Multichannel Sales, the Future of Retailing

IESE Prof. J.L. Nueno identifies the top trends and emerging models that will breathe new life into the retail concept.

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Recessionary woes, coupled with the rise of e-commerce, have seen the demise of many traditional businesses, as the growing number of vacant, shuttered shops on the streets of many European cities attests.

In Spain, retail sales have dropped by 22 percent over the past four years. Conversely, during the first half of 2012, e-commerce registered sales of more than 5 billion euros.

Solving the problems of the retail sector involves implementing a multichannel strategy that integrates online, mobile and social channels, while at the same time reinventing physical stores, which remain cornerstones of the sector.

Buyer trends

Consumer behavior is evolving in a fast and unpredictable manner. Consumers are leading and shaping multichannel commerce, with retailers trying to adapt their strategies accordingly. The major trends are as follows:

- *Seasonality*. Consumers in mature economies are reluctant to spend, except during sales, when traveling or for extraordinary circumstances.
- *Mobility*. An increasing number of purchases are made on the go, thanks to mobile devices.
- *Socialization*. Going shopping together is becoming less relevant, as consumers now use social media networks to socialize.
- *Relevance*. People tend to buy only what they don't already possess, with greater

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interest in a brand's own stores.
- *Evasion.* Consumers tend to stay at home to avoid spending, so new channels must be sought in order to reach these consumers.
- *Shared Products*. An increasing number of young and older people are willing to share the cost of big-ticket items.
- *Freebies*. Once users stop paying for something, it is very difficult to make them pay for it again.

The advantages of multichannel sales

E-commerce is emerging as an alternative channel in many categories. Besides not having to go to a physical store, consumers are offered additional benefits, such as a greater selection of goods, lower prices, stock availability and pricing in real time.

More and more companies are diversifying their sales channels. A multichannel strategy is much more than the sum of physical stores plus an online channel: It is a matter of engaging the same number of face-to-face formulas and using all resources, including mobile and social commerce, to provide a more complete and loyalty-building shopping experience.

A risk that frequently comes up when discussing multichannel commerce is cannibalization.

However, the author notes that an integrated multichannel strategy actually helps increase sales as a result of the synergy effect, whereby online traffic directs consumers toward physical stores, and physical stores direct traffic toward their websites.

In addition, multichannel commerce is an efficient means of entering global markets, as evidenced by the cases of Amazon and Inditex.

Physical stores are losing customers, but not uniformly: While customer traffic remains stable in the main commercial areas, known as prime zones, it is decreasing considerably in peripheral areas. Between 2010 and 2013, traffic on prime streets fell by a third of that on peripheral streets.

As such, it is not surprising that between 2006 and 2012 the availability of retail space to rent in prime-location malls only rose by 1 percent, whereas elsewhere it grew by 15 percent.

Emerging formats

Apart from e-commerce, two other sales channels are booming: mobile commerce, possibly

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due to the popularization of smartphones and mobile devices; and social commerce, which occurs through transactional, particularly vertical, social media networks.

As these new formats gain prominence, others such as door-to-door, vending-machine and infomercial sales are losing relevance.

However, the report warns that the availability of these new options should not make retailers neglect physical stores, which must also be reinvented to adapt to the new context.

The main shopping streets of New York City, Barcelona and Shanghai are currently full of flagship stores. These stores are located in areas of high pedestrian traffic that attract tourists and local customers alike, creating a strong brand image that is then exploited in all other sales channels.

Other channels that are expected to increase in popularity in the coming years include ephemeral stores, such as pop-up stores, and click-and-collect stores, an emerging concept that integrates online and offline channels.

One example is Tesco, the British chain that has more than 1,400 such stores, where customers can pick up their online purchases without having to wait in line.

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