Back to the Basics in Omnichannel Retailing: Delighting Your Customers

Across Europe, digital disruption is giving consumers more power. Forward-thinking retailers understand the changing nature of demand and adjust to deliver a consistent experience across channels.
Emma, a 41-year-old mother of two, spent almost €1,500 online last year on groceries, kids’ clothes, gifts, and other items—a 30 percent increase from the year before. Thomas, a single 23-year-old, spent less—but a larger percentage of his income—on music, books, games, electronics accessories, and sporting goods. Emma buys mostly on her laptop, Thomas on his smartphone, although they both fit their online research and shopping into their daily routines, expecting to get what they want from whichever device or store is most convenient at the moment. They take for granted that they will be able to ask questions, place an order, check delivery status, choose how to have it delivered and, if necessary, how to make a return.

Today’s digital disruption is giving consumers more power. As a result, retailers must be more customer-centric than ever. The evolving new format is omnichannel, and it’s growing across Europe.

To understand where the industry is headed and how retailers can get there, we conducted two studies. The first asked consumers about their expectations of retailers and their preferred shopping behaviors. The second examined how retailers are integrating channels (see sidebar: About the Studies). The results shed light on what forward-thinking retailers are doing to come out ahead: Start with an understanding of the customer, powered by data analytics. Use an integrated operating model to align efforts across functions and channels, creating a consistent customer experience. And differentiate from competitors based on sources of advantage across all relevant channels.

In this paper, we discuss these lessons and shed light on how retailers can compete in an omnichannel world.

About the Studies

The A.T. Kearney Integrated Channel Engagement (ICE) Index is designed to gauge companies’ ability to offer an integrated channel experience. We reviewed 150 retailers of various types, roughly evenly divided across Belgium, the Netherlands, Germany, the United States, and the United Kingdom. We compiled detailed scoring for each retailer on nine dimensions of the consumer buying process, including presales, sales, and post-sales. Measured from the consumer perspective, the scores identify a company’s capabilities to serve customer needs across channels and allow easy migration among channels.

We paired the ICE Index with a consumer study aimed at understanding customers’ expectations of omnichannel retail. We surveyed 3,000 consumers in the United Kingdom, Belgium, the Netherlands, Italy, Spain, Germany, and France, covering all age and sociodemographic groups. We asked what channels they use and for what purposes. We then looked at how this behavior varies by retail sector and by demographic factors such as age, gender, income, and life stage. The results of the consumer study show how and why people shop and the expectations they use to judge the quality of retailers’ offerings.
Consumers Are in the Driver’s Seat

Today’s consumers are using digital options to become more connected, informed, and demanding. Across Europe, we see increases in Internet access, in sales of smartphones and tablets, and in numbers of online shops and e-commerce transactions. As channels proliferate from brick-and-mortar, catalogs, and call centers to the Internet and mobile apps, customers tend to not only use multiple channels, but to use them in parallel (see figure 1). The result is omnichannel: going beyond multiple channels to a seamlessly integrated shopping experience across all channels.

Consumer trends are playing out at different rates across Europe (see figure 2 on page 3). The geographic differences reflect variances in education, size and infrastructure of metropolitan areas, retail competition, and penetration rates for both mobile and broadband.

Implications

With more people online, consumers can more easily compare options. Even in sectors slow to move online, such as groceries, websites such as SuperBudget and mySupermarket offer price comparisons for top chains. This transparency will tempt price-conscious consumers.

However, these trends play out differently in various sectors, as we see when we compare sector results across the four dimensions of the customer journey: getting information, making buying behaviors

**Inform**
- Search online
- Ask my Facebook friends
- Go to stores
- Ask friends

**Service**
- Let the retailer set it up
- Buy a service plan in the store
- Buy a service plan online
- Contact call center if there are problems

**Shop**
- Check prices using my smartphone (for example, with a quick-response (QR) scanner)
- Check ads
- Check Amazon
- Buy in a store
- Buy online
- Order from catalog

**Fulfill**
- Click and collect in store
- Get home delivery
- Take home from store right away
- Pick up at other location (for example, the train station)

**Pay**
- Is there a financing plan?
- Pay with my smartphone
- Pay online
- Buy from a mobile website

Source: A.T. Kearney analysis
a purchase, receiving delivery, and making a return (see figure 3 on page 4). Online travel agencies such as Expedia have long benefitted from the virtual nature of their products to compete effectively with traditional tour operators and their catalogs at cheaper prices. Online sites for insurance and financial products, such as Independer, have similarly promoted transparency. Online electronics retailers have excelled at creating comprehensive spec sheets, self-help tools, and customer feedback to help shoppers compare products. The product’s qualities are more of a differentiator than the store in which it is purchased, as electronics retailer Saturn has emphasized with its aggressive digital pricing. By contrast, apparel has been slower to move into alternate channels. Although online clothing retailers such as ASOS and boohoo have emphasized rich content and flexible return policies, the try-it-on experience of the physical store has so far proved vital to sales.

But even in slower-evolving sectors, greater transparency and new value propositions are coming. The result will be more empowered consumers and lower prices. In a transparent market with reduced loyalty, competing on price becomes very difficult. Many retailers will need to seek other forms of differentiation. As retailers rethink the notion of the store, loyalty needs to be redefined, experience re-imagined, convenience re-invented, and value repositioned. We are moving from a transactional model to an interactional one.

**Choice**

An omnichannel environment gives customers more choice. Sometimes, choice means having many types of products because a retailer can stock more variety on a webpage than on a shelf. But now that markets have explored the frontier of unlimited choice, the pendulum seems to be swinging back. Many consumers are expressing a desire for “curated choice,” where the retailer acts as a tastemaker across a set of categories. These shoppers prefer not having to choose but to participate; the retailer adds value with its knowledge of what each customer wants and what it takes to engage with him or her.

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1 Sector results also differ geographically, but for simplicity’s sake, figure 3 focuses on a single country.
In this way, retail is returning to its roots. The perfect dance of consumer and retailer requires choices. To make those choices, successful omnichannel retailers understand their customers’ needs. The key to retail success has always been to be closer to customers than the competition—and in tomorrow’s hypercompetitive environment, retailers must be even more customer-centric.
Relevance Requires Omnichannel Integration

Our studies reveal a mismatch throughout sectors across Europe between what consumers want and what retailers offer. For example, customers expect flexible order management where they can choose the location for a delivery across all channels. Many also expect better pricing and better promotions online.

Retailers struggle to provide consumers with what they want. This is partly because retailers are at different stages of evolution: some are still monochannel (sometimes for good reasons, as discussed below), others are multichannel, and a few are omnichannel (see figure 4).

Figure 4

**UK retailers have more sales channels than peers in neighboring countries**

**ICE score versus sales channel**

<table>
<thead>
<tr>
<th>Country</th>
<th>Average number of sales channels</th>
<th>ICE Index score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>3.0</td>
<td>Average ICE: 2.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.2</td>
<td>Average ICE: 3.1</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>2.5</td>
<td>Average ICE: 3.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.6</td>
<td>Average ICE: 3.5</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney Integrated Channel Engagement (ICE) Index
But the more fundamental problem is that most retailers underestimate the value of omnichannel. Although research shows that it leads to more revenue, few appreciate that evidence. As a result, retailers are slow to move into new channels and even slower to integrate across channels. In Europe, mobile retail transactions account for 15 percent of all retail purchases. Tablets, at 10 percent, edge out smartphones for second place. On social media, where the travel sector has demonstrated the value of specific applications and responsive sites to carefully capture consumer ratings and comments, few retailers allow customers to like or comment on their products.

Meanwhile, in the presales process, few retailers use live chats or virtual assistants to help solve customer problems, and few have the informational tools to guide customers through overwhelming choices. For transactions, few retailers offer integration seamless enough for a customer to start a transaction in one channel and finish it in another. Likewise, outside the United Kingdom, few offer click-and-collect, where online purchases are made available in a store or other location. And after the sale, retailers rarely capture feedback about products, much less make that feedback available to other customers to aid in decision making.

Retailers are often aware of these gaps and are investing to address them. In general, investments focus on big data, personalization, and the physical and IT backbone. A paramount concern is a flexible customer account system to integrate the many channels. Given the size of the investments, getting them right will be essential. Adapting to changing customer expectations requires not only investing in good technology, but also having a clear vision and philosophy and designs that result from effectively connecting with customers.

What the Basics Look Like in the New Environment

Digital disruption creates an imperative for retailers to go back to the basics—back to pleasing customers. And that starts with understanding them.

In the new omnichannel environment, success still depends on having the right assortment of products, the right look and feel, the right prices, and the right service. What’s new compared to 100 years ago is that beating competitors to a deep understanding of customers now requires innovation in data analytics. In other words, the purpose of retail innovation is not merely to create or enhance a new channel—after all, the physical store needs innovation too. The purpose is to effectively and fully engage and emotionally connect with customers.

For **niche** retailers, the key is to consistently fulfill customer expectations across channels. For example, DeBijenkorf, the Selfridges-owned high-end Dutch fashion retailer, is exploring options for customers to use its website to reserve items that they will try on later in a store—an extension of its traditional values.

For **discounters**, the importance of omnichannel integration fades compared to keeping prices low. In Benelux, for example, German discount grocer Lidl uses online channels only for marketing, not transactions. It uses social media very well—to both receive feedback and drive traffic to the physical store, but in a limited scope because low-cost monochannel operations are the source of Lidl’s advantage.

**Traditional retailers** sit on the spectrum between niche and discount—examples include Tesco and Marks & Spencer—and they face the greatest differentiation challenges. Their message to
customers should be “We understand and fulfill your needs.” Properly executed, innovation in technology and analytics can provide a path to personalization that will delight customers.

One result of the emergence of omnichannel environments is that retailers can no longer get away with vagueness. They must be precise. What are customers looking for? Brands? (Which ones?) An overall experience? Low prices and aggressive promotions? Convenience in exploring, ordering, and fulfillment? Answers to these questions will affect choices across all channels. For example, a grocer focused on overall experience might want to make dinner suggestions, complete with shopping list and GPS guidance to the right aisle for each of the ingredients. This is not primarily a channel-based decision. (“Should we put these suggestions on the website or the mobile site?”) Rather, it is primarily a decision about how to delight customers and secondarily a decision about which channels to use to get them what they need.

**How to differentiate**

The basics in retail involve being relevant in the space where you compete and being clear about where you differentiate. So what levers can retailers pull to achieve this clarity? Sources of differentiation can include the sales experience, social media community, customer profiles, and delivery options. There is no one-size-fits-all approach; the strategy arises out of a company’s strengths and competitive position. But in general, differentiation should lead to personalization for the customer.

One clear differentiator is flexible, cross-channel delivery and return options. Many consumers prefer home delivery and in-store pickup and returns. Across Europe, more retailers are offering this flexibility, even for groceries, including delivery through third-party pickup points.

Other examples of differentiation success include **Arke**, the Dutch travel company owned by German conglomerate TUI Travel, which has a website with an extensive Q&A section plus live chat support. **Conrad**, the German electronics retailer, integrates the mobile channel into brick-and-mortar stores by offering additional product information through QR codes, as well as self-checkout. **House of Fraser**, the UK department store, shows stock levels to customers of both its physical and online stores; it also synchronizes shopping carts across its mobile and online channels as well as in-store kiosks. **Vanden Borre**, the Belgian electronics retailer owned by Darty, has online surveys that guide customers through their preferences to arrive at product selections. Swiss grocer Migros has an online platform and mobile app called **LeShop**, with delivery options including at home, drive-through, or at a train station.

**Integrated operating model**

Many retailers understand that the omnichannel environment requires an integrated customer experience. However, some are slow to acknowledge that such an integrated experience requires an integrated operating model. If you operate channels separately—trying to create an omnichannel experience from a multichannel structure—you may fail to engage customers or achieve the needed efficiency.

When examining your operating model, consider these questions:

- What are the roles of my different channels?
- How do I deal with home delivery distribution of small, low-volume items?
- How can I manage and plan inventory and predict demand in an environment where all my customers can order any product from any place at any time?
- How should I organize category management and marketing holistically across channels?
- What does customer centricity imply about IT organization? How will I manage large datasets?
- What are the right incentives to encourage all of my employees to adopt a true omnichannel view?
- How do I collaborate with suppliers in attractive ways across all channels?

A Framework for Omnichannel Integration

As we discussed the results of our studies with senior executives in a variety of retail settings, we developed an omnichannel framework to show what is required of an omnichannel retailer (see figure 5). All three elements focus on pleasing the customer and reinforcing the primacy of old-fashioned retail basics:

**Customer promise and experience.** Determining the customer promise, segmentation, and role of various channels

**Customer and category segments.** Fleshing out value chain differentiators from merchandising and marketing to inventory management and fulfillment

**Role of the channel and channel execution.** Strengthening the factors required to enable that work with organizational structure and capabilities, technology and digital, analytics and insights, and measures and incentives

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**Figure 5**

**A.T. Kearney omnichannel and omni-integrated framework**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Value chain differentiators</th>
<th>Organizational structure and capabilities</th>
<th>Measurability and incentives</th>
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<td>Role of the channel and channel execution</td>
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Note: Merchandising includes category management and buying.

Source: A.T. Kearney analysis
The Omnichannel Journey

As customers such as Emma and Thomas continue to spend more online, they will turn to retailers that not only understand their needs, but also provide a seamless service wherever they choose to shop. The winning retailers will be those that understand and embrace the changing nature of consumer demand and align their operations to deliver a consistent customer experience across all channels.

Authors

Jos Leijnse, partner, Amsterdam
jos.leijnse@atkearney.com

Matthew Kentridge, principal, London
matthew.kentridge@atkearney.com

Kenny Brams, consultant, Brussels
kenny.brams@atkearney.com

Karina van den Oever, consultant, London,
karina.vandenoever@atkearney.com

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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.

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