FOOTING THE BILL

WHO PAYS THE PRICE FOR ONLINE RETAIL?

"E-commerce gives customers more power because of the choices they have. And customer power makes retailers vulnerable. Retailers have to be willing to experiment, or they will pay the price."

Ramanath Subramanyam

The Digital Age has changed the way we live—and shop—forever. One of those changes is evident in showrooming, where consumers examine merchandise in brick-and-mortar stores and then shop online for lower prices. Showrooming highlights the battle between retail and e-tail, and some experts believe that many retailers who stand pat won't be standing for long.

"Traditionally information technology has been about infrastructure rather than value creation," says Michael J. Shaw, professor of business administration and Leonard C. and Mary Lou Hoeft Chair of Information Systems. "But IT can be used to develop customer experience. It is really all about getting the customer engaged and about developing a strong relationship and loyalty. Showrooming is an example of not having that loyalty." That loyalty, he adds, comes from the synergy created between the physical and digital channels, resulting in a positive customer experience.

Customer experience is vital to retailers, Shaw says, because "when you develop loyalty with customers, when they enjoy the ambience, they are more willing to make the purchase."

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>
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As Shaw notes in the chart below, there are four categories of retailers that have varying risk levels for showrooming. The first category, commodity, is not at risk because its business is already primarily conducted online. "The semi-commodity category is the hardest hit by showrooming," Shaw says. "At the physical, or brick-and-mortar, channel, it's hard to add any more value to the product."

Consumers shopping for semi-commodity goods are especially price sensitive. Many come into a retailer armed with their smartphones, examining merchandise in person while searching the Internet for the lowest prices for the same product. Some may even make their online purchases right from their devices while standing in the retailer's sales aisle.

While this behavior can mean big business for e-retailers, like Amazon.com, it obviously is a big bust for the retailers that showroomers frequent, like Bed Bath & Beyond, PetSmart, and Toys"R"Us, which have the overhead of the physical locations, the products, and the employees. In response, brick-and-mortar retailers, like Best Buy and Target, for instance, have gone to the policy of matching the prices of major online competitors. They allow customers to bring up the online price on their mobile devices and match it on the spot, so customers can walk out with their products and the retailer can ring up the sales.

Ramanath Subramanyam, associate professor of business administration, says that physical retailers that acknowledge and proactively react to what is being done in the digital world are the ones who will survive. Those that embrace the digital will do even better than that, he says; they'll flourish.

"Many firms don't understand that part of the consumer's experience is likely to be completed online," says Subramanyam. "The problem has been retailers' hesitancy to change the way they operate in response. But, what if the retailer embraces the strengths of the digital experience?" He points to a limited number of retailers, such as Nordstrom, Sephora, and Nike, which aim to "make the customer's visit the best possible experience when they come there," including providing in-store mobile conveniences that contribute to the buying experience.

"Showrooming creates the potential for interesting interactions between brick-and-mortar channels and the Internet channel," says Shaw. "The emergence of the mobile channel complicates the issue, but it also has the potential to provide creative solutions for the consumer and the retailer."

RETAIL SOLUTIONS

Shaw points to one retailer, Uniqlo, who uses LCD mirrors to allow customers to see a product—a jacket, say—in any color the store has without the customer needing to try on a new jacket. Using a tablet, a clerk can simply click on a color choice and the customer can see her- or himself in that color in the LCD mirror—or, as one manufacturer of the mirrors calls it, the "Magic Mirror." Through the tablet, the clerk can take pictures of the person wearing whatever colors the person wants, and the person can then email the photos to others or to her- or himself or share them on Facebook.

Customers who experience such service, Shaw says, will be much less likely to showroom than those who merely browse the racks.

"I like to look at it as a way to use IT innovation," Shaw says. "It demonstrates the blurring between the physical and digital channels.

SHOWROOMING RISKS

Category	Examples of Products	Showrooming Risk Level
Commodity	Hardware, paper products, office supplies	Low risk
Semi-commodity	Electronics, computers, books, DVDs, toys	High risk
Touch and feel (standardized)	Most apparel, cars	Moderate to high risk
Touch and feel (personalized)	Houses, high-end designer fashion	Moderate risk

SHOW ME THE PRODUCTS

Where do consumers go when they want to look at products before they buy? Which retailers are most frequented by showroomers? A recent survey of nearly 15,000 U.S. consumers was conducted by Placed, a firm specializing in measuring and analyzing consumer location data. The study found that the top ten retailers most at risk of showrooming are:

- Bed Bath & Beyond (with an index score of 127, meaning that showroomers are 27% more likely to visit the home goods retailer than the average consumer)
- PetSmart (125)
- Toys"R"Us (121)
- Best Buy (120)
- Sears (119)
- Barnes & Noble (118)
- Kohl's (117)
- Target (115)
- Costco (114)
- JCPenney (114)

The solution is to create synergy between the two channels."

Subramanyam adds, "Traditionally, the view has been that the online and brick-and-mortar channels are independent from each other, but there are many excellent examples of firms that merge those two into a much better overall customer experience."

Restoration Hardware, a home furnishings retailer, was experiencing financial duress, Subramanyam says, until it embraced the digital channel, showcasing what it had. "Consumers don't care whether the product comes from the store or online," he says. "They gave their customers a window into the online world, showing them the product they were interested in and other similar products as well. They didn't treat the online channel as separate from the physical one."

DUKING IT OUT

While some retailers are looking to combat the effects of showrooming on their bottom line by price matching or embracing unique IT tools to improve the customer experience, others are taking a much different tactic.

Celiac Supplies, an Australian retailer that specializes in gluten-free groceries, recently announced that they will charge customers $5 for in-store browsing, with the fee being refunded when they make a purchase in the store. While the policy has sparked some Internet outrage from consumers, the store defends the new practice as necessary to compensate for the time employees spend explaining products to customers and to encourage serious shoppers and discourage showroomers.

While the jury is still out on whether other retailers will pick up on this strategy, Subramanyam believes that such a practice is more likely "to engender customer distrust and make it difficult to gain new customers."
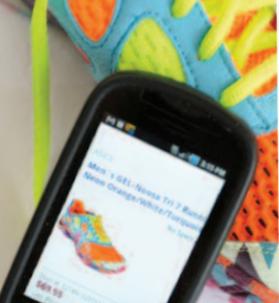
A NEW RELATIONSHIP BETWEEN CUSTOMERS AND RETAILERS

The access to digital channels has not only changed the way we shop; it has changed the relationship between customers and retailers, says Subramanyam. "The conventional belief has been that the retailer knows more about products than the customer, but that's often completely switched around these days," he says. "Customers have so many different ways and means to learn about products. They have infinite options, and if stores don't rethink how they can tap into the customers' mindsets, they are in trouble."

To stay out of trouble, Shaw says, retailers need to develop complementary products and services, creating an environment where mobile devices or tablets and in-store kiosks are used for searches so that people enjoy the whole shopping experience. "Retailers should focus on creating the customer experience to attract customers and make the experience enjoyable so at the end of the process they are successful," he says.

"E-commerce gives customers more power because of the choices they have," says Subramanyam. "And customer power makes retailers vulnerable. Retailers have to be willing to experiment, or they will pay the price." ●

Tom Hanlon