Recasting the Retail Store in Today’s Omnichannel World

Despite a host of new shopping options, talk of the demise of brick and mortar is premature. Retail stores remain at the heart of the customer relationship and play a main role in fulfilling multi-channel demand.
Brick-and-mortar is dead.

That’s what many seem to believe, and it’s not surprising, given the negative outlook on the future of retail stores offered by sources within and outside the sector. Reality, however, suggests a far different picture, one in which stores and store networks continue to play the leading role in building customer loyalty and supporting financial performance. In fact, our online study of 3,200 U.S. and UK consumers shows that stores remain at the heart of retailers’ relationships with consumers, even in today’s “omnichannel” world where online and mobile sales appear to rule.\(^1\) The evidence is clear: Consumers value the retail store experience on multiple levels and continue to make the vast majority of their purchases in stores. And, importantly, the value of stores extends well beyond brick-and-mortar to help increase volume and revenue across all channels.

**Stores remain at the heart of retailers’ relationships with consumers, even in today’s “omnichannel” world where online and mobile sales appear to rule. The evidence is clear.**

That’s not to say that retail is business as usual. It’s not. The advent of new retail channels has increased competition (including from digital-only players), costs (to offer products across channels), and price pressures (especially due to the dramatic rise in price transparency through digital channels). The shift to an omnichannel shopping experience means the value of physical stores’ traditional role—as standalone venues accountable only to the customers on-site—has changed. In short, stores, on their own, have become less productive and profitable.

The trick for retailers is to approach this new market context strategically, not only to understand the best roles for stores and the store network to play in today’s retail ecosystem, but also to keep stores at the center of the customer relationship while maximizing value across channels. Findings from our Future of Stores study illuminate the optimal roles for stores along several dimensions and the strategies needed to achieve big results.

### The Value of Stores

Understanding the optimal role for stores requires the recognition that a person’s shopping and buying behaviors reflect divergent trends. As expected, shoppers spend a large proportion of time outside the brick-and-mortar channel, with about 40 percent of consumers’ shopping time spent online, on mobile channels, and by way of catalogs (see figure 1 on page 3).

Retail stores still capture the majority of shopping time. Moreover, buying behaviors remain overwhelmingly tied to brick-and-mortar: Last year, 92 percent of consumer spending consistently

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\(^1\) The study took place in February 2013; the survey sample represents the adult population on demographics, including gender (53 percent female, 47 percent male), age (from 18 to 65), household income (from under $25,000 to more than $100,000), and geography (urban, suburban, and rural).
took place in stores.\textsuperscript{2} The physical store is the channel of choice across all ages (from Millennials to senior citizens) and household income levels (from less than $25,000 per year to more than $100,000 per year).

And stores remain the best opportunity for a retailer to inspire customers to spend more money than planned, and thereby to increase its own revenues, profits, and overall financial performance. As shown in figure 2, about 40 percent of consumers report spending more money than planned in retail stores, while only 25 percent report doing so when shopping online. This is in part because stores are more likely destinations for what we call “occasion trips” or time spent browsing, window shopping, treasure hunting, or making impulse purchases. Online shopping, in contrast, is more likely to involve “mission trips” for those on a mission to find specific products or services at the lowest possible price.

How (and Why) Shoppers Shop

The evidence so far highlights the ongoing value driven by physical stores. That’s not to suggest that the store and store network shouldn’t evolve to meet the needs of the omnichannel customer. New retail channels mean increased competition, costs, and price pressure for retailers, and the significant weakening of traditional stores’ productivity and profits. Moreover, digital retail innovations, such as in-home virtual apparel fittings, will likely continue to help online sales grow faster than that of stores (17 percent versus 4 percent CAGR since 2000, respectively).\textsuperscript{3} As such, retailers with brick-and-mortar assets will want to understand the best role the store network plays in optimizing sales, profits, and loyalty across channels. Our study suggests that stores can play a starring role in today’s marketplace, remaining at the core of retailers’ relationships with their customers. But to do so requires harnessing deep knowledge of how and why consumers shop and then retooling and redeploying the store network accordingly.

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\textsuperscript{2} U.S. Census, adjusted annual Retail Sales Data by Channel, 2012 (excluding motor vehicles and parts, fuel, and foodservices); the UK Office for National Statistics, 2012

\textsuperscript{3} U.S. Census Data, 2000-2012
How consumers shop can be broken down into several stages, from research to the after-sales experience. Figure 3 shows where shoppers spend time—store versus online—in each stage of the shopping process. Not surprisingly, the importance of the store varies based on the phase of the process. As the figure suggests, digital channels play the largest role in the research phase, as shoppers read online reviews and find recommendations through social media. Physical stores dominate later stages, including product trial and testing and after-sales service and support. While stores can and should play some role in all shopping stages, they needn’t play a central role in each to generate sales across channels.

Retailers need to continue to provide customers the ability to shop where and when they want—and to make the store the place people want to shop.

Why consumers visit retail stores is the second important factor to understand in crafting the future role of stores. Our study finds that the top reasons for visiting stores includes filling an immediate need (“I like the instant gratification of taking an item home”), trying products on, and experiencing products before purchase (“I like being able to get items right away, to try them out”). A visit to a store still represents an important social event, as respondents also highlight spending time with friends and family as an important motivation to go to stores. Figure 4 on page 5 presents a wide range of reasons why people continue to value physical stores, including several that can’t be addressed by digital channels.

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**Figure 3**

There are multiple new ways to research, verify, and purchase products

<table>
<thead>
<tr>
<th>% of shoppers</th>
<th>Stores</th>
<th>Online</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Test or try on</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Purchase</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>Pickup or delivery</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>After-sales experience</td>
<td>83%</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Description**
- Discover new products and review various product and service options
- Make preliminary selection and verify it is the right product
- Obtain and pay for product
- Acquire products purchased (pick up in store or delivery to home)
- Get post-purchase support (including returns); this improves customer satisfaction

**What’s new**
- Access third-party online product reviews via websites and social media
- Test or try on product in store after finding it online
- Purchase product in store, but have it shipped to home or to select stores
- Order product online and pick up in store same day
- Return items bought online or in store and vice versa

Source: A.T. Kearney Future of Stores study, 2013
The Future Role of Stores

There is little question that physical stores will continue to influence volume and revenue, attracting customers and building brand loyalty across channels and product categories. Given this, while retailers need to continue to provide customers the ability to shop where and when they want, it is equally important to make the store the place people want to shop. In this context, we suggest strategically assessing and recasting the role of your stores with the following five dimensions in mind:

- **Discovery.** Stores are natural venues in which consumers can learn more about products, try them out, and hunt for (or happen upon) hidden treasures. Building up this role will attract customers on the “occasion trips” who fall into the higher-than-planned spending group. The discovery dimension increases value across channels as well, as shoppers may come to the store to try out a product found online, or buy a product in the store and then replenish it online.

- **Entertainment.** The most successful retailers provide an exciting in-store environment that engages shoppers, especially those who enjoy shopping and consider it a social experience. A more entertainment-focused venue also builds longer-term engagement with the retail brand and the lifestyle it represents. Your products are less likely to be viewed as commodities that can be purchased at the lowest price across channels.

- **Relationship.** The store is the ideal place to provide personalized service—before, during, and after the sale—that can be an incentive to not only frequent the store channel, but also spend more money there. Many of our study participants note the importance of the personal touch: “Stores that treat me like a person and not a number get my business.” Forming a positive relationship with customers builds crucial and sustainable brand loyalty that improves performance across all channels.

- **Transaction.** Stores remain the overwhelming choice for sealing the deal regardless of delivery method. A convenient, enjoyable transaction through short checkout lines and service-oriented cashiers, for example, can help build brand loyalty. The point of sale also affords an opportunity to boost profits by upselling or offering value-added services such as extended warranties.

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Figure 4

**Why consumers shop in physical stores**

<table>
<thead>
<tr>
<th>Reason</th>
<th>% of Shoppers</th>
</tr>
</thead>
<tbody>
<tr>
<td>To fill an immediate need</td>
<td>24%</td>
</tr>
<tr>
<td>To try, test, or try on products</td>
<td>15%</td>
</tr>
<tr>
<td>To spend time with friends or family</td>
<td>13%</td>
</tr>
<tr>
<td>To compare prices</td>
<td>9%</td>
</tr>
<tr>
<td>To find promotions or special offers</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney Future of Stores study, 2013
• **Fulfillment.** Regardless of where a product is purchased—via online or mobile channels—the product can be picked up in the store. Here again is an opportunity to capitalize on impulse purchases during checkout. Stores can still offer same-day delivery or same-day satisfaction that digital channels cannot (see sidebar: Macy’s Ship-from-Store Initiative). Operationally, shipping or pickup from stores expedites delivery and optimizes inventory across the store network, which does much to improve efficiency and cost savings.

We used our consumer study to better understand the importance of these roles across product categories, as shown in figure 5. While there is some variation of the roles’ importance by category (less for books, more for grocery and home improvement), our results make it clear that stores can and should play key roles for customer engagement across every product category.

**Figure 5**

**Importance of store role by product category**

<table>
<thead>
<tr>
<th>Role of the store</th>
<th>Beauty and personal care products</th>
<th>Books</th>
<th>Consumer electronics</th>
<th>Footwear, apparel, and accessories</th>
<th>Grocery and pharmacy chains</th>
<th>Home and furniture</th>
<th>Home improvement</th>
<th>Music, TV shows, and movies</th>
<th>Office supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discovery</td>
<td><img src="image" alt="Significant store role" /></td>
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<tr>
<td>Fulfillment</td>
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<td>Entertainment</td>
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<tr>
<td>Relationship</td>
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<tr>
<td>Transaction</td>
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</table>

![Limited store role](image)

Source: A.T. Kearney Future of Stores study, 2013

**Macy’s Ship-from-Store Initiative**

In mid-2013, U.S.-based Macy’s announced plans to have 500 of its entire 800-store network double as fulfillment centers by the year’s end, as part of a large-scale ship-from-store initiative. The company expects that using store-based distribution centers to ship directly to customers’ homes would boost incremental sales, inventory turn, and gross margin. Moreover, maintaining stores as localized distribution centers can help open up retail inventory, decreasing instances of out-of-stock items. In general, the ship-from-store tactic can deliver these benefits while reducing ongoing operational costs and capital expenditures, as store-based distribution is much less expensive than building e-fulfillment centers. Macy’s and other retailers embracing a ship-from-store model are benefitting from strategic use of distribution assets to improve financial performance while also improving the customer experience through faster delivery and better product availability.

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Four Ways to Make It Work

The overwhelming majority of today’s retail stores and store networks were not designed or built with the omnichannel shopping experience in mind. Locations were originally selected to capture the shopping customer, but today, a significant proportion of shopping is done online, with the customer subsequently visiting a predetermined location to fulfill the transaction. Before the rise of digital channels, stores were sized to carry the same assortment in all locations and support a similar customer experience. However, today’s customer seeks well-differentiated experiences for discovery, social, convenience, and other types of missions. In this context, we suggest four ways to ensure that your store and store network remain at the heart of the customer relationship.

**Optimize store locations.** Our research shows that consumers choose a store to visit based primarily on geography (proximity), with other factors such as store format and hours playing a much smaller role. Yet retail stores are generally not set up to meet consumers’ proximity needs and typically result in duplication of inventory and higher operational costs. Optimizing the store network by location supports new consumer shopping behaviors and promotes more efficient supply chain and cross-channel operations. An optimized network will speak to most of the dimensions of new store roles discussed earlier, especially transaction (enabling consumers to formalize purchases) and fulfillment (such as through local store delivery).

**Physical stores continue to influence volume and revenue,** attracting customers and building brand loyalty across channels and product categories.

**Leverage store formats.** Beyond location, the store format also requires some work. Our research suggests that retailers can gain the most value by strategically building a portfolio of store formats that speaks to our five roles, with different formats emphasizing a different role or set of roles. For example, large flagship stores can support the discovery and entertainment roles (promoting social shopping, for example) and build strong customer relationships. More traditional stores may be the best venues for everyday shopping, which requires well-executed transactions. Smaller formats closer to target segments’ areas of residence can attract convenience shoppers and provide for efficient fulfillment of online purchases. This portfolio-based approach can address consumers’ wide array of needs, boosting spend and building brand loyalty while improving some of the operational efficiencies discussed below.

**Integrate retail operations across channels.** An omnichannel market requires operational excellence across channels, to improve efficiency and competitive advantage. Improvements in this domain can take many forms. One example is the consolidation of distribution resources across channels, including the use of stores as logistics and distribution assets; this improves efficiency while offering customers delivery speed and flexibility (see sidebar: “Click and Collect” at the UK’s House of Fraser on page 8). Another would be increasing the visibility of inventory across channels, such as displaying in-store availability online to meet traditional and online shoppers’ needs and potentially convert online sales into store pickups, which increases impulse spending.
Recasting the Retail Store in Today’s Omnichannel World

Merge performance management approaches. Traditional store metrics, such as same-store sales and inventory turnover, fail to fully capture the store’s role in consumers’ omnichannel experience. For example, a seemingly unprofitable store may actually be providing value as a showroom where customers can discover and experience products or as a fulfillment location for online or mobile sales. Incorporating cross-channel measures such as region or zone sales, speed to fulfillment, customer acquisition or retention, and foot traffic will not only point to the value drivers represented by individual stores but also highlight routes to optimizing the store network by casting stores in specific roles, such as showroom, fulfillment hub, and others. Omnichannel retailers require new metrics firmwide to promote behaviors aligned with the needs of the omnichannel consumer.

Taking On a New Role

While stores continue to build value even in their traditional functions, the demands of today’s omnichannel consumers require recasting a store’s role to address evolving needs and behavior—or else to jeopardize survival. No longer merely purchase venues, stores can be harnessed through a format-portfolio approach to promote brands and the customer experience, whether providing engaging entertainment and discovery opportunities or convenient fulfillment of online purchases. Recasting the role of stores along the five dimensions we suggest, in concert with the four strategies for ensuring that your brick-and-mortar assets remain at the heart of the customer relationship, will result in more customers, more brand loyalty, and improved performance in an ever-changing omnichannel world.

“Click and Collect” at the UK’s House of Fraser

In late 2011, British department store House of Fraser opened new concept stores in Aberdeen, Scotland, and Liverpool, England—the first retail stores dedicated to click-and-collect operations. Customers visiting the “stockless” shops could use iPads, laptops, and other interactive screens to order merchandise—from pants to perfume to patio furniture—for next-day delivery to the store or their home. Friendly staff, comfortable seating areas, and onsite fitting rooms help customers make product selections and try out their purchases upon arrival. The click-and-collect approach offers multiple advantages, including a much smaller store footprint (1,500 square feet versus the 100,000 square feet required for a traditional House of Fraser department store), lower labor costs, and greater flexibility and convenience for customers (such as multiple delivery options and less walking through large stores). The House of Fraser’s omnichannel strategy exemplifies a portfolio approach to stores, with the click-and-collect format serving the relationship, transaction, and fulfillment role dimensions especially well.

5 “The First Buy and Collect Store in the UK,” Brand Retail & Design, October 26, 2011; Harrison, “First Glimpse of House of Fraser Click and Collect Store,” Retail Week, October 11, 2011
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