanwhile, traditional retailers are still struggling to incorporate digital innovations into their physical stores. The author points out four reasons for this state of affairs:

- **Retailers were burned by e-commerce hype during the dot-com bubble.** Many created separate online organizations to maximize valuations. But, it only led to serious differences between these groups. Even now, the collaboration between the retailers' store and digital operations is weak.

- **Digital retailing threatens existing store economics, measurement systems, and incentives:** Traditional metrics like same-store sales, in-store sales per labour hour, and compensation systems, do not apply when sales reach 15 – 20% of the revenues.

- **Retailers tend to focus on the wrong financial metric - profit gains:** Retailers' stock prices are driven by return on invested capital than by margins.

- **Conventional retailers haven't had any great experiences with breakthrough innovation:** Retailers are most comfortable with incremental changes, and are reluctant to adopt a more novel approach.

Retailers must face the reality. They should start from scratch to develop a strategy to compete with omnichannel shopping. Customers want the best of

both worlds – the convenience of digital shopping as well as the experience of shopping at a physical store.

Retailers must remember that the shopping experience includes not just visiting a store, but also searching for various vendors, comparing prices, quick and hassle-free returns, and so on. Retailers can send coupon codes to customers' mobile phones, and provide location-based services. They must strategically attract customers at a time when they are free. Traditional retailers must also make full use of their biggest asset – the physical store – by making the whole experience captivating for the customer.

A successful omnichannel strategy will not only ensure a retailer's survival, but also revolutionize the retail industry itself. Retailers who understand that the digital and physical arenas complement rather than compete with each other, will succeed.