

U-Channel Retail

“Ubiquitous, Universal and Unique”



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Insights for the Executive

The retail landscape is undergoing major changes driven by external trends and due to a challenging economic environment, spending and recovery continues to be challenging.

Tomorrow's customer wants to complete purchases when they want and where they want – and rapidly evolving mobile and online sales platforms enable this. In response, retailers are adapting their business models and we are seeing the appearance of U-channel retailing.

U-channel retailing is a new form of retailing that is Ubiquitous, Universal and Unique, focused on "U" – the customer. In practice a future proof U-channel is the ability to offer the customer more channels to interact whilst seamlessly integrating them to ensure "one face to the customer". Channels will become mere "touchpoints" as consumers navigate smoothly through the buying process; selecting products online at home, picking-up their products at a convenient location and paying from their mobile phone.

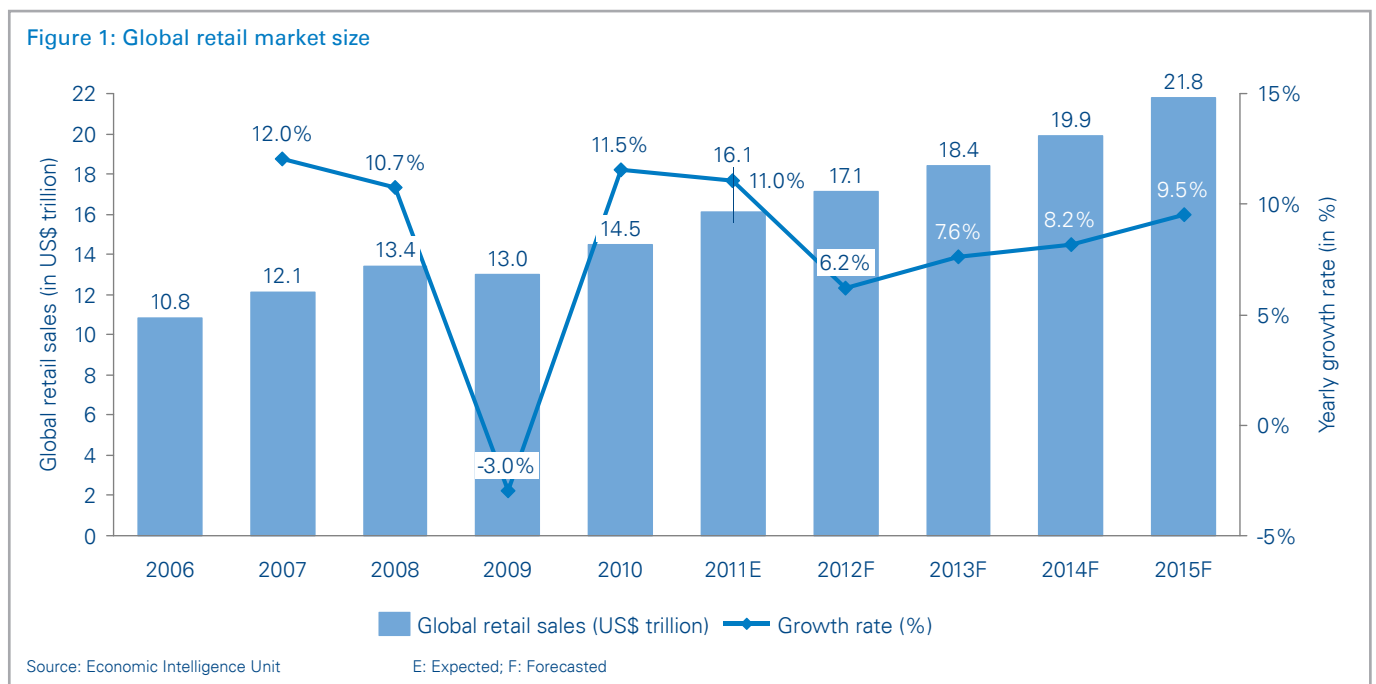
This transition will not be an easy one for many retailers and at first sight nobody seems to have a clear advantage: "bricks and mortar" establishments are reluctant to embrace mobile technology, while online retailers lack the physical presence on the ground. In parallel, large online media groups have the customer base and customer knowledge but are yet to leverage this into the retail sphere.

Tomorrow's winners have already begun drawing the roadmaps of their transformation and are making the required investments to rethink the backbones of their retail models. At Arthur D. Little we are convinced that in order to transform successfully to a U-channel environment, retailers need to address seven key domains of the company:

1. Culture
2. Channel strategy
3. Value offering
4. Process landscape
5. Governance
6. IT architecture
7. Workplace 2.0

Developing true U-channel retailing is a multi-year program requiring well thought-out roadmaps. Only by initiating reflections today will retailers be able to craft the organizations, logistics networks and partnerships required to succeed in tomorrow's retail environment and retain the ownership of their customers.

Setting the Scene



The retail industry experienced a global recovery following the 2008-2009 economic downturn which caused a dip in consumer confidence and a decrease in disposable income. Government stimulus packages in mature markets and growing domestic demand in some developing countries took the global retail market in 2010 back to pre-crisis levels after a contraction of 3% in 2009. Towards 2015, the global retail industry is forecasted to reach US\$ 21.8 trillion (Figure 1).

Recently however, consumer confidence indicators show a more uncertain picture. Mature markets are still facing headwinds of high unemployment, slowing GDP growth, escalating public debt and a potential economic deceleration due to governmental austerity measures.

Moreover, even the typical growth markets are experiencing slowing economic growth. Public concerns about an overheating economy, high inflation and plunging business confidence have deteriorated consumer sentiment in these emerging markets.

Next to the difficult macro-economic environment, retail faces a significant change in customer behavior. Customers want ease and flexibility when shopping which has induced many retailers to extend their opening hours as well as develop online and mobile shopping applications to attract the more tech-savvy customers as well.

Furthermore, personalized products and services, sustainable products from locally produced materials as well as experiential shopping formats are burgeoning.

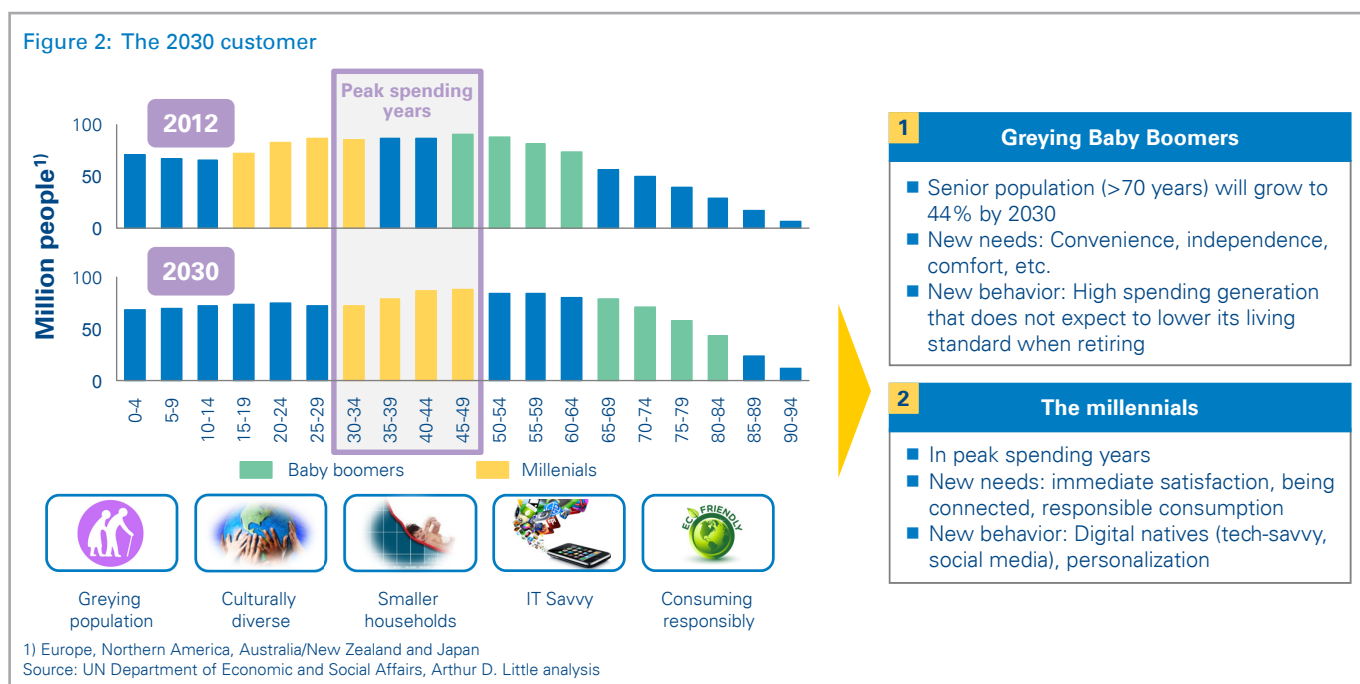
This change in customer behavior is happening in a context of rapidly changing consumer technology. Customers are more interconnected and rely on the information they gather through mobile and online channels offering a basis of comparison to verify which retailer offers the best deal.

It is important that retailers are aware of these changing trends to avoid having their business disrupted or put out of existence.

Although retail concepts have already been changing tremendously for the last 100 years, the question nowadays is how customers will want to experience retail in the coming decade. Will brick and mortar formats still be around or rather serve as entertainment centers where customers come to experience the product while comparing prices online? Will customers still go to the supermarket to buy fast moving consumer goods or prefer to have them delivered at home or at a pick-up point? Will retail disappear out of the city center and continue to be concentrated in large shopping malls or to the contrary, will the focus be on developing city-center shop fronts while purchases are made online? How will retailers leverage mobile technology to improve the customer experience? Who will be the winners of this new retail revolution?

In this chapter we will first discuss two key megatrends – evolving customer needs and the connected world – that are dictating future forms of retail. Then, we will outline the concept of U-channel retailing as an implication from those trends. Finally, we will try to identify the associated challenges for retailers and propose an approach for retailers to move toward and seize opportunities associated with U-channel retail.

Evolving Customer Needs



By 2030, two demographic profiles will dominate the customer base of retailers:

1. Greying baby boomers
2. Millennials reaching peak consumption

Greying baby boomers

The baby boomers have been subject to extensive research particularly in the fields of marketing and customer experience; however this consumer group is entering into a new phase never previously encountered: wealthy retirement. This paradigm shift will add new dimensions to the baby boomers segment in-terms of required product offerings, but most importantly in terms of customer experience and service.

Baby boomers are adapting and embracing evolving technologies. By mid-2012 for instance, almost 60% of US tablet owners were older than 35, and almost 20% were older than 55¹. This shows that the mobile revolution will not be confined to the millennials.

Already today some retailers are taking a leap and embracing this reinvented customer group. For example, Kaiser’s supermarket in Germany was a first of its kind in launching a successful senior-friendly supermarket in 2005, Tesco followed with its own ‘pensioner friendly’ supermarket in 2008. Both of these focused on improving customer experience, addressing aspects such as product accessibility, information and signaling, visibility and product offering. Now Aeon Co. in Japan has taken this a step further by opening a mall dedicated to senior citizens in April 2012. All of these examples are indicating a shift towards the development of retail outlets dedicated to the ageing baby boomers. It now remains to be seen whether these business models will also be able to serve the upcoming millennials.

1 Source: comScore TabLens data

Millennials reaching peak consumption

By 2030 the millennials generation – broadly defined as the generation born between 1980 and 2000 – will have reached its peak consumption age. This shift promises to have a drastic impact on all forms of retailing.

The 'Millennial customers' will be technology savvy, socially influenced and socially influencing shoppers. They are value driven and convenience searching young professionals.

The millennials' heightened technology literacy and their tendency for high involvement – think social media – paves the way for radically changing business models. The key stimulus for business model innovation will be the new needs that this group brings to the market (convenience, ultra-personalization, authenticity, etc.) but it is bound to be delivered through innovative technology and communication models.

As always the need for new business models and the development of a new retail environment will create room for new market leaders to emerge from within or outside of the industry. The previous shift to e-business saw the emergence of a world giant, Amazon, and the new retail revolution will also have its winners. There is no guarantee that these will be existing retailers.

The millennials – an international customer base

An underestimated aspect of the millennial generation is its world presence.

The millennial customer will not only be the technology savvy crowd in developed markets but more importantly the mass middle class markets of emerging economies from South-East Asia to Latin America and Africa.

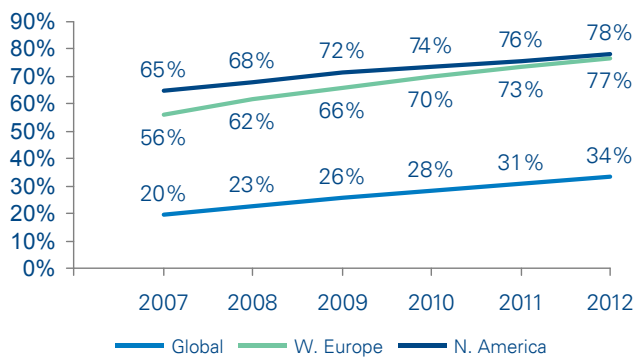
By 2030 a country like South Korea is poised to take over Japan in terms of GDP per capita. Similarly, other South-East Asian countries will develop significantly, creating large middle class markets. It will be difficult for retailers around the world to ignore such important markets both in terms of volumes and in terms of innovative power.

These markets offer huge opportunities for the end game winner. Whereas a true world leader in retailing seemed unlikely a few years ago, the development of online media is redistributing the cards. Companies are now creating customer bases and brand loyalty across the globe.

The 2030 customer base promises to be a dual one, balancing between the comfort needs of greying baby boomers and the technology and socially enhanced shopping experience needs of the millennials. Diversification into emerging markets is likely to further complicate matters and companies will have to be extremely diligent when selecting their target segments, positioning and overall business model.

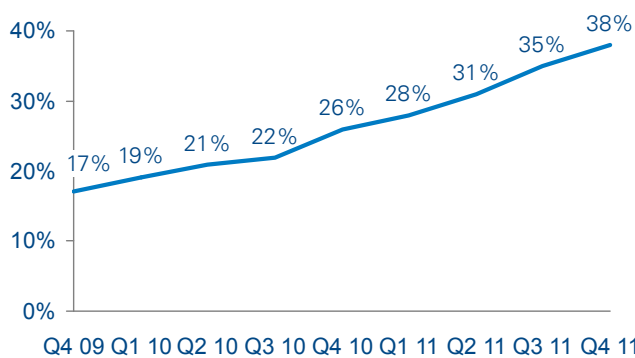
The Connected World

Figure 3: Broadband internet penetration among households



Source: Pyramid Research

Figure 4: Smartphone penetration in Europe



Source: Arthur D. Little, Exane BNP Paribas estimates

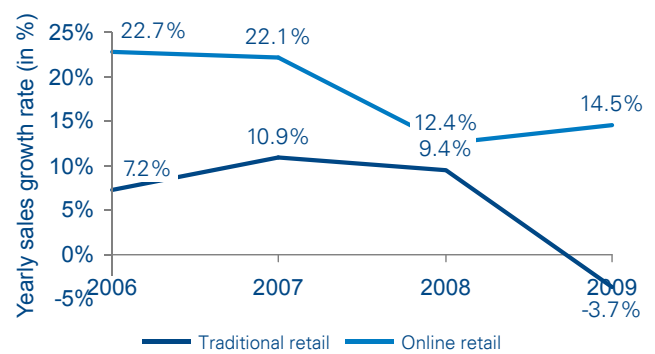
A growing share of innovation in retail is driven by a new type of customer who is looking for convenience, value and freedom of choice when shopping. High levels of internet and smartphone penetration (Figure 3 and 4) are now providing a widely available technical solution to these needs.

New technologies such as mobile payment, Quick Response codes (QR), Near Field Communication (NFC) or image recognition are penetrating the retail world. These technology solutions are causing retailers to rethink their channel strategy. While some retailers are still in the process of rolling out an online strategy, the mobile revolution is already presenting further challenges.

Online revolution becomes mobile

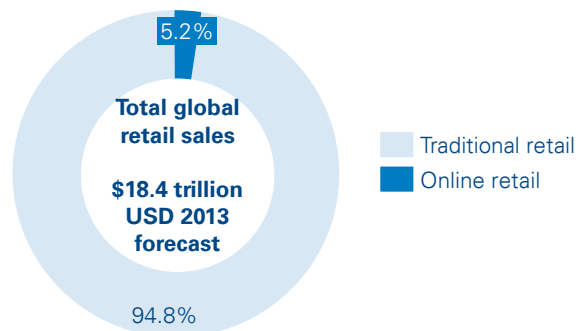
E-commerce has been at the forefront of innovation in recent years and retailers were forced to develop an online sales platform in order to stay competitive. This caused online retail sales to continuously grow at a double digit rate (Figure 4), however online retail sales still represent only 5.2% of total global retail sales (Figure 5 and 6).

Figure 5: Traditional vs. online retail industry growth

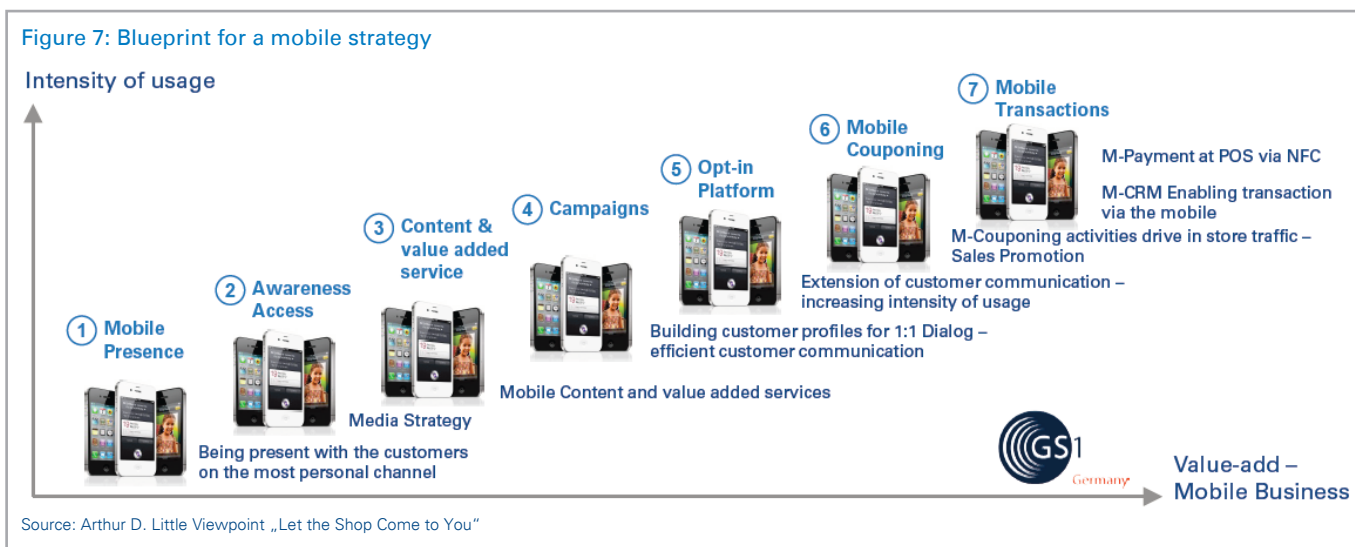


Source: Economic Intelligence Unit; Datamonitor

Figure 6: Share of traditional and online in global retail sales (2013 forecast)



Source: Goldman Sachs



The mobile revolution is creating new benefits for customers as well as opportunities for retailers.

In fact, mobile phones are more and more becoming our personal assistant, storing a plethora of information about our behavior and preferences. It is the perfect touchpoint to reach out to the “always-on” customer who no longer wants to be disturbed by advertising in classic channels.

Customers are interested in technology applications that make their life easier and more convenient. The rising use of mobile technology will allow for a whole range of new features, beneficial for the customers’ experience. A blueprint for a comprehensive mobile strategy for a retailer is developed in Arthur D. Little’s Viewpoint “Let the Shop Come to You” (Figure 7).

M-commerce is still at the beginning of fully deploying its possibilities. We predict the intensity of smartphone usage will skyrocket on a global scale and cause the mobile retail customer to become an even more interactive consumer of retail in the future.

Future technology applications

Mobile technology will enhance the customer’s experience and enable retailers to better understand their customer base, helping them to better target products and services. In particular, technologies have been developed to increase efficiency levels, enhance customer service or enrich business and customer intelligence. Recent developments in the mobile retail landscape are QR codes, NFC, Radio-Frequency Identification (RFID) tags, Augmented Reality and Image Recognition technologies. Use of these technologies can be beneficial for both the customer as well as the retailer. RFID tags are for instance being used in inventory management by Wal-Mart. It enables them to efficiently handle merchant deliveries and have real-time inventory information, thereby limiting out-of-stock products and disappointed customers.

For the customer, RFID tags can drastically simplify the checkout process and open up the way to automated payment procedures.

Some promising future technologies and their respective applications in retail are summarized in Figure 8.

Figure 8: Future technology applications in retail

Technology	Application	Example	Impact
Mobile connectivity	<ul style="list-style-type: none"> ■ M-commerce ■ Mobile apps ■ Mobile payment ■ Mobile scanning ■ Mobile comparison ■ Shopping assistance ■ Digital couponing ■ Geolocation 	<ul style="list-style-type: none"> ■ McDonalds 24/7 Mobile Delivery Service ■ Burgerking Mobile payment app ■ Zara Mobile Product catalogue app ■ Walmart iPhone self-checkout system ■ RedLaser mobile scanning ■ ShopSavvy comparison shopping ■ Best Buy Shopkick 	<ul style="list-style-type: none"> Inform Compare Select Purchase
QR	<ul style="list-style-type: none"> ■ Code promotions ■ Advertising campaign ■ Buy-on-the-go ■ Virtual shops 	<ul style="list-style-type: none"> ■ Emart 3D QR code in public places ■ Wendy's QR sweepstakes on takeout bags ■ Delhaize Direct Cube in train station ■ Mediaworld in Milan tube stations, Walmart and P&G mobile truck in New York, Tesco's Homeplus virtual shop in subway Seoul 	<ul style="list-style-type: none"> Inform Purchase
NFC	<ul style="list-style-type: none"> ■ Mobile payment ■ NFC based ordering ■ Enhanced customer interaction ■ Shopping assistance 	<ul style="list-style-type: none"> ■ Google Wallet, Visa V, Orange QuickTap,... ■ Casino NFC-based ordering ■ 7-Eleven NFC kiosks 	<ul style="list-style-type: none"> Inform Select Purchase Pay
RFID	<ul style="list-style-type: none"> ■ In-store security ■ Rapid checkout ■ Inventory management ■ Shelve management 	<ul style="list-style-type: none"> ■ JCPenney using RFID to go Cash-Wrap Free by 2014 ■ C&A in-store RFID tags 	<ul style="list-style-type: none"> Purchase Pay
Social media	<ul style="list-style-type: none"> ■ Brand building ■ Customer involvement ■ S-commerce 	<ul style="list-style-type: none"> ■ Walmart, Victoria's Secret, Adidas ■ Nike LunarTR1 ID Shoe, Lidl promotions ■ P&G's Facebook brand stores 	<ul style="list-style-type: none"> Inform View Compare
Real-time data availability	<ul style="list-style-type: none"> ■ Customer resource management ■ Product search conversion ■ Optimized product recommendations ■ Product availability 	<ul style="list-style-type: none"> ■ Walmart's proprietary search engine Polaris ■ Simply Market's electronic shelf labels 	<ul style="list-style-type: none"> Supply
Biometrics/Image recognition	<ul style="list-style-type: none"> ■ Personalization ■ Product information ■ Quick buying process 	<ul style="list-style-type: none"> ■ Intel's virtual TV with personalized ads ■ Ahold Bol.com shopping app with book image recognition 	<ul style="list-style-type: none"> Inform
Augmented reality	<ul style="list-style-type: none"> ■ Enhanced marketing campaigns ■ Interactive product testing 	<ul style="list-style-type: none"> ■ Ikea interactive catalogue ■ Goertz Virtual Shoe store 	<ul style="list-style-type: none"> Inform View
Robotization	<ul style="list-style-type: none"> ■ Inventory management 	<ul style="list-style-type: none"> ■ Amazon's acquisition of robot maker Kiva Systems 	<ul style="list-style-type: none"> Supply

Source: Arthur D. Little

U-Channel Retailing

U-channel retailing

Today, evolving trends call for a new type of retailing: U-channel retailing. U-channel retailing stands for a retailing business model that is:

- **Ubiquitous;** Existing and being everywhere at the same time; constantly encountered
- **Universal;** Affecting the world as a whole
- **Unique;** One of a kind, unlike others
- Assembled by “U” the customer

U-channel retailing implies a multiplication of client facing channels designed to respond to new client needs.

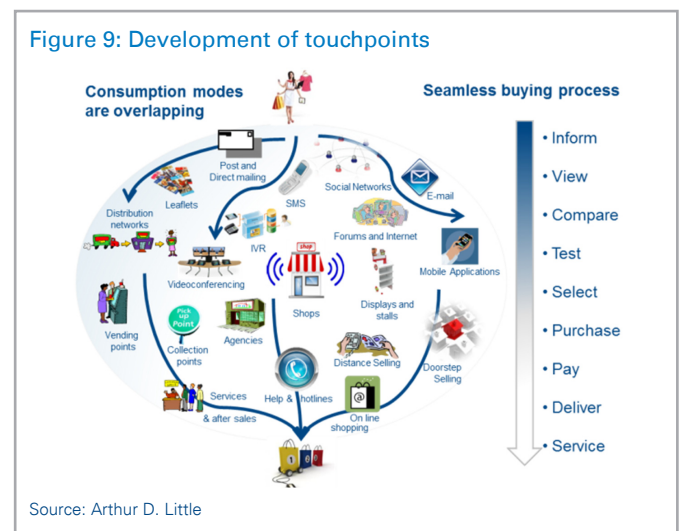
In practice, tomorrow’s shopper may identify a product on their mobile phone, read online reviews of it on their laptop, interact with a sales agent via online chat, then « click-and-collect » it from a pre-determined pick-up point in a physical store.

This requires an array of online, physical, mobile and mail-order sales, product delivery and customer support channels. The implications for retailers are tremendous for both front and back-end operations. The variety of customer channels requires intensive coordination and cross-channel visibility to allow for global order fulfillment, flawless communication routines between all subsystems and harmonized processes to fluently serve the customer in their purchase as well as assist them in the aftersales service.

Customer centric retail experiences

The emergence of the U-channel model will centralize more decisions in the hands of the customer. Where retail was formerly operating in a push mode, this will evolve more towards a pull mode. Retailers will need to learn to listen to customers and develop the appropriate procurement channel and partnerships to respond to customer expectations. A good example is the online shoe retailer Zalando, which captured 20% of the Dutch market by encouraging the purchase of multiple items and offering free returns. This differentiating offer comes of course with significant impact on customer inbound and

Figure 9: Development of touchpoints



outbound logistics and on working capital. Furthermore, as transparent price comparisons become widely available, premium retailers will need to focus on offering experiences or complete Customer Relationship Management (CRM) packages rather than just selling products.

Increasing customer decision power and the experience offering will coalesce in the introduction of a customer centric approach. Rather than directly driving sales, customer centric retail concepts try to engage with their clients. This will help retailers to better understand their customers, target the right customer segments and interact with them more intimately. Today, customer segmentation is becoming more difficult and the traditional marketing tools are becoming obsolete as shopping behaviors change.

Targeted marketing applications such as mobile loyalty cards with personalized promotions, interactive in-store touchpoints, touch-feel-and-taste points and personal shop assistants advice on product comparisons, are few of the examples retailers are applying to customize products and services to the buyer’s choice.

This customized product portfolio should offer enjoyable, entertaining or informative experiences for the customer in order to eventually convert the sale at the end of the buying process.

In this context, CRM will become increasingly important and the retailer will have to try to be the contact point of the customer at any moment in time.

This new approach to customer relationships will also be reflected in the store set-up and design. Different retail models will imply a redefinition of the channel roles. One could easily imagine a transformation of physical stores to make products come to the customer instead of having the customer walk to the products.

The pitfall of this focus on experiential shopping is that the success of each individual action is difficult to measure. As the primary focus of this approach does not lie on growing revenue, metrics should be focused on the perception and opinion of the consumer. Therefore these metrics are not straightforward but should be credible, reliable and accurate in order to answer customer centric questions:

- Why are some customers dissatisfied?
- Who are our best customers?
- What do they buy?
- How do they buy?

Finding the answers to these questions will be a burdensome endeavor but will indicate the compromises the current business model is imposing on the customers' buying processes. It is important to act quickly on changing trends to avoid being leapfrogged by competitors.

Advanced marketing analytics

Nowadays customers are more open to sharing information allowing the possibility of sophisticated marketing analytics. The increased intimacy in customer centric retail formats also enables retailers to get to know their customers' preferences and habits better. Furthermore new ICT technologies enable ample capturing of real-time data and provide new algorithms to extract insights out of the pool of available data.

For example Walmart's proprietary semantic search engine Polaris is expecting to boost e-commerce sales by 10-15% by increasing the relevance of the search results based on the analysis of the user's intent.

By analyzing these large batches of customer information retailers are also able to target specific customer groups. This is certainly valuable when addressing today's highly differentiated demographic, which is expected to become even more differentiated in the future.

Bring the product to the customer

Future customers are looking for convenience, value and pleasure in doing their shopping; implying an important shift in the role of the store.

Stores will certainly remain, as many customers consider it to be the center of their shopping experience. But, where the store was an "operational" epicenter in the buying process in the past, it will take on a more strategic role in the future serving as a showroom with a focus on experiencing and testing the products rather than converting the sale. Therefore, stores will become more dynamic in their set-up and are likely to lead to numerous innovations in customer experiences.

The digital revolution, and more recently the mobile revolution, will redesign the retail landscape completely. Customers are now well informed retail consumers with the ability to buy anywhere and anytime they want. Their demand for convenience requires several fulfillment and delivery options. Retailers must make sure all their platforms and channels are seamlessly integrated, both for front and back-office business processes, in order to satisfy the expectations of their customer base. In order to do so retailers need to shift to a U-channel type of commerce.

The omnipresence of information will reinforce the importance of the buying process experience. Acting more intimately with their best customers by offering customer centric experiences,

both through the shopping format and the product, also enables retailers to get a better understanding of their customers' habits and preferences. By applying advanced marketing analytics to this plethora of new information, retailers are able to effectively address specific customer segments in the highly differentiating demographics.

This new way of consuming retail will give a new purpose to the traditional point-of-sale. Where the shop predominantly served the operational purpose of executing a transaction, it will serve a more strategic purpose giving the customers the possibility to interactively experience the product.

Nevertheless retailers need to be cautious. The increasing importance of technology and reliance on virtual networks opens the door to new entrants. Telecom operators, media and social-media networks, payment solution providers and other actors may see opportunities to capture part of the customer base. Retailers need to be aware of the risks implied by technology but also of the risks of a passive stance allowing other industries and players to develop the solutions customers need. The challenge will be to develop the appropriate technology partnerships while retaining the lead and ownership of client relationships.

Identifying the Challenge and Way Forward

The U-channel challenge is both a short and long-term race. This revolution will profoundly remodel the retailing landscape in the long-run but also requires taking appropriate measures today.

From our experience, we see seven key domains which need to be addressed for retailers to move towards and seize opportunities associated with the U-channel environment:

propositions and offerings. This will require staff at all levels (front and back offices) to further develop their “technology familiarity” and entrepreneurship as they respond in real time to customer inquiries that will dynamically uncover additional customer needs. To that effect, corporate culture will need to evolve towards enabling easier introduction of radical innovation and the new venture models required to enable transformation.

Figure 10: Domains to be addressed to migrate to U-channel retail



Source: Arthur D. Little

Migrating to a U-channel retailing model requires progress in parallel on each of these seven domains. Within individual companies some domains may be more advanced than others and some may require more important and fundamental transformations. Retailers coming from different backgrounds – think bricks & mortar vs. e-commerce – will face different challenges but all will have to deliver on these domains before performing optimally as a U-channel retailer.

1. Culture

U-channel retailing requires a cultural shift from “delivering products” to “delivering solutions” and from “selling to the client” to “helping the client to buy.” In this context, technology will play an increasingly central role and evolve from control enhancing tools to buying experience enhancing tools; providing customers and staff with comprehensive and dynamic information on value

2. Channel strategy

Channel strategy needs to reflect the evolution of customer purchase and consumption habits and match evolving needs of the different customer segments and product categories. In many cases, customer oriented access channels need to be multiplied to increase customer capture and to allow for better integration. At the same time, the concept of channels in itself may disappear to be replaced by “touchpoints,” as channel integration will make it difficult to distinguish one channel from the other and the concept of “physical channels” will gradually be replaced by “solution offering”.

Full online/offline integration and alignment of the Marketing 4Ps (product, place, price, promotion) will be required to maintain “one face to the customer,” and to avoid misalignment of customer and product information that may create misunderstanding or could even lead to product usage liability issues. At the same time, adaptations need to be made to the product mix to reflect differences in cost structure across channels (e.g. delivery costs associated with home delivery – that typically cannot be fully passed to the customer – will require swift adaptation of offering and/or pricing).

Of particular importance for retailers is the further development of brand positioning and services via social networks. Retailers will need to find ways to use the power of people to their advantage and further develop the un-used conversation potential of customers to create additional reach through people engagement. Opportunities to structurally involve customers in some key processes (e.g. crowd sourcing/co-creation) also need to be carefully assessed.

Finally, the role of the traditional brick & mortar channel will also evolve, implying a key re-evaluation of store format, layout and location strategy.

3. Value proposition

The retailer's value proposition needs to be redefined in terms of customer segment and product categories, as customers may react differently based on the moment in time at which they are being addressed (e.g. private life vs. professional life) and adopt different purchasing modes from one product category to another. In order to optimize their value proposition, retailers will increasingly need to evolve towards a modular approach based on a physical and virtual backbone.

While traditional value propositions (e.g. price, quality, depth and wideness of assortment) are expected to remain important, they will need to be complemented by additional services and value offerings (e.g. fastest delivery, seamless shopping, personalized shopping experience) to answer to evolving customer needs.

Next to the development of additional services (making optimal use of channels multiplication), retailers also need to strengthen their value proposition in the physical store, which is expected to remain a key component of the retail experience. Key differentiating aspects to consider include the introduction of new store formats and concepts, the use of innovative technologies to improve quality and speed of the buying process and the development of learning initiatives to further increase customer experience.

4. Process landscape

Along with the transformation from traditional to U-channel retailing, retailers will need to ensure that their key processes evolve from lean to agile processes. Whereas the emphasis on process simplicity and automation will remain in order to reach cost efficiency throughout the value chain, it will also become essential to adjust processes to become more responsive through increased flexibility. Much like IT agile practices, processes will require optimization across the value chain to connect all (internal and external) operators and individual application modules onto shared platforms to increase flexibility and optimize outputs.

Of paramount importance will be the further development of customer intimacy and CRM processes, along with the data

analytics processes required to manage "big data sets," as retailers increasingly need to understand and influence the specific expectations of consumers in order to stimulate sales.

Logistics and stock management processes (stocking and replenishment, picking and packing, delivery) also need to be reviewed to reflect channel multiplication with an increasing number of operators and increasing customers' expectations – such as increased visibility on stock, extended delivery times (toward 24/7), home delivery, tracking and extended service reliability.

5. Governance

U-channel retailing will provide considerable opportunities in terms of organizational learning and synergy generation. In order to realize these gains, information will need to be shared and aligned across channels to obtain enriched views and share best practices. The built-in agility we discussed in the process landscape will also need to be reflected in fast decision making and fast corrections, while the number of actors involved in implementing decisions will increase. Clear allocation of responsibilities between channel manager and support functions (marketing, purchasing and category managers) will be required as the importance of real-time collaborative decisions will increase.

Furthermore project orientation will need to be further developed in organizations to sustain continuous improvement and allow for flawless integration of new "touchpoints" while avoiding disruption to operations.

6. IT architecture

The IT architecture will need to evolve in line with business requirements and should support and strive towards lower time to market for both on- or offline offerings. IT architecture will need to reflect the need for efficient data sharing and rapid integration of new business process modules from internal or external parties. Data should be kept separate from applications or functions, so as to remain dynamic and provide higher value knowledge.

In the long gone past, retail IT was all about mainframes and POS technology that provided the only link between the store

and the corporate centers. The future is not only centered around using the cloud in the area of data centers, operating systems, storage, back-ups and related security but much more in the area of mobile applications. In the online world artificial intelligence, semantic analysis, data mining and image recognition need to be combined into powerful point solutions enabled by 4G capacity, while the in-store usage of bi-directional ultra-low power NFC solutions will see the emergence of a rich offer of real-time CRM solutions.

7. Workplace 2.0

Tomorrow's workplace will gain in interactivity. As customers become better informed and linked to multiple channels, client facing functions will need to face a similar evolution in order to compete with information provided by the internet.

Front-line staff functions will evolve in line with selected value propositions that may involve additional features ranging from specialist product advice to assisting efficient buying processes. Ideally, sales functions will be in a position to "augment" customer needs as they respond in real-time to customer inquiries in the store that will uncover additional customer needs. Those may reside in any of the available value chain options such as store pick-up or home delivery but also in pure sell-on opportunities that consumers may normally satisfy in other retail stores; thereby potentially increasing ticket values as cross channel sell-on capabilities develop. Support functions will also need to be reshuffled as technology reliance increases and the stress on innovation and project management continues to grow. In addition, new functions (such as social network agents, data miners) will need to be introduced.

Those evolutions will require employees to master a different set of skills and capabilities implying that retailers will need to adapt their core HR processes (recruitment, training, assessment, career development) and develop new incentives schemes for staff at all levels.

U-channel transformation

Addressing these key elements of U-channel retailing requires a comprehensive and logical approach. At Arthur D. Little we have developed a four step approach (Figure 11) to tackle this transformation challenge, which involves answering the following questions:

1. Understand the gap to the new normal

Where are we today? How will online and technological evolutions influence our customer groups? How do we need to adjust our segmentation and channel strategy to optimally reflect changes in purchase and consumption mode? How do we understand which channel serves which customer group and for what specific purchases?

2. Define future state

What value proposition do we want to offer to each customer segment? What operational changes do we need to realize these value propositions? What is the transformation impact on the overall operational architecture?

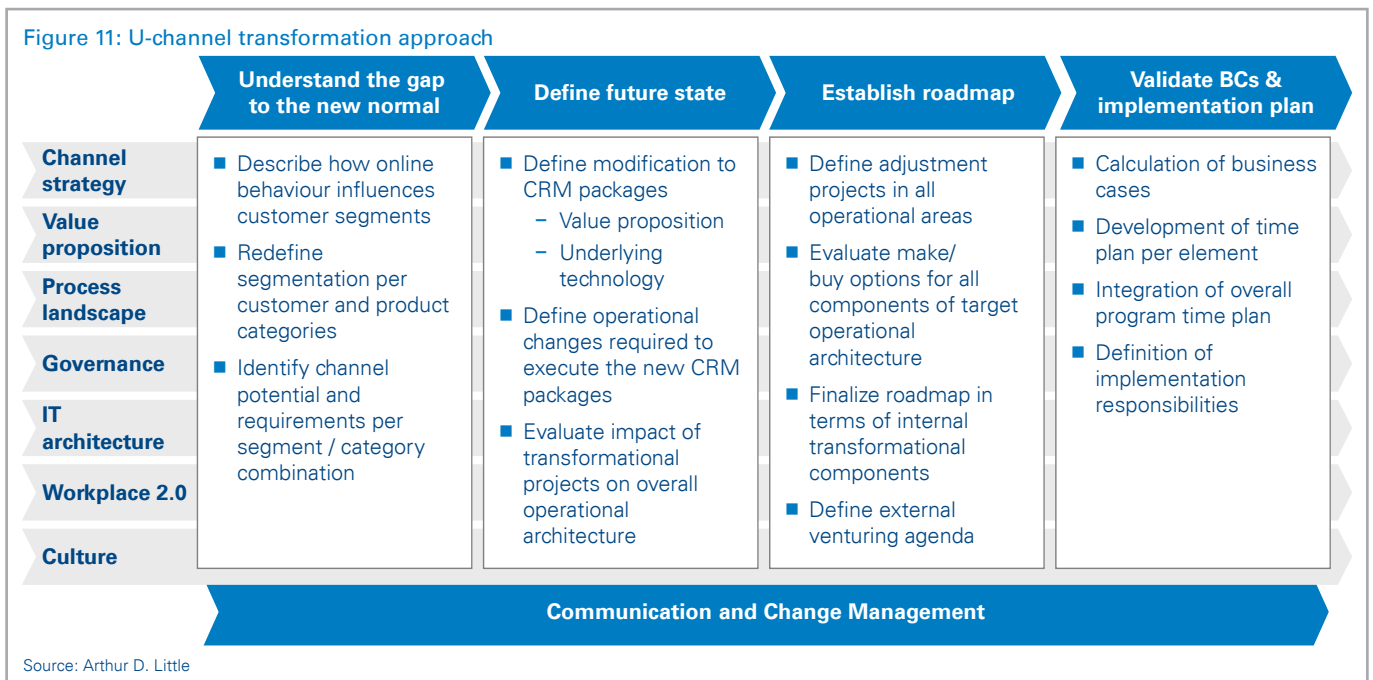
3. Establish a roadmap

What specific projects need to be launched in what time frame? To which extent will they influence the way we work and the processes we use? Should we develop or buy additional capabilities? How can we best define collaboration with external partners? How does the transformation roadmap integrate in the company's strategic agenda and objectives?

4. Validate business cases and implementation plan

What are the business cases and the value creation associated with them? How will we implement the desired changes? How will we manage the change and communication process internally and externally?

Figure 11: U-channel transformation approach



Source: Arthur D. Little

Concluding Remarks

Today's retail environment is a challenging one. Aside from managing the current economic difficulties and day-to-day operations, everyone needs to start preparing for the future.

Key trends which have been observed for many years are gaining momentum and starting to have a real impact on retail practices. All retailers are addressing these issues and starting to adapt their business models to respond to these changes. Today's adaptations often remain at a pilot stage but they are the prequels to more radical redefinition of the retail sector.

Identifying the right strategy and business model is not easy and will require many incremental and iterative steps. Nevertheless today's executive needs to scope the field, understand the challenges at hand and set the directions for future developments.

Tomorrow's retail is evolving towards a U-channel model: a retail model that is Ubiquitous, Universal and Unique. The recipe for success in U-channel retail will not be a one-size-fits-all model and requires retailers to revisit their fundamentals: what are our target customers and how do we segment them?, what will tomorrow's value proposition be?, which store format, technology platforms or partnerships will I use to capture customers?

The migration towards U-channel retailing will be a positive change for customers and retailers alike. It provides the opportunity to increase value creation for the retail sector and to radically innovate retailing business models both in the front and back-office. The key challenge for existing retailers will be to maintain their market shares while capturing added value.

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