HOW YOU CAN JOIN THE OMNICHANNEL SHOPPER IN TRANSFORMING AUSTRALIAN RETAIL

IT'S HOW
WE CONNECT

EXECUTIVE SUMMARY

WITH THE ONGOING EVOLUTION OF TECHNOLOGIES SUCH AS THE INTERNET, WI-FI AND SMARTPHONES, RETAILERS TODAY ARE FACED WITH A PLETHORA OF CHOICES FOR ENGAGING WITH CUSTOMERS, AND THUS DRIVING SALES.

Traditionally, retailers have segmented the market into those who shop online and those who shop in a physical store. Increasingly, however, the boundaries are blurring and a new consumer paradigm is fast emerging: the Omnichannel Shopper.

Equally comfortable to research and shop on the Internet or in a store, depending on circumstances, the Omnichannel Shopper has much to offer Australian retailers, including a rich source of data on consumer behaviour and buying patterns, and scope to target shoppers more precisely with offers relating to their individual preferences.

A lot has been said about the Omnichannel shopper in Australia over the last 12 months but most of it is based on overseas experience and research. To discover how best Australian retailers can both reach and harness the power of this new consumer, Telstra commissioned a unique research study to identify the prevalence of the Omnichannel customer in the Australian marketplace, their drivers and behaviours. Contrasted here against case studies from domestic and international experience, the results make for fascinating reading.

This whitepaper also explores how technology continues to drive the evolution of retail, the many possibilities now available to Australian retailers, and critical considerations for those who wish to build an Omnichannel retail experience for their customers.

Our findings show that the Omnichannel customer does indeed exist in Australia. They are as well, if not better, equipped than their overseas peers to search and shop in an Omnichannel world and they are shopping the Omnichannel way already. In some product categories more than 80% of online buyers also shop for the same goods they buy online in bricks and mortar stores.

Preference for online or physical channels varies by product category but overall the research shows that consumers are looking for a blended online/offline experience when they shop. The things they like about bricks and mortar stores are sensory (touch, feel, service) whereas they value the anywhere, anytime convenience of shopping online. Combining the two delivers the best of both worlds.

BRICKS V. BYTES: THE CHANGING FACE OF RETAIL

FOR MANY YEARS, AUSTRALIAN RETAILERS SAW THE DECISION TO TRADE ONLINE AS AN ALTERNATIVE TO TRADING IN A PHYSICAL STORE.

Retailers judged their decision to trade online in the same way they assessed the viability of adding an extra site to their bricks and mortar network. If online could not stand-alone and make a profit, it was dropped like any other loss making venture. Thus, a number of high profile Australian retailers entered the online world then exited again when they didn't see profitable results.

Other Australian retailers resisted trading online altogether. They feared that trading online would cannabilise their existing bricks and mortar businesses. For these retailers, trading online would be like opening a store next door to one that had already been fitted out and a lease signed. They felt that the customer would choose one outlet or the other, but that there would not be enough extra business to justify the additional investment.

Overseas, traditional retailers embraced online trading much more readily. In the UK, where online now represents 12% of retail sales[1], traditional bricks and mortar operators dominate the list of top online retailers. High street chains like Tesco, Next, Debenhams, John Lewis, Currys, Topshop and B+Q all feature in the top 20[2] and there are six bricks and mortar chains in the top 10. In the USA, traditional bricks and mortar retailers also dominate the list of top online retailers. Internet Retailers 2012 Top 500 list of online retailers in the USA has Staples, Apple, Wal-Mart, Office Depot, Sears and CDW in the top 10.

1 Centre for Retail Research 2011 Study
2 IMRG Experian Hitwise Hot Shops Feb 2012

SHOPPING WITHOUT BOUNDARIES: THE OMNICHANNEL SHOPPER'S WORLD

THE SUCCESS OF TRADITIONAL RETAILERS ONLINE HAS GIVEN BIRTH TO THE IDEA OF THE OMNICHANNEL SHOPPER, A NEW CONCEPT IN RETAIL THAT HAS CRITICAL IMPLICATIONS FOR DISTRIBUTION CHANNEL DESIGN.

In traditional distribution channel design, a market is segmented into groups of customers that are maximally similar by group and maximally different between groups. Channels of distribution are then designed to suit the needs of these groups of customers. For example, your bank probably has separate channels for large corporate, small business and consumer customers. Likewise, at Telstra, we operate Enterprise and Government, Business and Consumer channels. Underlying this model is the belief that each customer buys only from one channel, and thus that the profitability of each channel should be judged separately. When a business is designed this way, management spends a lot of time on their channel P&Ls, wondering whether one channel is cannabilising another.

The Omnichannel hypothesis is that traditional channel design is not effective for retailers. The customer who's browsing the online channel for clothes is the same customer who visits the store looking for clothes. The customer who's looking online for a holiday is the same customer who visits a store to buy a holiday. Online and physical stores are not separate channels in the traditional sense because the one person may use both channels. In fact, online and physical more rightly should be considered an Omnichannel.

CASE STUDY: JOHN LEWIS

AN EARLY OMNICHANNEL ADOPTER PROFITS

JOHN LEWIS ENTERED THE ONLINE RETAIL MARKET IN 2001.

Like many other bricks and mortar retailers of the time, they did so through the acquisition of an established online only operator. (In John Lewis' case, the online operator was the UK arm of "Buy.com.") Rather than run the online operation as a separate entity, John Lewis soon recognised the value of integrating the online experience with the in-store experience. To achieve this, John Lewis implemented three key strategies:

1. COLLABORATE, DON'T COMPETE

The first strategy aimed to ensure that the online operation did not cannibalise the bricks and mortar stores, and involved rewarding physical stores for online sales that were made in their trade area. Store employees (partners) were given an incentive to encourage shoppers to use the John Lewis online site, and because staff were rewarded for the desired behaviour, there was a very real reason for them to collaborate and not compete.

2. CLICK AND CONNECT

Introduced in 2008, "Click and Collect" gave customers the ability to order online and pick up their purchase in a store of their choice. Or they could order in a store and have the goods delivered home. This strategy delivered a tangible benefit to the Omnichannel shopper. For the first time, the shopper could combine the benefits of a physical distribution channel with the convenience of an online channel. To the customer, online and in-store became part of the same shopping experience. They ceased to be separate channels.

3. ONLINE, WHILE IN STORE

John Lewis' third key strategy was to bring online in to the physical in-store shopping experience. Terminals were installed in John Lewis stores so that partners could assist shoppers with online purchases in what was known as the PACT (Partner Assisted Customer Transaction) program. In addition shoppers in John Lewis stores were encouraged through signage and later through QR code links to go online for information on extra product ranges, stock availability, finance terms and other information that might assist them in their shopping mission.

The results have been impressive:

- Online sales have increased as a proportion of total sales every year since the launch of the online site. Online sales now represent 22% of total sales at John Lewis[3].
- Overall, John Lewis sales have continued to increase on a like-for-like basis over the last 10 years[4].
- John Lewis customers are Omnichannel shoppers. According to the IDC Retail Insights Report "John Lewis: The Path to Omnichannel", published in May 2012[5]:
  - 27% of John Lewis customers research what they want in store and then purchase it online
  - Over 60% of customers research online before going to the store
  - More than 20% of John Lewis customers buy online and collect in store
  - 40% use their phones to interact with the brand when in a store.
- The Omnichannel shopper is John Lewis's most valuable customer. On average, the Omnichannel customer spends 3.5 times more than the customer who shops in store or online exclusively. Quite simply, access to an Omnichannel shopping experience encourages more spending.

3 John Lewis Annual Report 2012
4 John Lewis Annual Reports, 2002-2012
5 IDC Retail Insights, John Lewis: "The Path to Omnichannel" Doc #GRRS03U, May 2012

TELSTRA'S RESEARCH: OMNICHANNELS IN AUSTRALIA

A NUMBER OF DEDICATED RESEARCH STUDIES INTO THE OMNICHANNEL CUSTOMER HAVE BEEN CONDUCTED OVERSEAS, ALTHOUGH NONE – UNTIL NOW – IN AUSTRALIA.

Given the relative immaturity of online among traditional retailers in Australia, Telstra was interested to find out if the Omnichannel customer exists in the Australian market. And, if so, we wanted to find out who they are and what merchandise categories they favoured. We also wanted to discover the critical considerations for Australian retailers wishing to build an Omnichannel retail experience for their customers.

The research consisted of a telephone survey of 813 randomly selected respondents across Australia. Quotas were applied to provide for adequate representations in each age group and both genders. Quotas were also applied on location to ensure coverage across metropolitan and regional areas in each State and Territory. The interview fieldwork was conducted in March/early April 2012. The data was weighted by age and gender within location so that the results are reflective of the actual Australian population. Sample sizes by age and gender are shown below.

	TOTAL	MALE	FEMALE
14 to 19 years of age	95	44	51
20 to 29 years of age	97	47	50
30 to 39 years of age	126	55	71
40 to 49 years of age	141	70	71
50 to 64 years of age	196	96	100
65+ years of age	158	79	79
Total	**813**	**391**	**422**

HOW NEW TECHNOLOGIES ARE CHANGING THE WAY IN WHICH AUSTRALIANS SHOP

BEFORE LOOKING AT THE RESULTS OF OUR RESEARCH, IT'S WORTH CONSIDERING THE TECHNOLOGICAL ENVIRONMENT THAT EXISTS IN AUSTRALIA TO SUPPORT THE OMNICHANNEL SHOPPER.

In particular, what technologies are Australian shoppers equipped with? And how does the Australian technological environment compare with that available to shoppers in Europe and North America?

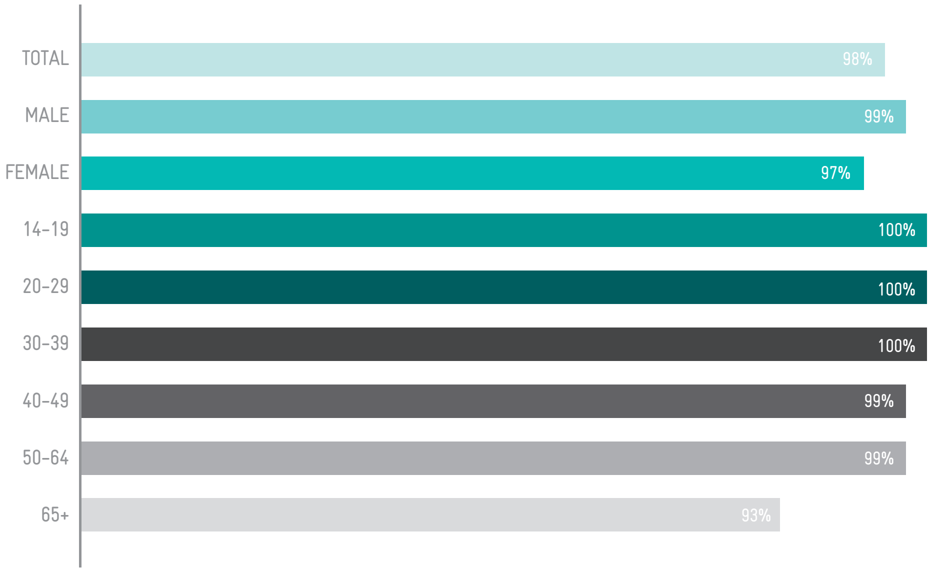
- The Australian consumer is overwhelmingly an online consumer. Ranked by Internet users as a percentage of total population, Australia has the 5th highest level of Internet penetration in the world. Total penetration in Australia, as at December 2011, lies at 90% – just ahead of Netherlands and Denmark. Australia is the only non-European nation amongst the top five countries ranked by Internet penetration[6].
- According to the Nielsen 2012 Australian Online Consumer Report, Australians now spend an average of almost 22 hours per week online. In terms of media consumption, this is 40% more time than they spend in front of a TV.
- Time spent online is increasingly facilitated by a proliferation of mobile devices. Nielsen say that 51% of all online Australians aged 16+ owned a Smartphone in 2011, up from 36% in 2010 (and they forecast Smartphone penetration to be at 64% by 2013). This compares to penetration rates of 45% in the UK and 38% in the USA[7]. Time spent accessing the Internet from Smartphones increased by 20% in 2011 to an average of 4.2 hours per week, in addition 18% of Australian households now own a tablet computer, up from 8% in 2010 and forecast to be 39% by 2013.
- Consumers are increasingly using their mobile devices to access the Internet while commuting or travelling. According to Nielsen, the proportion increased from 42% in 2010 to 55% in 2011. Of these, 31% report using their mobile devices to research products.
- Consumers are growing accustomed to a multiple screen life. Six in 10 online Australians have used the Internet while watching TV while more than one third do it on a daily basis. Of these, two thirds have used the Internet to shop while simultaneously watching TV.
- According to Nielsen's Social Media Report: Q3 2011 Australians use social media more than any other developed country. What's interesting for retailers is that social media is increasingly being used to interact with brands. One of the key areas of growth in Australians' participation with social media in 2011 was in 'Liking' brands (now 57%, up from 46% in 2010) and interacting with brands on social media platforms (now 47%, up from 41% in 2010). 71% read other consumers' opinions and discussions about brands online. Cisco's IBSG group in the U.S. found that online reviews are now five times more influential than in-store assistants in influencing shopper choice[8].

6 Internet World Stats: www.internetworldstats.com
7 Google Mobile Internet and Smartphone Adoption Report January 2012
8 Cisco ISBG "Catch 'em and keep 'em 2011"

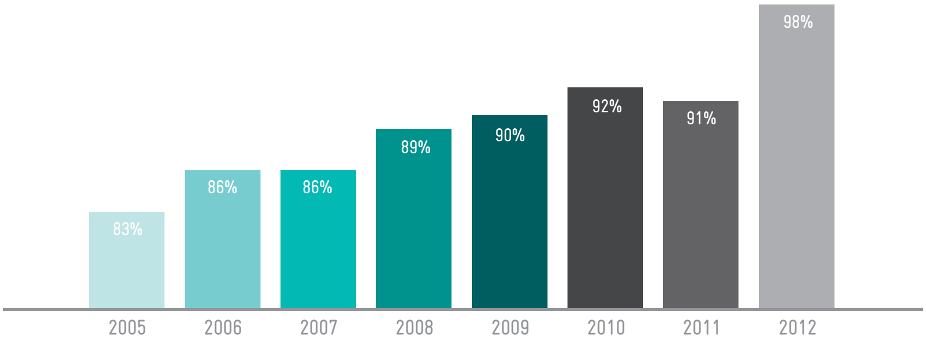
WHAT THE RESEARCH SHOWS: INTERNET USAGE AND SHOPPING PATTERNS

Internet usage is now almost ubiquitous in Australia across all demographic groups and is still increasing.

Proportion who access the internet



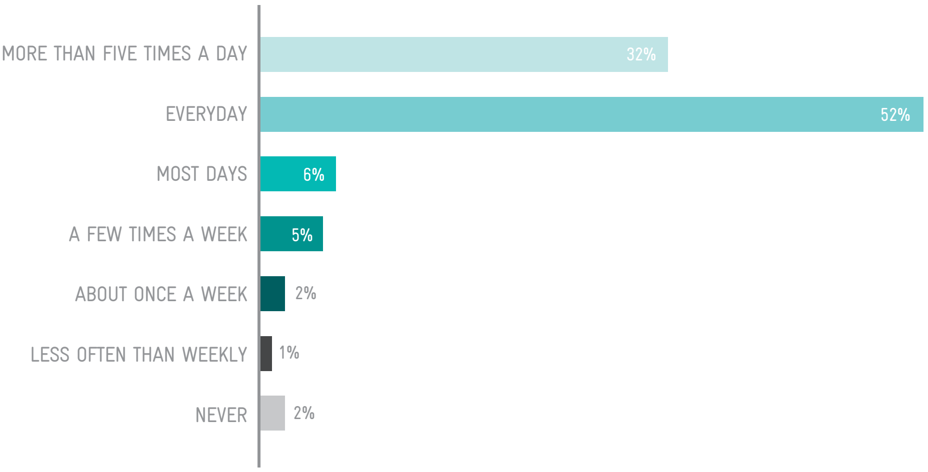
Proportion who access the internet – trends



Source: Sensis® e-Business Report, Sweeney Research

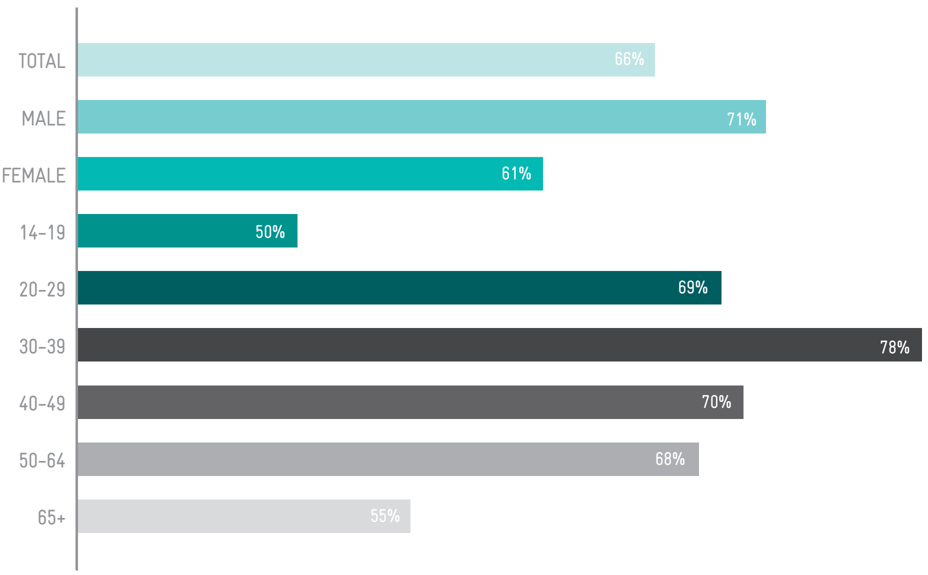
Australians are very frequent users of the Internet. Over 50% of consumers access the Internet every day and almost a third access the Internet more than five times per day.

Frequency of accessing the internet



The Internet is being used for shopping by two thirds of consumers. Men are somewhat more likely to shop on the Internet than women, while Internet shopping is most popular among 30-39 year olds. Almost four in five consumers have shopped on the Internet in the last 12 months in this age group.

Proportion who purchased online in the past 12 months

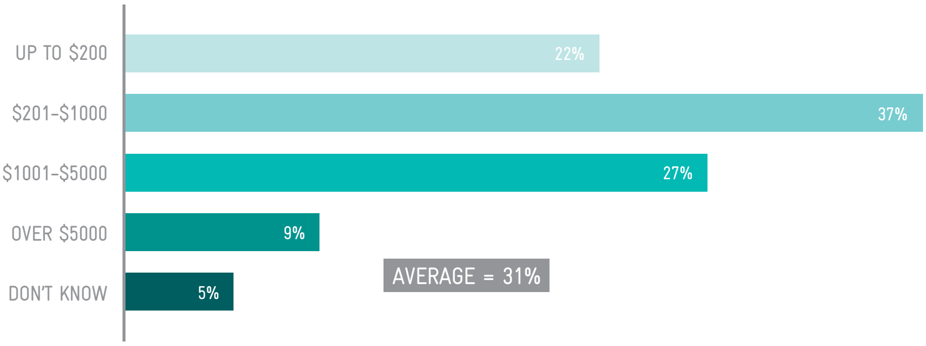


WHAT THE RESEARCH SHOWS: INTERNET USAGE AND SHOPPING PATTERNS (CONT.)

Online shoppers each spent an average of $2,218 last year. On average, men spent more than double online than women. This is likely to be due to men having a higher average income. The spend amount increased dramatically for those on higher incomes, rising from $1,159 per online shopper with an income up to $55k per annum, to $1,171 per online shopper with an income between $56k and $85k per annum and $3,820 per online shopper with an income above $85k. Only 28% of females had incomes over $85k per annum, compared with 38% of males.

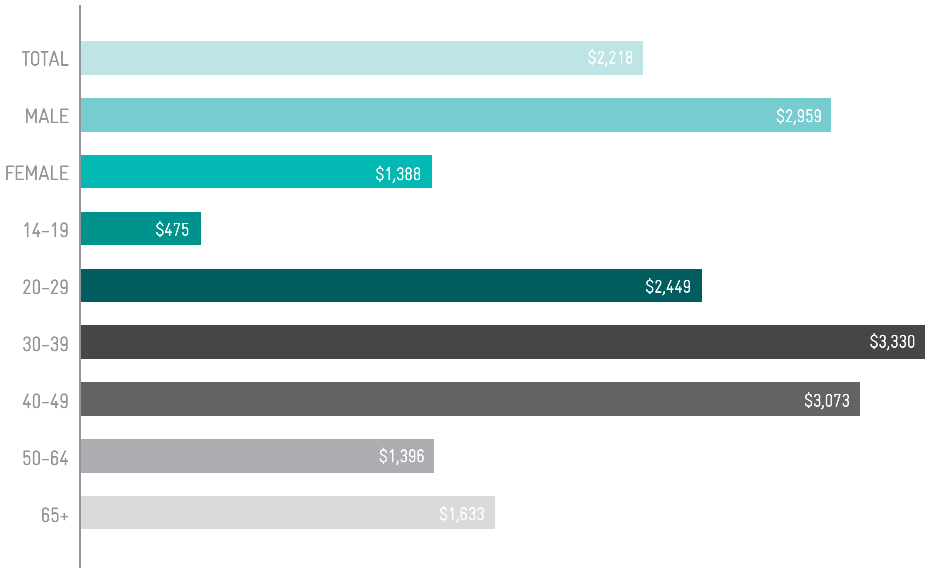
Regional shoppers spend more online than metropolitan shoppers, but the difference is relatively small (around 7%).

Amount spent online in the past year



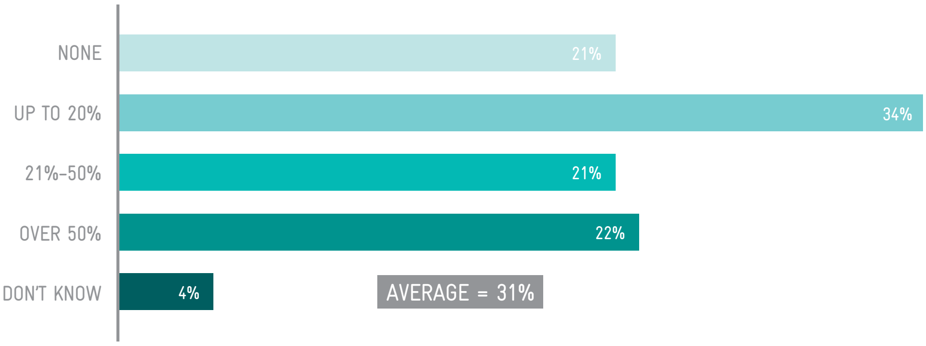
Base – purchased online

Average spend online in the past year



More than two thirds of online shopping takes place in Australia – i.e. goods are bought from Australian-based retailers. This finding is consistent with the Australian Government's Productivity Commission Report, "Economic Structure and Performance of the Australian Retail Industry," published in November 2011.

Proportion of online purchases from overseas

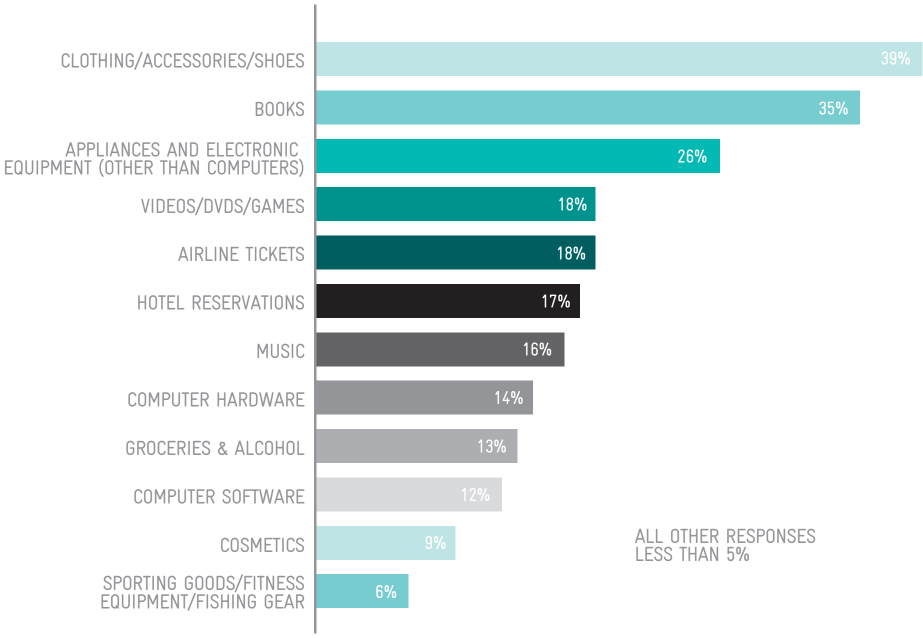


Base – purchased online

WHAT THE RESEARCH SHOWS: INTERNET USAGE AND SHOPPING PATTERNS (CONT.)

The most popular categories for online purchasing are clothing/accessories and books while the least popular are cosmetics and sporting goods.

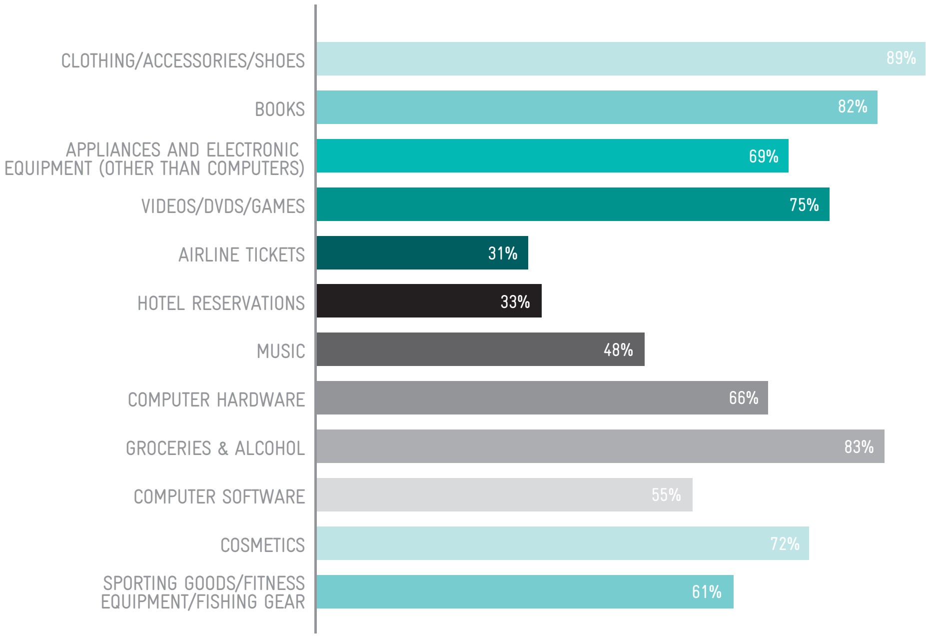
Types of products/services purchased online



Base – purchases online (66%)

The online shopper is overwhelmingly an Omnichannel shopper. The most popular Omnichannel category is clothing/accessories, with 89% of online buyers also shopping in-store. The least popular Omnichannel category is airline tickets, but even here 31% of online buyers also buy in bricks and mortar stores.

Online purchasers who had also purchased the same product offline in the past 12 months

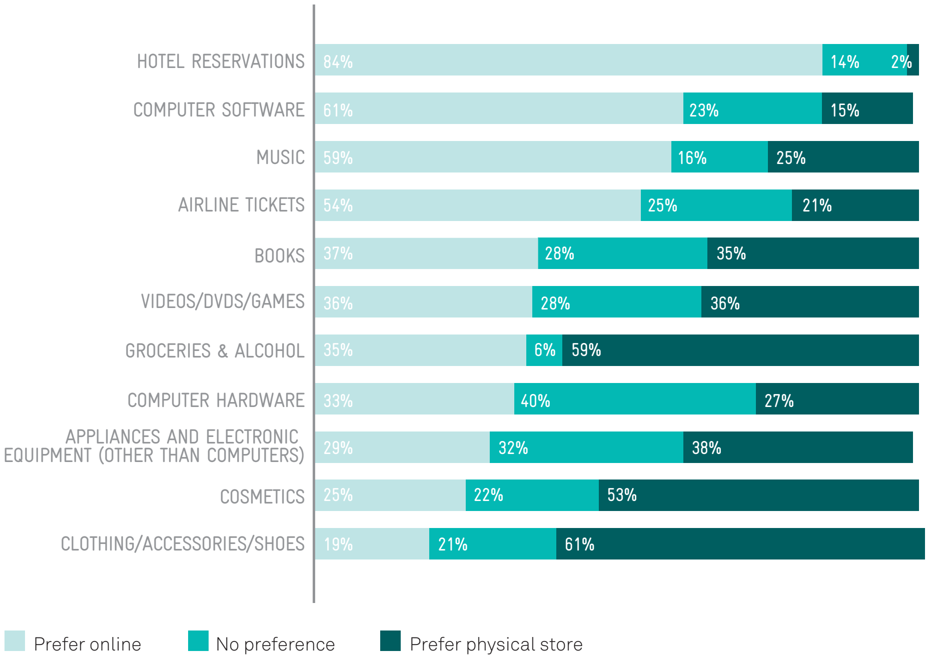


Base – had purchased product online in past 12 months

WHAT THE RESEARCH SHOWS: INTERNET USAGE AND SHOPPING PATTERNS (CONT.)

Consumers vary in their preference for online or in store shopping by category. Overall, they're fairly evenly divided between those who prefer shopping online, those who prefer shopping in store and those who have no preference. A full analysis of individual consumers (where each consumer was assigned a preference, depending on their overall preferences across the full range of goods, and with each preference assigned a value of "1") showed that 42% of consumers favour bricks and mortar, compared with 29% preferring online and 29% having balanced preferences across the different channels.

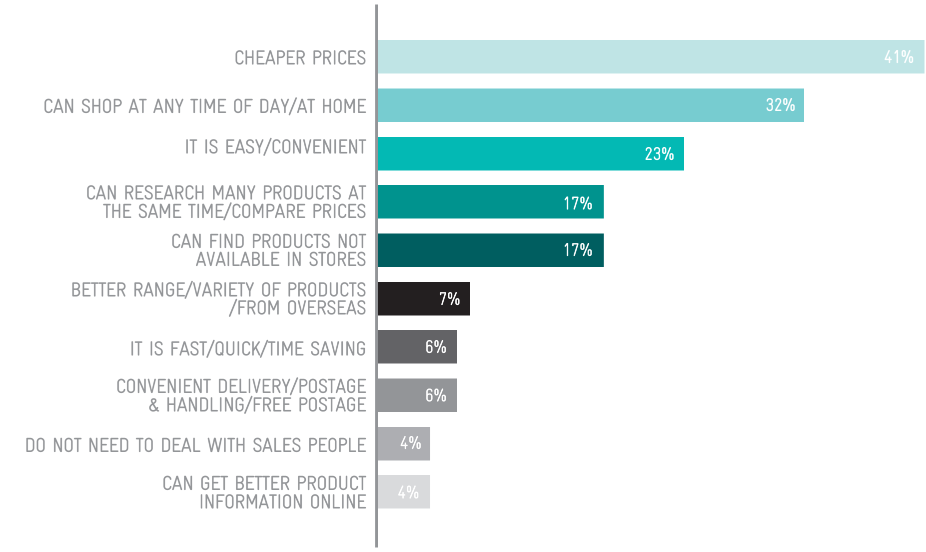
Preferred shopping method



Base – had purchased products both online and in a physical store in past 12 months

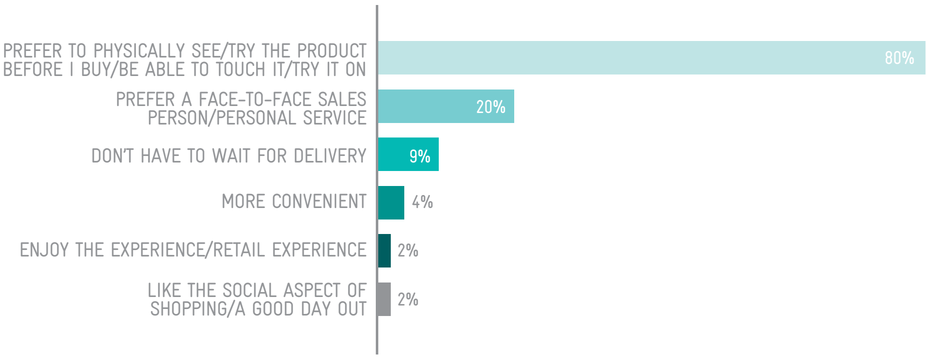
Consumers gave their top reasons for preferring to shop online as being price and the convenience of being able to shop from anywhere. The top reasons given for preferring to shop in a physical store were sensory (feel, touch, the ability to try on clothes, etc.) as well as face-to-face customer service.

Benefits of shopping online



Base – purchased online (66%)

Benefits of shopping in a physical store

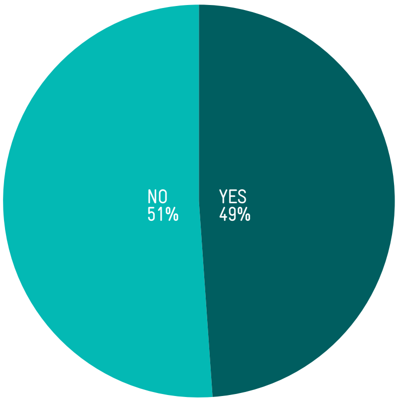


Base – purchased online (66%)

WHAT THE RESEARCH SHOWS: INTERNET USAGE AND SHOPPING PATTERNS (CONT.)

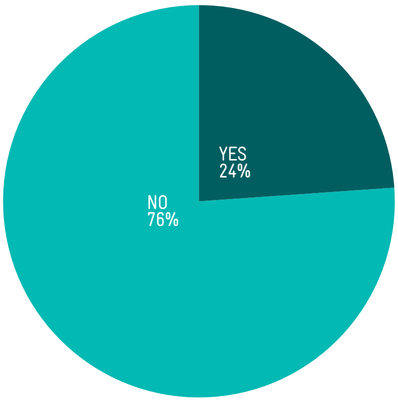
The online world has given birth to "showrooming." Showrooming occurs when a consumer uses a bricks and mortar store to touch, feel and try a product but then buys online. Our research shows that the showrooming phenomenon is real. Half of the population has researched a product in a physical store then bought it online, but of these about a quarter made the online purchase from the same retailer with whom they did the research. In other words, showrooming results in an online sale for the physical retailer in about 25% of cases.

Have you researched goods in a physical store then bought them online?



Base – purchases online

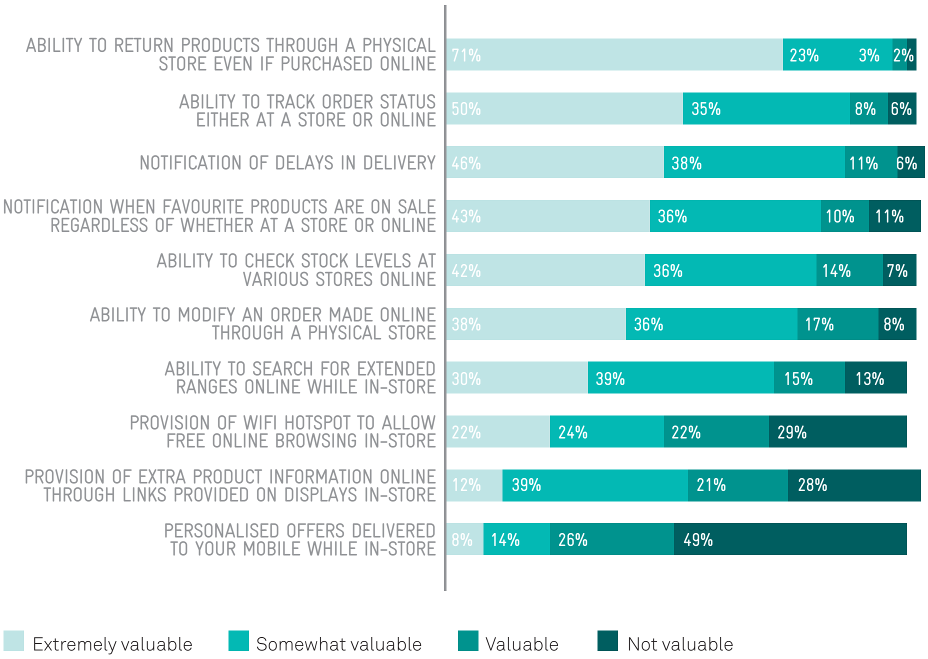
Was the online purchase made from the same retailer?



Base – researched in a store then purchased online

Consumers value Omnichannel shopping for the way it combines the strength of in-store and online to create an anytime, anywhere shopping experience. For example, they see benefit in being able to order in-store or online and then take delivery somewhere else, to check stock availability across various locations, or to check out extended ranges online while visiting a store.

How consumers rate different Omnichannel benefits

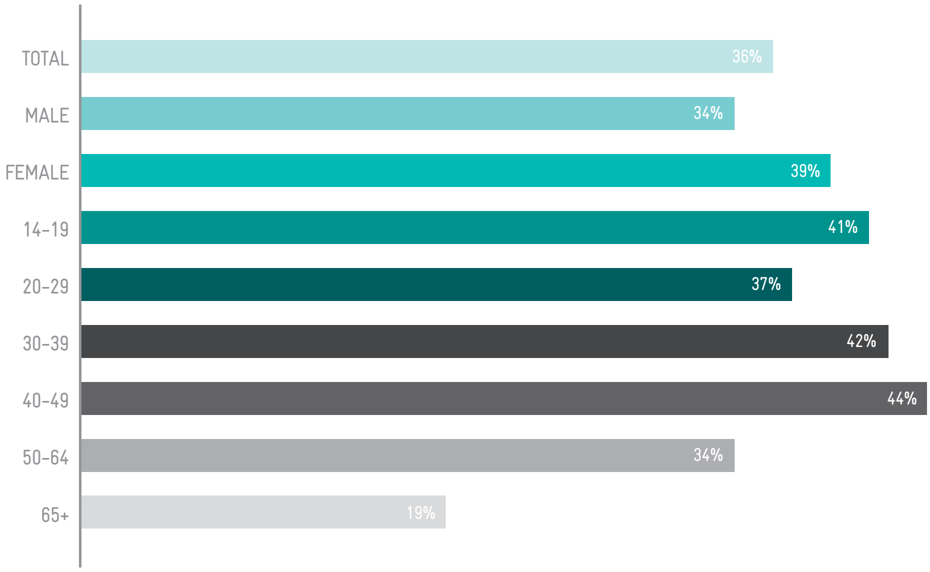


Base – purchases online

WHAT THE RESEARCH SHOWS: INTERNET USAGE AND SHOPPING PATTERNS (CONT.)

A large proportion of Multichannel shoppers – those who shop both online and in physical stores – are already Omnichannel shoppers. More than a third of the population who bought online and in-store in the last 12 months did so from the same retailer. The Multichannel customer is most likely to be Omnichannel in the younger demographics (14-49) and less likely in the over 65 age group.

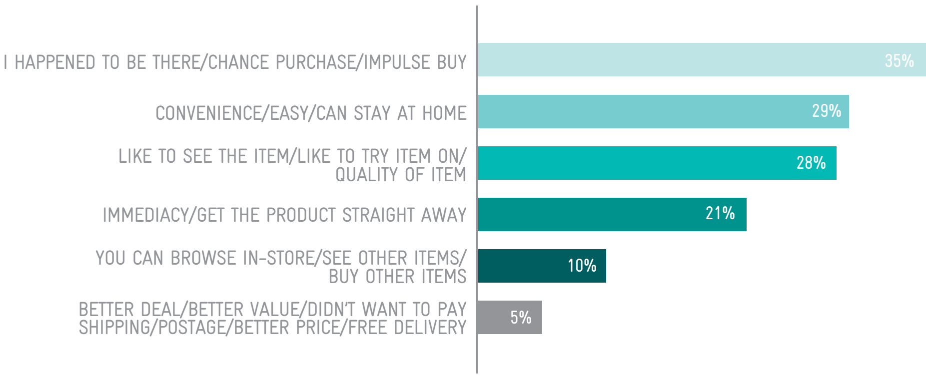
Proportion who purchased from the same retailer both in their stores and online in the past year



The Omnichannel shopper values convenience. While the benefits of online shopping centre around comparison-shopping, and the benefits of shopping in-store centre around the senses, both online and physical shoppers rate spatial convenience as their top reason for shopping. For retailers, this means the best Omnichannel prospects are those who live in the trade area of your physical store location.

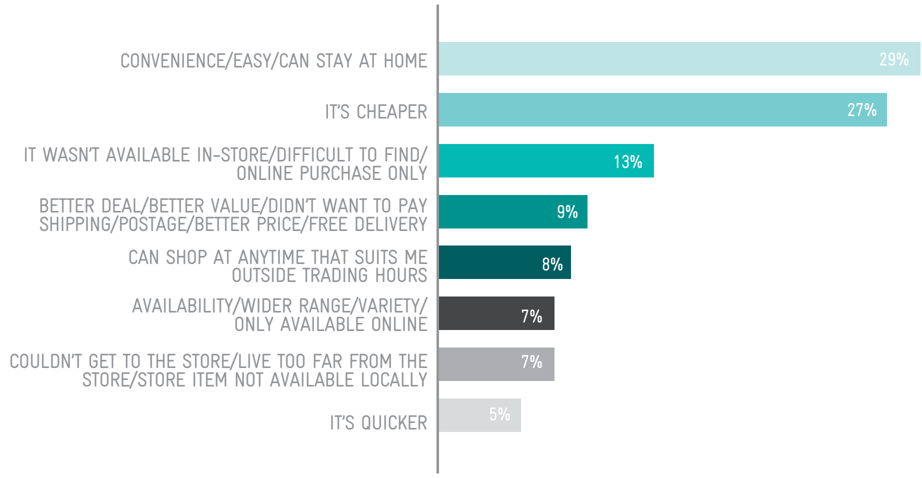
Examining the sales that businesses make online reinforces this. The Sensis® e-Business Report is a large scale survey of 1,800 small and medium businesses that has been tracking the online behaviour of small and medium businesses since 1995. Over this time, it has consistently been found that the main customer base for SMEs that sell online comes from those who live locally. Indeed, 60% of SMEs mainly make their sales locally.

Why purchased at retailer's physical location



Base – purchased at same retailer online and in-store (36%)

Why purchased at retailer's online site



Base – purchased at same retailer online and in store (36%)

WHAT THE RESEARCH SHOWS: INTERNET USAGE AND SHOPPING PATTERNS (CONT.)

Types of customers SME's sold to:

	MAINLY TO SELL	TOTAL TO SELL	TOTAL SELL TO:	
			SMALL BUSINESS	MEDIUM BUSINESS
Local – same city or town	60%	87%	87%	86%
Elsewhere in state	13%	48%	48%	56%
Interstate	16%	45%	44%	61%
Overseas	3%	27%	27%	35%

MEET THE OMNICHANNEL SHOPPER

The Omnichannel Shopper
Jane (not her real name) is in her 50's and lives in Tasmania. She accesses the Internet more than five times a day but does not use social media. In the past 12 months she has bought books, clothing, airline tickets and hotel reservations online but has also bought all of these categories in a physical store. She uses in-store and online for different purposes. "When I need traditional service or need to feel and touch things I go to a bricks and mortar store but if I want something specific I like the convenience of buying online." Her favourite bricks and mortar store is Myer because of its product range. Her favourite online store is Ezibuy. It's interesting to note that Ezibuy acquired Myer Direct in 2002. If not for this acquisition Jane would have had a classic Omnichannel relationship with the Myer brand.

SOCIAL MEDIA AND THE NEW SHOPPING EXPERIENCE – WHAT IT MEANS FOR RETAILERS

IN AUSTRALIA, THE CONSUMER SOCIAL MEDIA MARKET ALREADY DISPLAYS A DEGREE OF MATURITY.

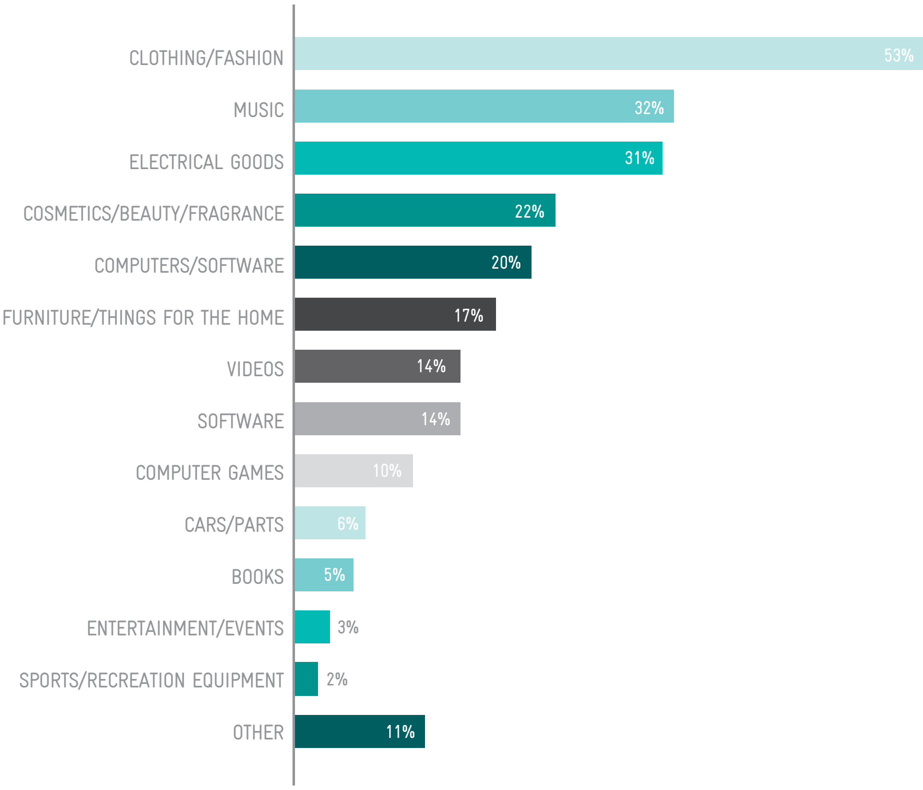
Only 38% of online Australians do not use social media – a figure that has not changed in the past year. But those who do use it are using it more frequently, with 36% of online Australians using social media at least once a day in 2012, up from 30% in 2011. An enthusiastic 10% of online Australians report using social media more than five times a day.

Social media has been playing a growing influence on consumers' purchasing behaviour in recent years. Social media users are more likely to report purchasing online than non-users. While 66% of Australians reported having made purchases online, 71% of social media users reported online purchasing, increasing to 74% of Australians who used social media every day.

On the other hand, while business use of social media has been increasing (27% of small businesses have a social media presence in 2012, up from 14% in 2011), it still lags consumer usage. However, by examining the consumer data, it is evident that the opportunities that social media provides for businesses are considerable. For example, some 16% of social media users reported that they used social media to research products and services that they might want to buy. The opportunity for Omnichannel retail is clear, with the types of products most suited to the Omnichannel model also being the types of products that consumers are most likely to be researching on social media.

Of those social media users who researched products and services, 40% reported that their last search had resulted in a purchase. While 72% of those purchases were conducted online, some 28% resulted in an "offline" purchase in a physical store.

Products or services researched on social networking sites



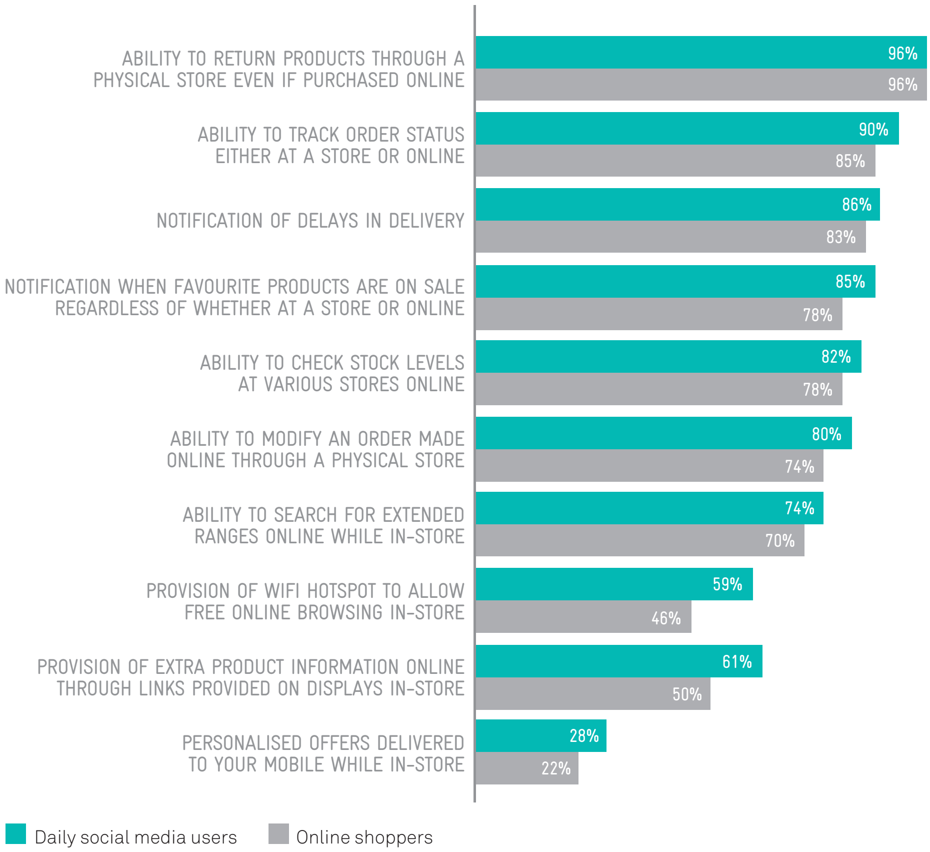
Base – users of social media to research products or services
Source: Sensis® e-Business Report, Sweeney Research

SOCIAL MEDIA AND THE NEW SHOPPING EXPERIENCE – WHAT IT MEANS FOR RETAILERS (CONT.)

The benefits of the Omnichannel model resonated strongly with regular social media users, who rated them equal or higher than online shoppers in general. In particular, social media users rated access to Wi-Fi hotspots and links to additional product information in-store more highly than regular online shoppers.

Social media users were slightly more likely to report researching online and then purchasing in a physical store than the general population (75% compared with 73%). They were also significantly more likely to report researching in a physical store and then purchasing online (59% compared to 49%).

How social media users rate different Omnichannel benefits



Proportion that rated feature as very or quite valuable

SEGMENTING YOUR CUSTOMERS IN AN OMNICHANNEL MARKETPLACE –DELOITTE'S VIEW

The Omnichannel consumer is making faster, more accurate and more sophisticated purchasing decisions than ever before. Traditional consumer behaviours are being replaced by Omnichannel consumer behaviours.

TRADITIONAL CONSUMER BEHAVIOUR	OMNICHANNEL CONSUMER BEHAVIOUR
Research by reading printed media or watching a TV advert, often with a local focus	Scan the Internet to "comparison shop" based on the value of one offer against another offer. Refer to peer opinions via their social media networks – even while in a physical store
Make an early decision on where to purchase	Keep purchase options open right up to the point of sale
Shop based on the opening hours of a physical store	Browse and purchase when convenient
Constrain themselves to what is available in the physical store	Find the product that is best suited to their needs – globally or locally. Geography is often irrelevant

So how can retailers build in the agility to recognise this change in the market, respond to or even pre-empt further changes? How can you make the right offer, at the right time, through the right channel to win the customer's attention – in a way that entices them with a value proposition that speaks directly to their desires and needs?

More than ever, segmentation is the key to answering these questions. Traditional segmentation approaches are not designed for the Omnichannel consumer – they are often too high level, based on attributes like demographic, life-stage and socioeconomic status, and undertaken as a point-in-time, survey-based, research exercise. The result is a simplified matrix that assumes a customer resides only in one segment and can only be managed as a single persona.

So what does segmentation look like in an Omnichannel world?

1. **Amazingly granular data, used smartly**
   Omnichannel segmentation makes smart use of the amazing data that the Omnichannel consumer is providing retailers at every touch-point, across each channel, with every decision and transaction they make. In this new world, a distinction must be drawn between aggregate customer data that gives no insight in how an individual's behaviour changes over time, and rich granular data that provides insight into every customer interaction. Having a strategy that recognises how this data is going to be gathered and sourced across these touch-points is the first step in re-thinking the role of segmentation. Surprisingly, most of this data is at the fingertips of retailers today; making good use of it – irrespective of where it sits in the organisation – is achievable within a short timeframe.

2. **Advanced analytics tell the story**
   Through their actions and transactions, Omnichannel consumers offer up data that provides a behavioural and then granular view of what they are doing. Much like the innovations in technology available to consumers in an Omnichannel world, so too retailers today can avail themselves of many advanced analytic tools. These tools are not cost prohibitive, and search the traces of data a consumer leaves with retailers to unveil stories of behaviour. Similar to a social networking environment, the resulting behavioural segments act like communities of likeness – consumers effectively self-select where they best reside within the segmentation model based on how similar their shopping behaviours and preferences are to a particular community. They are not assigned into a group because they fit a pre-configured persona.

3. **Constant evolution, to reflect a constantly changing market**
   The segmentation model becomes a living breathing asset that can be refreshed to monitor changes in behaviour, evolves over time, and allows the retailer to respond with agility to meet customers where they are now in their own shopping experience.

Imagine the ability to identify those customers who are similar – firstly, because they buy running gear; secondly, because they like the same brand; and thirdly, because they're prepared to pay a slightly higher price to get the latest product – especially after payday. Then imagine that they are also similar because they prefer to make their first purchase in-store, but will then repeat purchase online – except for weekends, when again they will revert to browsing and buying in-store. What does this tell us about how, where and when we can influence these customers?

On a given day, imagine having the opportunity to recognise these shoppers are online, call up prior purchases and present them with the products that are most appealing to them. You can entice them, not by offering price discounts, but instead by giving them an incentive to bundle, cross-selling to them, based on the choices they've made in the past. What's more, you're not just campaigning to them, but also to all those within their community of likeness, reaching out to them through their most prevalent channel of interaction at the most relevant time of day. This is the power that segmentation in an Omnichannel world can provide.

VITAL OMNICHANNEL LESSONS FOR AUSTRALIAN RETAILERS

THE OMNICHANNEL WORLD CHANGES THE WAY RETAILERS MUST THINK ABOUT THE CUSTOMER EXPERIENCE.

1. Managing the Customer Experience

The Omnichannel world changes the way retailers must think about the customer experience. In the old world, the customer experience was only about what happened within the physical confines of the shop. Then, the foundations of the customer experience were physical e.g. doors open and close, security gates work, air-conditioning functions, floors are clean, aisles navigable, stock on display and faced, signage up to date, etc. Retailers were in large part facilities managers.

In the Omnichannel world, however, retailers have an online extension to their shop that allows them to trade 24/7 and reach a much wider geography. Here, the foundations of customer experience are technological not physical e.g. continuity of service, bandwidth, speed of data transfer, ease of communication, etc. If the technology doesn't work, the customer experience is damaged. Omnichannel retailers, in large part, need to be technology managers.

The first imperative for the Omnichannel retailer is therefore to work with trusted partners that provide robust and resilient infrastructure, dedicated customer service teams and local expertise so that the online extension of their store will be always open for business.

2. Managing the bridge between the physical and the virtual worlds

The essence of Omnichannel is the constant movement of the customer between the physical and virtual worlds. In store, two technologies play a critical role in facilitating this, namely Wi-Fi hotspots and Digital Media.

i) Wi-Fi hotspots

Providing a Wi-Fi hotspot in your physical store may seem overly generous and unnecessary in Australia, where many customers have large data allowances on their mobile phone plan. However, the provision of free Wi-Fi has important benefits for both retailers and their customers. For the customer, the most important benefit is that online access is "free". "Free" is still the most powerful word in retail. You see this in the supermarket on Saturday when customers crowd around a cooking demonstration on the promise of a "free" knife that they don't really need. Likewise, when Wi-Fi is free, customers will be much more inclined to use it – even though the cost of their own mobile data may effectively be the same. Retailers are therefore much more likely to get customers online and enjoying an Omnichannel experience when there is a Wi-Fi hotspot than when there is no Wi-Fi hotspot. In some circumstances, the availability of a hotspot may also be a reason for customers to choose to shop in one store rather than another.

Another reason to consider a Wi-Fi hotspot as an Omnichannel access driver is that mobile coverage on some networks may not be optimal for your store's location. Heavy use of some networks is known to reduce performance, so if your store is in a busy shopping centre and many people are using their mobile phones, the online experience for customers may be poor. This is particularly important if you want to share data rich content, such as video, with your customers.

As well as providing encouragement for customers to enter the Omnichannel world, Wi-Fi hotspots can provide retailers with invaluable data about their customers. Each customer that enters the network can be identified. This gives retailers a new level of intelligence on their customers' shopping behaviour. Whereas the loyalty card gives retailers the ability to link a basket of shopping to an individual at the checkout, the Wi-Fi hotspot gives retailers the ability to link an individual to a potential sale before it happens. Retailers now have the opportunity to market to customers as they walk around the shop – perhaps offering them the latest specials or items that may be of interest, based on the customer's previous shopping history. For the customer, it's like having a well-informed and trusted sales assistant with them throughout their time in the store.

Wi-Fi hotspots are about to gain further value to the retailer, thanks to a specification called Hotspot 2.0, which is being developed by the Wi-Fi Alliance. One of the features of Hotspot 2.0 will be the ability to track a customer's movement around a store and be authenticated using the SIM card on their Smartphone or tablet. This will facilitate traffic mapping and feedback in to plannogram development.

If Wi-Fi is offered to customers in-store, retailers should make sure that it is done in a way that the security of the corporate network is maintained.

ii) Digital Media

Digital screens are the doorways to the Omnichannel world. Customers enter the online extension to your shop via the screens on their Smartphone, tablet or PC. Even in the physical world of the retail store, screens offer customers a link back to the online world where they started their Omnichannel shopping experience. Digital screens have two basic functions in retail: one is to display content (passive); the second is to offer individual assistance to the shopper (interactive).

When a digital screen displays content, it is essentially an animated version of a poster, but it does offer some important additional benefits. The first of these is timeliness. When content in retail stores is displayed on networked screens, offers can always be up-to-date. This is especially important in competitive sectors where day-to-day tactics are the key to success. Digital media gives retailers the potential to quickly change their offer, based on competitive actions or changes in environmental conditions like the weather. Digital Media can also be used to create events in-store or at the shopping mall. Citibank have

implemented a giant screen and a seating area in their Union Square flagship in New York City. The area is intended for customer education and entertainment with the objective of having customers spend more time in the branch and build a deeper relationship with the brand. Through Content Delivery Networks (CDN) it is possible to stream content to any device with an internet connection so that a cooking demonstration in the event area of the store could also be streaming to the Smartphone in your hand.

Digital screens also have the potential to offer individual assistance to the shopper. This assistance can take various forms, the most basic of which is in-store navigation. In shopping centres today, you can already see customers using digital screens to navigate their way around. Some stores like John Lewis and Best Buy are also using digital screens as kiosk access points to the Internet. Customers can use these kiosks to find extra information about products or to gain access to additional products not available in the physical store. Screens can also be used to keep the shopping going even when the physical store is closed. Some retailers have deployed touch screens on their front windows so that customers can browse even when the store is shut.

A more advanced use of screen technology for customer assistance can be seen at retailers like Home Depot in the USA and the Royal Bank of Canada. Here digital screens are being used to facilitate remote access to subject matter experts from the store location. At Home Depot customers can get access to specialist kitchen designers via in-store video conference and at the Royal Bank of Canada, small business owners can get access to specialists in their sector via screens in retail bank branches.

3. Omnichannel shopping companions

In the old physical world, customers often used store catalogues as shopping companions. Now, in the Omnichannel world, your consumers' preferred shopping companions are the Smartphone and the tablet. These mobile devices give customers access to the online world when they are in your store or doing something completely different. Online they'll find your sites and apps, your competitors' sites and apps, and – most importantly – the opinions of others. Now that Smartphones and tablets are the key shopping companions retailers needs to ensure that their online sites are optimised for mobile, yet according to Google's May 2012 report "Our mobile planet: Australia – understanding the mobile consumer", only 21% have done so. As well as being optimised for mobile it is imperative that retailers keep up with the plethora of devices and version changes made by manufacturers so that applications can continue to work effectively.

The proliferation of devices means a proliferation of ways a customer will contact you. The Omnichannel customer expects to be able to interact with their favourite retailer from anywhere and at any time of day or night, and reach the information or resource they need instantly. SMS and MMS are widely adopted forms of communications that retailers could easily incorporate into the online experience to provide customers instant communications on areas of interest. A unified communications framework can provide retailers with a means to integrate communications media into the customer experience design and into the enterprise systems. Importantly, it enables retailers to evolve their experience design in accordance with consumer preferences that may include social media and video.

Retailers should also remember that the digital relationship they gain with an Omnichannel shopper opens up a new way to talk to customers one to one. Once profiles of shopping behaviour and preference are built up offers can be developed for individuals and distributed to them before they shop. Messaging platforms like Whispr can ensure that the message is compatible with any connected device. Combine a digital relationship with a Wi-Fi hotspot and there is even the possibility of messaging a customer while they are in the store and making their buying decisions.

The most influential technology of all is social media. Social media applications are the most popular category of application accessed by users of Smartphones. This should be no surprise to experienced retailers. When people shop they have always shopped for a relationship as well as the functional benefits of product and price. The relationship could be with an individual sales assistant, the product brand or the store brand but it's the relationship that will cause customers to keep coming back to your store or paying a premium for a product. Social media offers retailers a virtual way to maintain their customer relationships. It also offers the opportunity to monitor wider conversations about your products and brands.

CASE STUDY: COCA-COLA AMATIL GOES OMNICHANNEL IN AUSTRALIA

COCA-COLA IS ONE OF THE BEST-KNOWN BRANDS IN THE WORLD AND HERE IN AUSTRALIA, COCA-COLA AMATIL (CCA) IS LICENSED TO MANUFACTURE AND DISTRIBUTE COCA-COLA PRODUCTS.

Terry Davis has been Group Managing Director of CCA since 2001. In that time, he's presided over a dramatic change in the CCA business – overseeing its transformation from a carbonated beverages business to a diversified, premium beverage and food business with a product range that now includes coffee, spring water, juice, tea, fruit snacks and alcohol, as well as the famous trademark Coca-Cola brands. The results have been impressive in this period, with eight out of 10 years of double-digit earnings growth, shares outperforming the market by almost three times and dividends paid to shareholders increasing four-fold. CCA and Telstra are long-term partners – indeed, CCA signed an exclusive partnership agreement with Telstra in 2009- and, in 2011, Telstra was CCA's supplier of the year for IT.

Terry Davis attributes part of CCA's success to keeping abreast of consumer trends and keeping marketing of its 171 brands relevant to the changing world: "We've spent a lot of time understanding our consumer, understanding how music has changed in particular, how food styles have changed in each of our markets… And, of course, you have to use technology somewhere in that process to understand what consumers are actually doing. Generational relevance is critical for any consumer brand. You don't want to get to the stage where a customer says "Well, I don't drink that because my dad does."

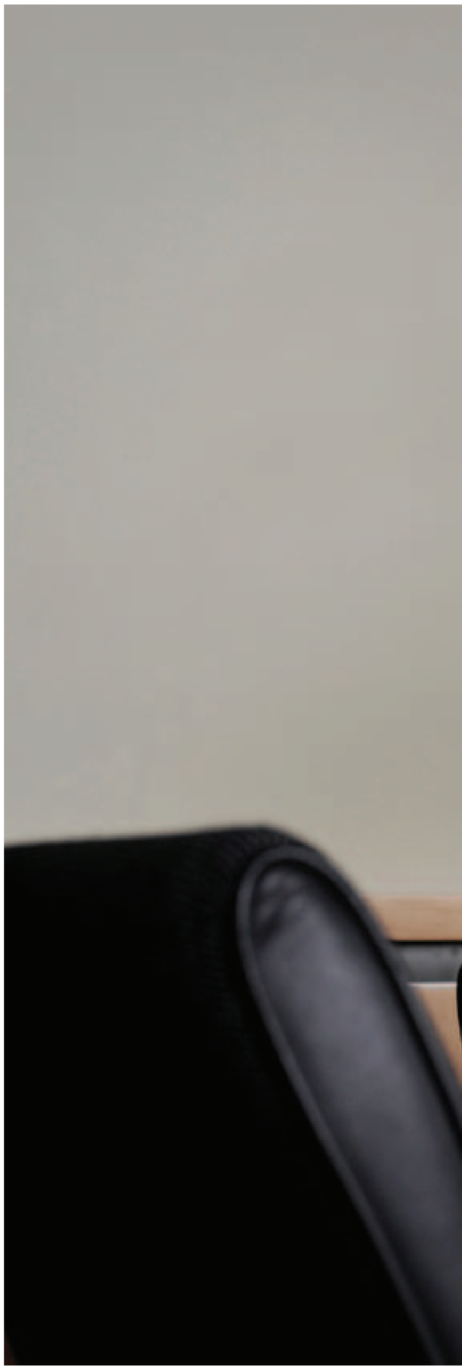
CCA saw an opportunity to communicate more effectively with its customers and to drive brand preference by combining the two key facilitators of an Omnichannel experience – Digital media and Wi-Fi hotspots – with the key Omnichannel shopping companion, the Smartphone. Telstra partnered with CCA to develop the solution.

Today, CCA uses digital screens in pubs and clubs to display advertising for their products, with rich content delivered to individual screens via the Internet. This means that the content is always in-line with current promotions, and can be swiftly changed in response to competitor activity or even changes in the weather – something a paper poster could never do. The screens also have built-in wireless routers, effectively creating a Wi-Fi hotspot for customers in close proximity to the screen. CCA use this as a proximity-based marketing engine, offering free Wi-Fi to customers who buy a CCA product in participating pubs and clubs: "Buy a Jim Beam and get free Wi-Fi for 30 minutes."

The results have been impressive. Barry Simpson, Chief Information Officer for CCA says: "We've been able to measure point of sale data and see the uptake. Product sales have increased – which is exactly what we were trying to do – and that up-take has been anywhere from 20%".

The value doesn't end there for CCA or its customers. By entering the Wi-Fi hotspot, customers have the opportunity to opt in to a digital relationship with CCA. Both sides benefit, with customers getting access to relevant offers based on unique individual requirements and CCA gaining valuable customer profiling information that ultimately allows them to serve their customers better.

Says Davis: "By reading data from our customer, we can understand consumer behaviour better…what do they buy when they go into a supermarket, how many times do they buy a Coke with a hamburger, how many times do they buy a Coke with something else? All of this is extremely useful knowledge for our sales-force and helps us develop new solutions. It's invaluable to us, and even more so for our customers."



CONCLUSION

THE VAST POTENTIAL OF THE NEW OMNICHANNEL WORLD STILL REMAINS TO BE TAPPED IN AUSTRALIA.

Retailers with existing physical store networks are in the best position to exploit this potential because they can combine the benefits of physical distribution with the convenience of online. Most online shoppers are already Omnichannel shoppers. They are well equipped and are keen to build broader relationships with retail brands. To take advantage of the Omnichannel opportunity retailers must recognise that the foundations of customer experience in the Omnichannel world are technological.

If the technology platform is not right customer experience is damaged, sales are not made and relationships are not built. It is especially important for retailers to build bridges between the physical world and the virtual world through the provision of in-store Wi-Fi and Digital Media and to ensure that all online applications are optimised for the new shopping companion of choice, the Smartphone. The Omnichannel opportunity makes this one of the most exciting times in history to be in retail for those skillful enough to grasp the opportunity.

ABOUT THE AUTHORS

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Gareth was born in the UK and educated in the UK, USA and Australia. He has spent over 20 years in a variety of senior sales, marketing and general management roles including two years as CEO of an Australian sporting goods retailer and seven years in the DSE division of Woolworth's, responsible for group-wide merchandise management, marketing and store planning. In addition Gareth has spent a number of years consulting to retailers, as well as lecturing in retail at Sydney, Macquarie and Shanghai Jiao Tong Universities.

In 2011 Gareth was appointed Retail Industry Executive in Telstra's Industry Development team.

Gareth holds a Master's degree in management from University of Technology, Sydney.

Christena Singh
Christena Singh joined Sensis in 2003 as the author of the Sensis® Business Index and the Sensis® e-Business Report. As well as authoring and providing media commentary on Sensis' major public economic and technology reports, Christena is also passionate about communicating the success of Australian small and medium businesses, and how the adoption of technology has helped them grow. Prior to joining Sensis, Christena worked for the Federal Government on small business policy and its role in the Australian economy.

The Sensis® Business Index is the flagship of Sensis' SME research program. Since its inception in 1993, the Sensis® Business Index has been one of the most extensive and comprehensive surveys of small businesses, with its findings are regularly reported in the media and quoted in parliaments across the nation.

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Jenny Wilson leads Deloitte Australia's Customer & Markets practice, with a particular expertise in the domain of Customer Segmentation and Customer Growth Strategy.

Today Jenny is assisting organisations like Telstra to develop truly customer-centric strategies for growth, retention, channel optimisation and service improvement.

This expertise is supported by over five years experience in the field of digital media, multi-channel strategy and innovation across retail, financial services, energy and tourism.

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