

INTEGRATING BRICKS AND CLICKS FOR FUTURE RETAIL BUSINESS IN INDIA

Sahana Dinesh*

Dr. Y Muniraju**

Abstract

The exponential growth of online retailing is eating away the sales of traditional retail stores. However, as far as India is concerned, online stores are not going to replace the traditional brick-and-mortar stores in the near future. The Indian population is characterized by a mix of tech-savvy, newbie and technically challenged customers. This feature of the population exhibits the fact that the majority of customers still prefer offline retail stores over online stores. However, the customers these days are more interested in having a unified shopping experience across channels. To meet this demand of the customers, the retailers are integrating their channels to provide a seamless experience to the customers. In this regard, omni-channel retailing is a latest trend in the Indian retail industry. This allows the convergence of all possible retail channels. The present study aims to identify the pros and cons of both online and offline stores and thereby highlight the need to shift towards omni-channel retailing.

Keywords: Bricks-and-mortar, online stores, click-and-brick, unified experience, omni-channel, seamless interaction.

* **Research Scholar (UGC- JRF), Department of Studies and Research in Commerce, Mangalore University, Mangalagangothri-574199, India.**

** **Professor, Department of Studies and Research in Commerce, Mangalore University, Mangalagangothri, India.**

Introduction:

The retail industry has seen a multitude of changes over the past few years. Online shopping is gaining popularity. The benefits offered by online shopping is attracting the customers to shift their purchases to online stores. This has caused a lot of distress among the offline retailers who are losing their customers to online stores. Brick-and-mortar retailers are facing continuous challenge from online retailers, who work with low overhead costs and provide best deals to customers on every purchase (Rajan et al. 2017).

While it is true that the emergence of online stores has created a ‘do or die’ situation for offline retailers, at the same time, the attractiveness of online shopping is tempting the retailers to adopt the online business model and garner the benefits of both online and offline presence. In fact, it has been observed that the retail market in India will primarily be driven by omni-channels as brick-and-mortar retailers enter e-commerce to support their stores (Malviya 2015). This click-and-mortar business model would lead to synergy in business by offering cost savings, improved differentiation, enhanced trust, and market extension (Rajan et al. 2017).

Review of Literature:

Rajan et al (2017) noted that with the availability of Internet, smartphones, tablets, and other Internet enabled smart devices, the customer buying pattern has changed. The boundaries of retail channels are thinning, with customers getting access to both online and offline channels. Today, the customers are merging their online and offline shopping practices. The study concluded that the companies would benefit by adopting digital strategies that augment consistent product codes across channels, real time tracking of orders, and location based promotions.

Kersmark and Staflund (2015) described omni-channel retailing as an extension of multi-channel retailing. According to them the difference between the concepts is the level of integration, where omni-channel requires seamless and complete channel integration, in multi-channel the level of integration varies from non-existing to high. The authors have found that today’s customers expect an integrated shopping experience where they can combine the

different channels according to their preferences and omni-channel enables retailers to meet this expectation.

A.T. Kearney and Retailers Association India (RAI) Report (2016) stated that the proliferation of technology has given rise to increasingly connected customers. The shopping patterns of connected customers are changing rapidly and therefore the retailers have to define their digital strategy to cater to the needs of connected customers. The report offers four options to the retailers, namely, go omni-channel, enter the pure-play marketplace, develop a unique product or sales proposition and to wait and watch until the market conditions are feasible. Therefore the report suggests retailers to invest in e-commerce platforms to supplement physical stores and to enter into strategic tie-ups with online marketplaces to access online customers.

The above studies analyzed the significance of omni-channel retailing to the retailers, highlighting the benefits the customers would get from the omni-channel presence of the retailers. The present study is an attempt to analyze the potential for and pros and cons of online and offline business in India, and to understand the need to integrate these two channels.

Objectives of the Study:

The study is conducted with the following objectives

1. To analyze the potential for online and offline business in India.
2. To highlight the pros and cons of online and offline retailing.
3. To understand the need to integrate the online and offline retail channels.

Research Methodology:

The study is based on secondary data. The data was collected from various sources such as journal articles, books, news articles, and industry reports. The industry reports of A.T. Kearney & Retailers Association of India, Indian Brand Equity Foundation (IBEF), and KPMG and Confederation of Indian Industry (CII) were studied.

Online Business Potential in India:

The Indian e-commerce industry is witnessing an upward trend and is expected to reach US\$200 billion by 2026 from US\$38.5 billion as of 2017 (IBEF July, 2018). This offers huge potential for e-retailers in India to enhance the growth of online business. The opportunities for online retailers can be grouped into three categories, namely, growing demand, increasing investment, and enhanced policy support.

- **Growing demand:** Increased internet and smart phone penetration, the launch of 4G networks, increased customer income and relatively young population of the country is propelling the growth of online business in the country. The online retailers are now reaching the tier-II and tier-III cities of the country. These developments ensure growing demand for online retail business in the country.
- **Increasing investment:** Increasing awareness about the growth of e-commerce is attracting huge investments into the sector. According to the IBEF, the e-commerce industry in the country has witnessed 21 private equity and venture capital deals worth US\$ 2.1 billion in 2017 and six deals worth US\$ 226 million in January-April 2018 (IBEF July, 2018). With the increasing investment and the resultant financial strength, the Indian online business is expected to witness a phenomenal growth in the future.
- **Policy support:** The Government policies are very supportive for the e-commerce growth in the country. Further, Government initiatives like Digital India are motivating people to adopt various digital modes. The FDI policy is allowing 100 per cent FDI in B2B e-commerce and 100 per cent FDI under automatic route is permitted under marketplace model of e-commerce.

Offline Business Potential in India:

The Indian retail industry is considered to be one of the fastest growing markets in the world and is expected to grow to US\$ 1.3 trillion by 2020 (IBEF June, 2017). According to IBEF report, in 2016-17, the online retail in the country was made up of 1.5 per cent of overall retail market. This shows the significance of traditional retailing in the country and also highlights the significant potential for growth of offline business. Just like the potential for online business, the offline business potentials can also be grouped under three heads.

- **Demand potential:** High economic growth, increasing disposable income, and changing consumer tastes and preferences are driving growth in the retail industry in the country.
- **Increasing investments:** It is been observed that in the recent years many foreign retailers like Walmart are entering the Indian market. The investment opportunities are enormous in the Indian retail industry. Many foreign companies are collaborating with Indian firms to market their products to the Indian customers. The best example of this collaboration would be the Bharti group tie-up with Walmart.
- **Policy support:** The Government has allowed 51 per cent FDI in multi brand retail and up to 100 per cent in single-brand retail and for cash and carry (wholesale) trading and exports. Further, to provide a level-playing field to stakeholders, the government is planning to synchronize policies of retail, FMCG and e-commerce within a single policy framework (IBEF July, 2018).

The above analysis shows that the Indian retail industry, comprising both online and offline retail, has a huge potential for growth in the future. The changing demographic profile, better economic performance, improved investment opportunities, and government policy initiatives, are all offering massive opportunities to the retailers operating in the country.

Online Retailing: Pros and Cons:

Retailing through online channel provides a lot of advantages to the retailers. The significant benefits of operating an online store are described below:

- **Low start-up costs:** The cost of setting up an online store is significantly low compared to that of a physical store. The online store does not require huge investments to be made on physical infrastructures such as store location. This result in a very limited capital investment and the online store can start selling immediately after inception.
- **Wide geographical coverage:** The online stores can cover a wide geographical area compared to a limited coverage by a physical store. The online customers living in any part of the world can order and get the delivery of the product to their place with utmost convenience at an economical cost. This wide coverage allows the online stores to reach a large customer population and handle large transactions in an economical manner due to the resulting economies of scale.

- **Low inventory cost:** With the marketplace model, the online stores need not maintain the huge stock of inventory. They can get the order delivered to the customer from the seller directly without maintaining the stock at their warehouses. At times, when the customer places an order at an e-commerce site, the online retailer intimates the sellers about the order and receives the order at their warehouse. Then, the online retailer does the packaging and immediately dispatches the order for delivery. This ensures that the holding and inventory cost are minimal.
- **Access to customer data:** An online store is able to track the customer interaction in its platform and thereby gather useful customer data. This transaction data when accumulated overtime can be used by the online store for proposing more personalized offerings according to the shopper's profile.
- **Investors interest:** Owing to the attractiveness of online retailing, many investors are now interested in investing on online retailing. This entitles the online retailer to gain access to huge investments and plan enticing offers to the customers.

However, online retailing is not free from challenges. The challenges faced by an online store make it more vulnerable to competition.

- **High marketing cost:** The absence of physical location makes it inevitable to an online retailer to spend more on the store's marketing activities to drive customers towards it. When compared with a traditional retail store, the marketing budget of an online retailer has to be quite high.
- **Government restrictions:** The Government has recently put up a limit on the discounts offered by the online retailers. This step of the Government has become a greatest challenge to these online retail stores, who otherwise depended heavily on discounts and offers to attract the customers.
- **Challenges of cash on delivery:** Cash on delivery is the most popular mode of payment for online purchases in India. However, this exposes the online store to losses when the customer rejects the order at the time of delivery. The time and money spent on the delivery of the product will add up to the revenue loss. Further, cash on delivery transactions can affect the cash flow, particularly when the transactions become large.
- **Risk of returns:** When the customers buy online, they have an option to return the product if they are not satisfied it. According to the KPMG Report 2016, returns are considered

to be expensive for the online retailer, as it pushes up the average cost of delivery by 50 per cent due to two-way shipment charges (KPMG & Confederation of Indian Industry, 2016).

- **High competition:** The increasing popularity of online stores is attracting competition. Today, there are several stores in the online marketplace selling almost similar products and services. When encountered with competition, the online retailer is forced to offer additional attractive discounts and offers to attract and retain loyal customers. This adds to the cost of the online store.

The above cost and benefit analysis of online retailing shows that though online retailing seems attracting, the challenges faced by the online retailer are manifold. To sustain in the highly competitive world of online retailing and gain a competitive edge over other competing online retailers, it would be better to integrate the online and offline retail channels.

Offline Retailing: Pros and Cons:

While online businesses have taken up a significant portion of the market in recent years, it is believed that online business can never completely replace offline businesses (Kotler et al 2017). Offline retailing enjoys certain virtues which are enlisted below:

- **Continues to be the popular shopping channel:** Nothing can actually replace the happiness the customer gets when physically touching the merchandise. The customer gets a unique experience at a physical store and this cannot be compared with that of an online store.
- **Low risk of returns:** As the customers can touch and feel the product before buying, the chance of returns is low in case of offline stores.
- **Benefit of passing trade:** Sometimes, the physical stores gets the benefit of passing trade, as some people enter a store just because they see it when walking past though they had not planned to go there. Additionally, if the store location is good it becomes easily visible to the target customers and helps the store build loyalty for its brand.
- **Regular cash flow:** As customers buying from offline stores generally make payments immediately, offline stores enjoy regular flow of cash in the business. Whereas in case of online stores, the cash on delivery option given to the customers delays the receipt of payments.
- **Enjoys customer trust:** The customers generally trust the local retailer more when it comes to purchase of merchandise involving large investment. Unlike online stores, the offline

stores can establish personal relationship with the customers and build customer trust and loyalty.

Though a traditional offline retail store continues to be the popular shopping channel, its existence is being challenged by the modern online stores. The various challenges being faced by the offline stores from online stores are listed as under:

- **High set-up and running cost:** An offline store has to invest on store infrastructure before starting the business. The running costs are also likely to be high than online stores with monthly rent and other utility payments. In the case of offline stores, funds can dry up quickly if not cautious.
- **Limited financial strength:** In comparison with the online stores, all offline stores do not have access to huge capital investment. The offers given by the offline stores cannot be compared with the huge discounts of the financially strong online stores. This limited financial strength has challenged the existence of many offline stores.
- **Marketing to a limited customer base:** The customer base of offline stores is limited compared to the large customer base of online stores.
- **Location of the store:** If the location of the physical store is chosen inappropriately, it can seriously damage the success of the business. However, location of the store is never a problem for the online retailer as the customers can get access to the online store from their place of convenience. This benefit of convenience offered by the online stores gives them a competitive edge over the offline stores.

The analysis of the pros and cons of offline retail shows that though offline retailing can be profitable, its profits are hampered mainly because of the exponential growth of the online stores. Therefore, it would advantageous to the offline channel to integrate with the online channel of retailing and result in the synergy that would ultimately benefit both retailers as well as the customers.

Integrating Bricks and Clicks:

The expeditious growth of online retailing has required the traditional retailers to enable their customers to access their offerings on multiple channels, and thereby reduce their reliance on brick-and-mortar outlets (Gajanan & Basuroy 2007). With more and more sales being shifted online, the traditional retailers are facing the biggest challenge of meeting the customer

expectation of seamless shopping experience (Strategy& Report 2012). Integrating the offline channel with that of online will enable these retailers to ensure that their customers get what they want.

This has resulted in a number of retailers who operate through multi-channels. However, this does not necessarily mean that they are omni-channel retailers. Though multi-channel and omni-channel retailing involves selling across physical and online channels, the difference lies in the approach towards customer experience.

In a multi-channel retailing, the retailer will have both online and offline stores. However, both the stores will be isolated and will have minimum interaction with one another. In short, both the channels will be treated as separate businesses.

However, today's customers expect to experience a seamless experience across channels. They want to interact with the online channel as well as in-store and expect this interaction to be integrated. The omni-channel meets this expectation of the customer and ensures that the customer experience is consistent and unified.

Online or Offline – Difficulty in Decision-Making

It is difficult to choose either online or offline as the most effective channel. The recent trend is that traditional retailers are opening online stores and online retailers are investing in physical locations (Shackleton 2016).

Today, the boundary between online and offline retail is fading. The customers wish to have a unified experience across channels. They search for product information online when they see the product on television. Similarly, when deciding whether to buy something in-store, they research price and quality online.

In an increasingly high-tech world, high-touch interaction has become the new differentiation (Kotler et al 2017). To survive and succeed in this highly competitive world characterised by 'digital-savvy and social' customers, the retailers, both online and offline, are moving towards

integrating these two channels. For instance, Birchbox- an online beauty product retailer has opened a physical store to complement its online business. Similarly Macy's store has adopted technology like Apple's iBeacon which allows for digital interaction with customers in-store.

The biggest trend in the Indian retail industry in 2017 is the emergence of Omni-channel business model, where a retail brand will aim to have both online and offline presence (Shashidhar 2017). For instance, brick-and-mortar retailer Shoppers Stop has adopted omni-channel strategy to grow its business. It raised Rs. 179.25 crores from global e-commerce giant Amazon by issuing equity shares on preferential basis. It now has an exclusive flagship store on the Amazon marketplace listing over 400 of its brands. This integration with Amazon.in will give significant fillip to omni-channel growth and help Shoppers Stop to increase its overall sales (ETRetail.com 2018).

Similarly, the online fashion marketplace Myntra has opened its brick-and-mortar store for its private label Roadster (Nair 2017).

These instances show that now the trend is gradually shifting towards the integration of online and offline channels. Therefore, the future of retailing could be the combination of online and offline, that is, the omni-channel.

Limitations of the Study:

The present study is only conceptual in nature and is based on secondary data.

Conclusion:

Since the evolution of e-commerce, online business is emerging in India and is offering huge benefits to the retailers as well as the consumers. In addition, the traditional offline retail business is also doing well. However, the offline sales will be affected owing to online growth. The store traffic will considerably go down as online stores will be offering a wide range of merchandise at lower prices. Further, the product reviews and expert advice provided will add to the value of online stores. Though online shopping has been considered as popular, the recent trend shows that customers wish to experience a unified shopping experience. Therefore, a

retailer would benefit more by combining the offline and online channels and thereby offer a seamless shopping experience to the customers. In this direction, the omni-channel retailing is expected to become the future of retailing in the days to come.

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