

ONLINE TO OFFLINE

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WHAT IS
IN FOR
TRADITIONAL
RETAILERS?

**Online to Offline
What is in for
traditional retailers?**

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INTRODUCTION

Online-to-offline (O2O) is not a new concept. Pioneers like Groupon, OpenTable, Restaurant.com, and SpaFinder from America have shown how they can link the online world with local offline businesses.

As a result of the rapid development in smartphone usage and mobile internet, O2O naturally blossoms and becomes an item on the CEO's agenda of many traditional retailers, in particular of those who manage their own brands or assortment.

This article aims at giving an overview of the latest approaches adopted by such retailers while trying to integrate successfully online resources with their exiting offline physical assets.

There is a set of key objectives behind O2O initiatives. They can be summarized as "TIER": T - Traffic, I - Insights, E - Effectiveness, R - Range. It is currently difficult to measure the success of O2O efforts, but it would be interesting to analyze the common traits in O2O efforts of recognizable brands.

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CONTEXT

The online retail channel has developed rapidly and its importance has increased in recent years.

This has led traditional retailers to demand presence and position within the online retail space. In the beginning, companies such as Groupon served as integrators to the O2O market, offering physical retailers an avenue to promote themselves in the online space. As traditional retailers evolve in the digital market, many of these players have tried developing O2O strategies to best leverage upon their current offline physical presence.

Recently, online retailers have also moved in the opposite direction, making strides in the offline retail environment. Alibaba has made strategic investments in Intime Retail, signalling its intention to marry its online presence and capabilities with offline assets and channels in a bid to better capture and leverage opportunities in the O2O space. Amazon introduced Amazon Locker Service in Japan, where customers can pick up as well as return their purchases using the lockers.

The role that physical retail stores play, hence, is still strong and valuable in the increasingly digital retail space. Therefore, the question lies in how traditional retailers can leverage upon their existing physical presence in the market and build an O2O ecosystem that would help drive a continued growth.

AREAS OF CONSIDERATION FOR TRADITIONAL RETAILERS IN DEVELOPING O2O STRATEGIES

In more mature markets, retailers have found success in customizing their online strategies based on their inherent and established physical retail characteristics and strengths. Their success stories have four key motivations (TIER) in common, which have led them into O2O initiatives.

T - Traffic: Online resources to drive traffic toward physical stores

Online resources have always been used to attract customers and incite them into visiting the retailer's physical stores. In 2006 Walmart developed the click and collect concept, further integrating it with Facebook in 2011/2012: advertisements posted on Facebook led consumers directly into a digital shopping cart for Walmart. Customers could then collect all the products ordered online at a Walmart of their choice. If a product was not in stock at that specific shop, the customer could place an order for the item in-store to be picked up or delivered at a later date.

Furthermore, customers that visited Walmart to collect their products were also likely to pick up even additional items promoted in store, thus leading to greater sales. In China both popularity and usage of online mobile payments are growing. That's why retailers have introduced such payment methods in a bid to steer shoppers to their physical stores. In cooperation with Alipay (Alibaba's mobile payment platform), Aokang, a leading shoe retailer in China, has introduced a mobile payment system in its 5,000 physical stores throughout the country. Customers who choose to pay for their purchase through Alipay receive additional discounts. In addition, Aokang has noted that the service fees it pays to Alipay is considerably lower than the service fees it pays to the banks.

EXHIBIT 1

Features of the Walmart's app that drive traffic

App is available across different mobile and online platforms

- Features drive traffic to store through
- Early access notifications: in-store specials are pushed to the customers and can be ordered online, and picked up later
 - Refills for prescription medicine can be ordered online to be picked up later

iPhone Android iPad MobileWeb

Ways the Walmart iPhone App saves you time and money

Download Options
Available on the App Store Text "iPhone" to 63257

1 Early access notifications
Be one of the first to know about in-store and online specials.

2 Fast and easy refills
Quickly reorder prescriptions then pick up in-store.

3 Store mode
App recognizes when you're in a Walmart store and provides easy access to the weekly ad, store information, new items, Rollbacks and more.

I - Insights: Deploying online resources to better collect insights and data as a mean to raise customer experiences at physical stores

Collection of additional data to aid in promotions and product mix decisions

Retailers have traditionally relied on market research techniques such as the shadowing of shoppers within the store to better understand the purchasing behaviour. Currently, retailers have started looking to online channels to gather such insights in a more cost- and time-efficient manner. For example, Gap is monitoring its customers' activities at its online retail store: product views, products addition to shopping cart and products sales are some of the data collected. Together with in-store data, they can help retailers in deciding promotions and product mix. This in turn leads customers to get the products and promotions they want at the physical retail stores.

Data used for deciding store opening location

Customer demand and competitive landscape are generally the key factors in choosing store locations. Retailers can also now tap onto their customer's online activities when individuating store locations. Petco, a leading US pet retailer uses data collected from its online activities - such as the customer's delivery address, its website visitors' general IP addresses, frequency and size of orders - in conjunction with other factors when deciding store locations. Petco has over 1,300 locations across the United States, Mexico and Puerto Rico, therefore it uses data from online sales as a key metric to open new stores, so to avoid overcrowding of stores in a particular area and to be sure that customers are well served through their convenient store locations.

E - Effectiveness: Raising sales effectiveness by complimenting or replacing existing functions at the physical store with online tools

Retailers have looked to online tools trying to raise sales effectiveness at their physical stores, replacing existing functions with online alternatives or leveraging online tools to provide complimentary functions to their physical stores. For example, Ikea has developed a Catalog App that enables its customers to view and purchase items, then picking them up at a selected Ikea store. Size and key product details are available to customers on the app, enabling them to choose suitable furniture whenever and wherever they want to and to go straight to the store to collect the items instead of looking for them in the store. An increase of 250% in web traffic to the Canadian Ikea website was recorded after the launch of the app, leading to greater sales both through the app itself and at the physical stores.

Walmart developed an app that doubled up as a product finder within their stores, providing customers with information on product locations, pricing and product details. In addition, the app can locate which Walmart the customer was in and push them details of in-store promotions. These features enabled Walmart to sell more effectively to the offline customers through online channels.

EXHIBIT 2

Ikea's shopping app in Canada



- The app enables customers to browse IKEA's range of furnishings and items, check stock availability and product information

- The app also enables customers to create shopping lists that include the product's location for pick-up. There is also a map help move easily through the store

R - Range: Online resources to expand geographical and product coverage and availability

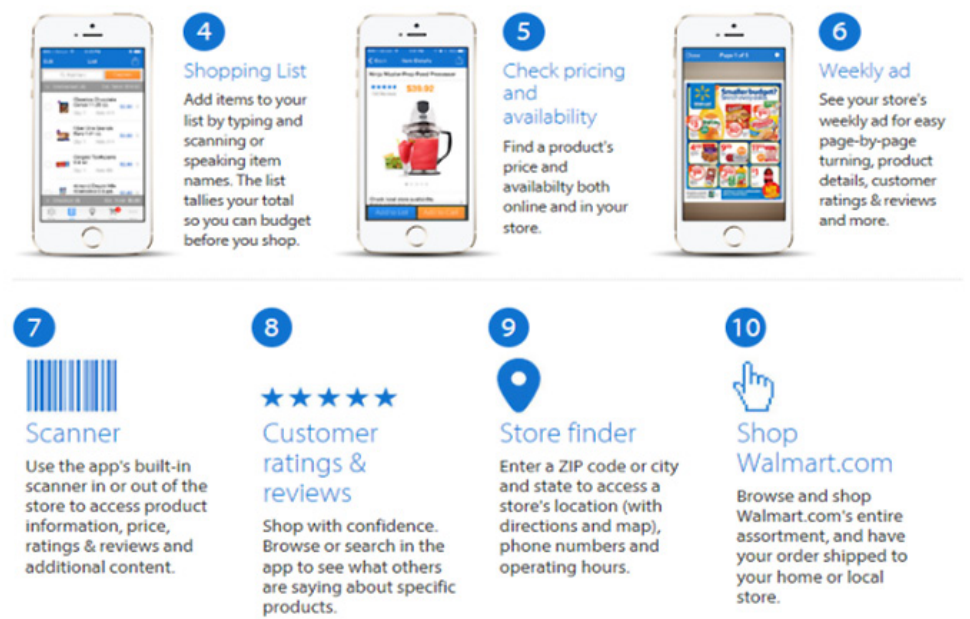
Online tools are being used at the physical point of sale to expand product coverage and availability. Bloomingdales has introduced the use of tablets at its stores to present to customers items that are not displayed or available at that particular outlet, thereby effectively expanding its product portfolio without having to expand its store space.

In an environment where retail store rents are rising, this greatly helps reduce additional overheads at physical stores. In addition, for products that are out of stock at the store, the customer can order them through the online catalogue choosing either delivery or pick-up.

Online tools have also made it possible for retailers to cover a greater geographical area without the immediate need to expand their physical retail network. UNIQLO has leveraged the online channel to extend its coverage in China, with around 2/3 of its online sales coming from 2nd & 3rd tier cities, where it has limited physical stores. They have also created a seamless experience for its customers across the different channels through the synchronisation of pricing and content on both its offline and online channels.

EXHIBIT 3
Product information via Walmart's app

Walmart's app features that provide product information and other key features that replace or compliment existing activities at the physical store



4 Shopping List
Add items to your list by typing and scanning or speaking item names. The list tallies your total so you can budget before you shop.

5 Check pricing and availability
Find a product's price and availability both online and in your store.

6 Weekly ad
See your store's weekly ad for easy page-by-page turning, product details, customer ratings & reviews and more.

7 Scanner
Use the app's built-in scanner in or out of the store to access product information, price, ratings & reviews and additional content.

8 Customer ratings & reviews
Shop with confidence. Browse or search in the app to see what others are saying about specific products.

9 Store finder
Enter a ZIP code or city and state to access a store's location (with directions and map), phone numbers and operating hours.

10 Shop Walmart.com
Browse and shop Walmart.com's entire assortment, and have your order shipped to your home or local store.

CONCLUSION

As the online and digital space continues to grow in importance in consumers' daily lives, retailers have embraced, at their own pace the various resources and opportunities presented to them through this development.

As seen, traditional retailers have been able to make use of online resources to create an O2O ecosystem that effectively raises the performance of both its physical retail outlets and online offerings. In addition, enablers in the various markets have also led to the proliferation of opportunities to create successful O2O models.

Deeper smart phone penetration, greater adoption of social networks, an increase in the usage and advancement of QR/bar code technologies and of mobile application and payment methods have all grown to varying degrees in the various markets.

As different O2O models are showcased, it is not difficult to notice that various retailers have been adapting the usage of these online resources to complement their own specific characteristics. Factors such as store locations, product portfolio, customer type and current IT infrastructure are all pertinent considerations in the roll out of O2O initiatives. Any retailer looking to leverage these online resources to increase the performance of its physical assets and to create its ideal O2O ecosystem should first understand the resources available and then dedicate them to such an effort.

Traditional retailers have been able to make use of online resources to create an O2O ecosystem that effectively raises the performance of both its physical retail outlets and online offerings

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ABOUT VALUE PARTNERS

Value Partners is a global management consulting firm that works with multinational corporations and high-potential entrepreneurial businesses to identify and pursue value enhancement initiatives across innovation, international expansion, and operational effectiveness.

Founded in Milan in 1993, Value Partners' rapid growth testifies to the value it has created for clients over time. Today it draws on 25 partners and 280 professionals from 23 nations, working out of offices in Milan, London, Istanbul, São Paulo, Buenos Aires, Beijing, Shanghai, Hong Kong, Singapore and Dubai.

Value Partners has built a portfolio of more than 350 international clients from the original 10 in 1993 with a worldwide revenue mix.

Value Partners combines methodological approaches and analytical frameworks with hands-on attitude and practical industry experience developed in an executive capacity within each sector: telecommunications, new media, financial services, energy, manufacturing and hi-tech.

Value Partners' consumer and retail practice provides advisory services to fast moving consumer goods, apparel, retail chains and luxury brands in supply chain management, cost and budget control, go-to-market and market entry strategies.

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In 2007 Value Partners acquired Spectrum Strategy Consultants – a leading UK company specialized in publishing, broadcasting, entertainment, IPTV and mobile – thus further strengthening its international presence.

Today Value Partners is a leading advisor in the consumer goods, retail, telecom, media and technology sectors worldwide.

For more information on the issues raised in this note please contact the authors.

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