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The Effect of Showrooming on Specialty Retailers: Leveraging a Framework for Success

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Introduction

As technology continues to increasingly infiltrate the lives of consumers around the globe, retailers are being faced with new challenges. Not only is there a push for retailers to be faster and more responsive, but retailers are also expected to have high integration across all channels. Over the past few years, as online shopping expanded and e-commerce became the norm, phenomena such as showrooming — consumers using their phones to comparison shop in stores — seemed like the evident and looming death of brick and mortar retailers (Adler, 2013). Historically, offline retailers have tried various methods to eliminate showrooming, going as far as charging customers to browse online in stores (Sevitt, 2013). However, these efforts among retailers have proved futile. It has become apparent that the fight against online comparison shopping will produce nothing but reduced sales and disgruntled customers. This thesis, through a case study, will serve as a means to better understand how specialty retailers in particular are affected by showrooming and how they can embrace the transitioning world of retail, using a four-part framework for success, to maximize vitality and longevity of their business. Principally, for this study, I will focus on three specialty retailers: Best Buy, PetSmart, and Toys“R”Us.

Literature Review

Historically, a heavy amount of literature has deemed showrooming an undeniable threat to retailers. Over recent years there have been hundreds of popular press pieces declaring doom to big box retailers who fail to take action against the phenomenon. One Business Insider article detailed the massive impact on everyday sales, stating that “Deloitte Digital believes smartphones influenced $159 billion in U.S. store sales over the course of 2012” and “will influence $689 billion of store sales in 2016” (“How the Mobile,” 2013, para.4). The fear for most retailers is that disruptive Internet retailers, namely Amazon, will snag all of their sales, traffic, and repeat customers and ultimately drive them out of business. After all, this has more or less been the misfortune of once booming businesses, Circuit City and Borders. As Thomas Lee (2014) stated in his book, Rebuilding Empires, “traffic to big box is like blood to human beings: you can’t survive without a constant, steady flow. Without a certain number of people walking through those doors, the business model that underpins big box simply crumbles” (p.3). Conversely, there is an equal amount of literature floating around that deems showrooming to be a non-threat to retailers. Several popular press pieces are claiming that retailers can use specific resources to embrace this phenomenon and create profitable advantages. Naturally, with all the showrooming buzz circulating, many are curious to know whether it is a viable threat and also which companies are most susceptible to it. One study in particular that has gained a large amount of attention, *Aisle to Amazon: How Amazon is Impacting Brick-and-Mortar Retailers* (2013), aimed to answer these questions. This study conducted by Placed, a vendor that measures consumer behavior in stores, suggests that Best Buy, PetSmart, and Toys“R”Us are among the retailers most frequented by showroomers. 14,925 U.S. survey respondents combined with the direct measurement of nearly 1 billion U.S. location data points during January 2013 provided for several important conclusions. Placed found that “consumers who have found an item they want at a store and then purchased it on Amazon are 25% more likely to visit PetSmart than the average consumer, 21% more likely to trek to Toys“R”Us, and 20% more likely to visit Best Buy” (p.5). Consumers were asked, “Have you purchased an item on Amazon.com after looking at the same item in a physical retail store?” Their responses were used to construct a retailer risk index. Although Placed does not release the exact method used to extract these index numbers, they do tell us that an index number of 100 serves as the average representation. The figure below summarizes the findings from the Placed study.

Figure 1: Retailer Risk Index

According to this figure, PetSmart, Toys“R”Us, and Best Buy are among the retailers most highly affected by showrooming. The only retailer in front of these companies is Bed Bath & Beyond, another specialty retailer. Based on this information, it can be inferred that specialty retailers run a higher risk of experiencing showroomers than other types of retailers. Whether retailers decide to view showrooming as a threat to be combated or as an opportunity to be seized, the role this phenomenon plays in the evolving world of retail cannot be ignored. Several retailers have committed to price-matching strategies, including Best Buy. However, this tactic comes at a cost as price-matching puts margins at risk. Also, it is difficult for traditional retailers to compete on price because they have high fixed costs, like rent for their stores. Other retailers have worked to expand their product lines online while offering free shipping. That being said, most retailers are thrown by the threat of showrooming and are most commonly employing short-term solutions to the problem. The point is that in the face of the showrooming threat, retailers are desperately trying to stay attractive to shoppers by implementing tactics that at some point will become unsustainable. So, what should a brick and mortar retailer do in order to ensure their business remains successful and relevant? This study aims to answer that question by examining the showrooming experience of three specialty retailers, beginning with Best Buy.

Best Buy

Best Buy, a large-volume specialty retailer of consumer electronics, personal computers, entertainment software and appliances, has historically sought success by "offering advice, service and convenience – at competitive prices – to the consumers who visit its websites and stores more than 1.5 billion times each year" ("About Best Buy," para. 1). In fact, Best Buy is the world's largest consumer electronics retailer. The company operates businesses in Canada, China and Mexico. Altogether, Best Buy employs more than 140,000 people and earns annual revenues of more than $40 billion ("About Best Buy," para. 1). While Best Buy stores may be big and high tech, they also want to be helpful, convenient, and able to anticipate their customers' needs and wants. Like any company that wishes to uphold a set of values or central strategy for its consumers, Best Buy has faced many challenges along the way.

In order to continue meeting consumer expectations, a business must never stop evolving, making sure to remain in sync with cultural, lifestyle, or societal changes. In the early to mid-1990s, Best Buy was growing quickly throughout the US and closing in on the leader position in its market. However, the company began to lose repeat customers and was becoming less profitable. At this time, Best Buy's culture and strategy were beginning to sabotage the company's success. According to an article by Gibson and Billings (2003), this resulted from the practice of minimal cross-function collaboration (p.10). This strategy of letting each part of the company function independently from the others, was becoming dysfunctional. Best Buy began to lack the ability to deliver a quality customer experience as it continued to rapidly expand. Each store manager at each store location acted independently, creating differences between simple functions such as how trucks were unloaded or how merchandise was distributed on the floor. As a result, a quality customer experience was not consistently found and this was reflected in company profits. Once Best Buy realized that their company strategies were no longer working, they began a change implementation known as the Standard Operating Platform (p.11). This new strategy, aimed at transforming Best Buy's culture into one of teamwork and collaboration, saw outstanding results in the subsequent years. Profits rose and stock grew by more than 1,000 percent (p.14).

Not largely different than this scenario from the 90's, Best Buy has recently been dealing with a newer dilemma in the form of showrooming. It is well publicized that Best Buy has been one of the companies most affected by the showrooming phenomenon, and the battle has been going on for some time now. In 2012, the struggle really began to show itself on the bottom line. Profits plunged 91% in the second quarter as sales dropped both in the US and internationally. Best Buy reported a profit of $12 million for the quarter ended August 4 versus $128 million a year earlier (Rushe, 2012, para. 2). To make matters worse, Best Buy was in the midst of a scandal that saw its CEO and chairman resign. The company was facing competitive and structural pressures, and it was clear that aggressive changes must be made quickly. Best Buy's business strategy was no longer relevant to the changing world of retail as consumers were relying more on the internet to meet their needs. This was made evident by the fact that although the company's overall performance was poor, sales for tablets, smartphones and e-readers increased. In response, Best Buy's turnaround attempt began with the hire of its new CEO, Hubert Joly. Fitzgerald (2014) discusses Joly's arrival in late 2012 and also the quickly initiated strategy to revamp the brand, known as "Renew Blue" (p.65). The company sold off its

European stores, trimmed its staff, and vowed to revive its sales using “omnichannel” retailing. This new and popular idea of an omnichannel strategy is designed to reach customers wherever they are, providing a seamless consumer experience. One crucial step Best Buy took towards achieving omnichannel status was made by adding the “Pick up in store” button to its online store (p.65). This gave consumers the convenient ability to browse and pay online but pick up the order on site. This improvement to the online purchasing process was critical as about 25 percent of all consumer electronics purchases take place online. Meanwhile, Best Buy’s online sales are still only about 6 percent of revenue (p.66). Additionally, Best Buy has made more than 200 changes to its online store. The critical obstacle to overcome was that the company was operating its online division and stores separately. According to the case study by Fitzgerald, previously, if Best Buy was out of an item in the online distribution center, the customer would simply get an out-of-stock notice. The company was losing those customers even though they stocked the same inventory in the stores, “one of which is no more than a 15-minute drive from 70 percent of the U.S. population” (p.66). Best Buy has since begun testing whether it can increase its inventory by turning stores into distribution centers. Having started with 50 stores, it added inventories from 150 more stores to its website for the 2013 holidays. Best Buy also reduced the number of clicks it takes to make a purchase to only three, and they now take geographical location into account (p.66). All of these changes to the online platform were made in addition to the announcement that starting March 3, 2013, the store would match the prices of nineteen major online competitors, including Apple, Amazon, and Buy.com.

<u>PetSmart</u>

PetSmart, the largest specialty pet retailer of services and solutions for the lifetime needs of pets, finds success by providing a broad range of competitively priced pet products and in-store services including pet adoption, boarding, grooming and training ("Company Info," para. 2). PetSmart also stresses the importance of quality customer service with several policies in place, such as the PetSmart® Look Great Guarantee: You're Happy or it's Free and the SmartPet PromiseSM policy. The latter policy states that "training customers are guaranteed 100 percent satisfaction or they can take the class again for free" ("Company Overview," para. 3). Although PetSmart finds most of its success by offering a combination of unique services, it is not immune to the showrooming phenomenon. According to a study by Johnson (2014), in 2014, PetSmart's "first quarter same-store sales slumped 0.6 percent, driven by a 2.2 percent decline in same-store transactions" (p.2). PetSmart attributed this to increased competition from traditional pet supply stores, but also extreme competition within the online channel. Johnson interviewed several parties including ten of PetSmart's district managers. Four of them said that increasing online competition explains the drain on sales at the store level (p.1). Online competitors are seeing significant growth, and sources outside of PetSmart said the company's emphasis on store sales is crippling its online strategy. Online competitors, "including independent local and regional stores with a hybrid online/offline strategy, are enthusiastic about their opportunity to steal market share from PetSmart" (p.29). One of these growing competitors includes Amazon's Wag.com which has no shortage of treats and toys on offer. As Stock (2013) points out, consumers regularly tasked with carting in a massive bag of dog food more than likely appreciate Amazon's free delivery service (para. 1). While the unique in-store services offered by PetSmart provide an excellent competitive advantage, PetSmart began to realize that relying on this was not enough. The company has since taken several actions in an effort to remain relevant in the shifting world of retail. Similar to Best Buy, "PetSmart placed more emphasis on growing its own Internet site as part of a larger omnichannel strategy aimed at simplifying the overall customer shopping experience and driving traffic to its stores" (Yoon, 2014, p.1). The company added "real-time online inventory availability information for consumables so customers can find out if a specific item is available at their local store" (Yoon, 2014, p.1). In addition to improving their online presence, PetSmart has worked to improve sales from grooming, training, boarding and other services. In more recent quarters, the service segment has outpaced the company's sales of pet food and other goods like toys and leashes. PetSmart CEO David Lenhart believes this segment "to be a very sticky part of our business" that "is a key differentiator" (Stock, 2013, para. 3). PetSmart also increased efforts on the consumables side, backed by a marketing campaign to highlight the breadth of its products with a focus on its exclusive and proprietary products. PetSmart has also enhanced its brand by smartly hosting pet-adoption events, "helping more than 5 million animals find homes in the past decade" (para. 5). While these events are held by PetSmart's nonprofit group, new owners opportunely pick up their pets in stores that are very much for-profit.

Toys"R"Us

Specialty retailer, Toys"R"Us, is "the world's leading dedicated toy and baby products retailer, offering a differentiated shopping experience through its family of brands" ("About Toys," para. 1). Through its Toys"R"Us and Babies"R"Us stores, merchandise is sold in 893 locations in the United States and Puerto Rico. There are also more than 730 international store locations. The company also takes pride in its strong portfolio of e-commerce sites including Toysrus.com, Babiesrus.com, eToys.com, and FAO.com. These websites provide shoppers with a "broad online selection of distinctive toys and baby products" ("About Toys," para. 2). Toys"R"Us has traditionally found success by offering an impressive assortment of toys, games, learning aids, electronics, children's apparel and baby furniture. The company is also known for its international flagship store, which happens to be one of New York City's top tourist destinations. This toy store showcases spectacular special attractions, such as a "60-foot Ferris wheel, a 20-foot animatronic T-Rex dinosaur and a life-sized Barbie dollhouse," and a unique toy shopping experience ("About Toys," para. 3). With all of these unique and exciting offerings, it is hard to imagine that showrooming would pose a threat. However, the popular toy chain has undoubtedly faced issues with this phenomenon. Former Chief Executive Gerald Storch unwaveringly denied that the company had suffered due to showrooming. According to an article by Zimmerman (2012), Storch stated that "people might come to the store and are not ready to buy, but what is not happening is that people are standing in the aisle and checking prices on their phones" (para. 9). However, as the Placed study made apparent, this is exactly what was happening. Storch denied this even as he had ramped up the number of private-label products by 30% since 2006, partly to discourage comparison shopping (para. 8). This focus on differentiation continued as the company worked to expand its range of exclusive products. In 2012, they released a new kids' tablet, Tabeo, to be exclusively sold at Toys"R"Us. The tablet, powered by Google's Android platform, retailed for $149.99, which made it competitive against Amazon's Kindle Fire priced at $199.00. Tabeo included features like parental controls and 50 free game apps. It seemed that the company's prominent strategy was to offer more exclusive goods and features not found anywhere else to combat the showrooming effect (Zimmerman, 2012). Toys"R"Us also expanded its price matching policy to include online competitors, such as Walmart.com, Target.com, BestBuy.com, BabyDepot.com, and Amazon.com. In more recent years, Toys"R"Us has made an effort to make their online platforms more convenient and attractive. In 2013, the company adjusted its layaway policy so that "customers who create their layaway orders in-store will have the option to make subsequent payments online" ("Toys"R"Us Lifts," p.1). According to a 2013 press release, they also rolled out a holiday season promotion allowing members of the Rewards“R”Us loyalty program, to earn 10% back on toy purchases made in-store or online, up to $100. The shoppers would then receive an e-gift card in November for the earned amount to help them complete their holiday shopping (“Toys“R”Us Announces,” p.1). Although company management has historically denied the threat of showrooming, Toys“R”Us has made strategic moves to improve sales in the face of the showrooming threat.

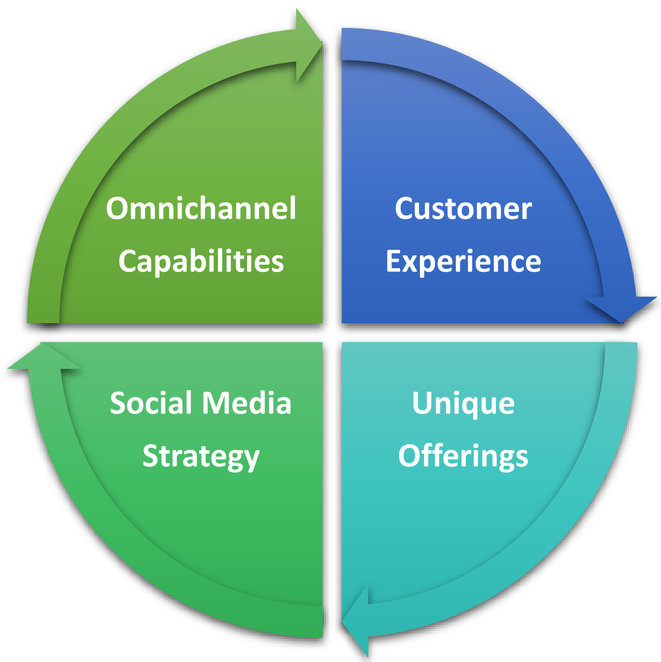
Putting it Together

So, is showrooming a viable threat? Are specialty retailers more likely to be affected by this phenomenon? If so, which retailer combated the threat of showrooming best? Whether or not showrooming is a threat strongly depends upon the retailer strategy. Furthermore, while showrooming may not be a threat to every retailer, it is always a factor that must be carefully considered and adequately planned for. Specialty retailers are certainly not immune to this phenomenon, although it is hard to say with certainty if they as a group are more affected. However, the fact remains that showrooming is an undeniable variable within the continuous and evolving world of retail, and it is not going away anytime soon. Because of this, retailers must learn to embrace the existence of showrooming and continuously work to create a retail environment in which showrooming can be leveraged to maximize vitality and longevity of business. I have constructed a simple framework for retailers to follow that requires the implementation and continual refinement of four key components: omnichannel capabilities, enhanced in-store customer experience, unique store offerings and differentiation, and an effective social media strategy. Each component is an integral and vital part to the framework. In the face of showrooming, most retailers mess up by focusing all of their attention on one or two of these components. This was exactly the case for the three specialty retailers of this study. While Best Buy's strategy to focus primarily on omnichannel efficiencies was a step in the right direction, they are still falling victim to the wrath of showrooming. The same goes for PetSmart and Toys"R"Us who elected to focus primarily on unique offerings and product/service differentiation. This is the fatal flaw. Instead of zeroing in on one or two of the four components, retailers must strategically nurture each of them. The retailer who continually refines and evolves these components within its strategy will ensure vitality and longevity of their business.

Framework for Success

Omnichannel capabilities:

Figure 2: Framework for Success



While retail has always revolved around the customer experience, the idea of omnichannel retailing takes the customer experience to a whole new level. Today, we see customers utilizing multiple channels when making purchase decisions. The overall shopping experience is much less linear, meaning customers no longer utilize just one sales channel to decide on a purchase. Instead, customers want to browse their options whether that be with their cell phone, tablet, desktop, or an in-store visit. It is now necessary for retailers to create a seamless shopping experience that begins whenever and wherever the customer orders. The goal is to supply a real-time, consistent, and personalized customer experience across all selling channels. Retailers can achieve this by ensuring that key information, such as pricing, product information, promotions, marketing messages, and store profiles, are in sync across all channels.

Customer experience:

Although an omnichannel strategy is critical, it is not the only element needed to achieve an overall satisfactory customer experience. While online channels are strongly valued for their social and product information sharing abilities, there are certain benefits that only an in-store experience can provide. Brick and mortar retailers have the advantageous ability to appeal to any of the five senses, to supply human interaction, and to secure personal or emotional connections with customers. By providing an engaging and high sensory showcase for their products and services, retailers achieve a competitive edge. This can be achieved through product demonstrations or an engaging and interactive store format. The in-store customer experience must transform into a socially attractive destination by leveraging what cannot be provided online. Retailers must work to create a comfortable, high touch retail environment in which customers have the ability to gauge products in an immersive manner, feel valued, and receive genuine, helpful guidance from store associates.

Social media strategy:

The implementation of a social media strategy is vital to the framework as it facilitates improvement in both the omnichannel and customer experience components. Today, customers are plugged in more than ever with peer to peer collaboration and on-demand information at their fingertips. Resources like blogger reviews, consumer ratings, social networking sites, and more provide consumers with a large amount of rich information. Rather than trying to compete with these online social information sources, retailers must embrace them in a way that enhances in-store customer strategies and achieves a more cohesive shopping experience. When creating a social media strategy, it is important to remain purposeful, helpful, and personal. Many retailers make the mistake of using social media solely as a means to deliver marketing messages. While this is one great benefit of social media to retailers, when overdone, consumers begin to associate the retailer's social media accounts with spam. Instead, retailers must be purposeful in their social media strategy in order to evolve customer interaction from a one way merchant to customer interaction to a two way dialogue. This way, customers feel valued as they can contribute to conversation and engage with brands.

Unique offerings and differentiation:

Emphasis on offering unique and differentiated products and/or services has been a popular tactic among retailers since the threat of showrooming was born. While delivering a fantastic customer experience is a large point of differentiation on its own, product/service exclusivity can be an added competitive advantage for retailers. Creative techniques such as product configurations, bundling, or complementary services can create a unique attraction exclusive to the physical store. Retailers must capitalize on this by providing innovative and exciting in-store offers to customers.

Conclusion

While it is hard to say whether there is legitimacy behind the notion that showrooming impacts specialty retailers more than other traditional retailers, the most important fact remains: that showrooming largely and undeniably impacts *all* retailers. Furthermore, showrooming will only become more pervasive as time and technology continue to evolve. Most importantly, this does not mean a dismal death for brick and mortar stores. The retailer who can embrace the transitioning world of retail by continually refining their omnichannel efficiencies, in-store customer experience, social media strategy, and unique offerings will certainly maximize vitality and longevity of their business.

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