Baker
Retailing Center

Conference Report

Multi-Channel Shopping: Online-Offline Interaction and Social Media

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Organized by the Jay H. Baker Retailing Center

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Baker Retailing Center

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Introduction

Multi-channel retailing and social media have been a leading strategic focus for retailers. Based on input from the Baker Retailing Center's C-level industry advisory board and core faculty, these subjects are among the Center's research priorities and made them an ideal topic for an industry-academic conference.

Industry-academic conferences serve the Center's mission to facilitate the creation of knowledge that is relevant for the retail industry and has academic significance. They are a platform for leading industry and academic retail experts to discuss perspectives and ideas in a think tank kind of way and to network for future collaboration.

The current conference aimed to spark a dialog between invited industry and academic participants, including from the Center's advisory board companies and core faculty group, and initiate collaborative research on multi-channel retailing and social media. It featured keynote talks, panels, and discussions between participants.

This report describes the current state of retailers' multi-channel and social media strategies as well as developments and challenges. It also highlights important academic research on these topics. The executive summary synthesizes key insights.

The Baker Retailing Center would like to thank everybody who contributed to the success of the conference, including the conference co-chairs and Wharton faculty members David Bell and Kartik Hosanagar; the keynote speakers, panelists, and other participants; the board member companies that provided panelists and other participants; Wharton Executive Education; Knowledge@Wharton; and the Wharton Communications office.

Barbara Kahn
Patty and Jay H. Baker Professor
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Executive Summary

Multi-Channel Integration

• **Omni-channel model.** While retailers used to operate channels as separate businesses, they have moved to an omni-channel model to combine the unique capabilities of all channels and to provide a cohesive customer experience. They increasingly consider channel interactions to optimize the overall business rather than individual channels.

• **Channels support one another.** While offline stores' showrooming effect for online businesses has been cited frequently, online channels, which for traditional apparel and fashion retailers typically constitute a relatively small fraction of the overall business (often about 10%), bring traffic to stores as well. Websites and promotional e-mails generate business not just for the company's online channel but also for its offline stores.

• **Online expertise for offline channels.** Multi-channel retailers try to leverage online executives' data and digital expertise in the offline business because those executives know the largely multi-channel customer base from online data. They can help enhance offline data systems and integrate interactive technology, online reviews, recommender systems, and cell phone apps into offline stores. Retailers are testing new in-store technology to figure out how to leverage digital capabilities and what kind of device to use—e.g., kiosk, tablets, and customers' own devices—to enhance the in-store experience.

• **Channel integration.** Retailers work to integrate channels operationally (e.g., offline returns of online purchases) and managerially (e.g., incentive systems) to optimize the overall business. However, cross-effects between channels, which are key to optimizing the channel mix, are not easy to capture. Plus, the lines between channels are blurring, for example when customers use cell phone shopping apps at the store.

• **Incentive systems.** Multi-channel retailers are looking for suitable ways to credit the appropriate channel for generating business. Effective incentive systems don't create competition between channels but support the overall business outcome. The objective to track multi-channel retailers' overall business performance also raises the question whether e-commerce stores should be included in comp store sales numbers, which they currently aren't.

Questions to Consider:
• *What is your company's experience regarding multi-channel retailing? What are your plans for the future?*
• *How do your company's various channels support each other? To what extent do they compete?*
• *How much does your company consider the overall business performance across channels as opposed to optimizing individual channels? What are the challenges?*
• *What kind of cross-channel effects does your company track, and which additional ones would you like to track?*
• *What trends do you see in multi-channel retailing?*

Online-Offline Aspects

• **Local, tangible, and personal features of online businesses.** Online businesses rarely operate purely virtually. They use a variety of local, tangible and personal features to deliver their services and make their brands, products and services more experiential. Examples are branded keepsake garment bags, pick-up locations for orders placed online, and offline promotional events for customers. Even established online companies such as Amazon, eBay, Google, and PayPal are opening stores or are being integrated in physical stores for showcasing, new customer acquisition, and brand awareness reasons and to save customers delivery time and shipping cost.

• **The Long Tail.** Sales of both online and offline assortments form a drawn-out curve—a Long Tail curve—with high sales for a small fraction of best-selling items and lower sales for the rest of the assortment. This is generally true across product categories. However, the curve is steeper for offline stores because their assortments generally focus on popular items (e.g., airport bookstores, which tend to carry literary bestsellers). Online stores usually carry an assortment multiple times larger than brick-and-mortar stores.

• **Differentiating online and offline assortments.** Research shows that channel-specific assortments can be beneficial. Niche products online can supplement rather than compete with offline assortments, which usually feature more popular items. In fact, Zappos grew by adding offbeat styles. Niche products are often more cost-efficient to offer online because of less costly virtual shelf space, made-to-order production, and electronic delivery. In addition, online search engines and online recommender systems expose shoppers more to niche products compared to offline recommendations by people, which tend to be for popular products.

• **Segment-specific marketing.** Advertising strategies, including the media used and frequency of exposure, should be tailored to individual segments to increase profits across channels and over time as opposed to shifting purchases between channels or points in time.

• **Pricing questions.** Online customers' price sensitivity might not always be higher online. Thus, online prices don't need to be discounted necessarily. Important pricing questions include pricing across channels, impact of retailers' online pricing on manufacturers' pricing, how retailers should respond to Amazon's pricing, and how online sales taxes will impact online and offline sales.

> **Questions to Consider:**
> • *How much do your company's offline and online customers and product assortments overlap? Is the share of overlap optimal?*
> • *To what extent does your company consider your customers' geographic location in assortment, pricing, and other marketing decisions?*
> • *What role does price play in your company's online channel strategy? Are prices and promotions consistent across online and offline channels?*
> • *What are important multi-channel research questions to pursue?*

Social Media

• **Social media for customer engagement.** Social media are primarily used to connect with customers rather than to sell. Common uses are to have one-on-one interactions with customers, collect customer input for product development and general customer feedback, run special promotions such as design or voting contests, and give away samples. The objectives are to foster engagement and gain new followers.

• **Interactive features of social media.** Shopping has always been a social activity, and retailers use social media—the virtual equivalent to offline sales associates—to interact with shoppers and encourage interaction between shoppers, for example by creating and sharing customer-generated content.

• **Differentiated content and evolving strategies.** Just as with their assortments, retailers differentiate social media content by geography and type of social media. Using the local language and shaping the content around the local culture keeps content locally relevant. Retailers' social media strategies evolve as a result of customer responses.

• Customer-generated content and recommender systems. Shoppers often pay more attention to content generated by other customers than to company-produced content. Examples are online reviews and customer-generated videos. Dynamic product recommendations based on other customers' purchases have also proven effective. Retailers are exploring how such recommender systems can be leveraged in offline stores.

• Importance of word of mouth. Referrals are especially important for online retailers because of the virtual nature of the interaction and because services and products sold online are often hard to assess. A large share of online retailers' new customers can be based on current customers' recommendations. Online retailers therefore try to excel at customer service and customer satisfaction to increase the likelihood of referrals.

• Measuring social media impact. Performance measures more meaningful than the number of likes include the level of engagement, the kind of sentiment triggered by posts, and the positive influence in the social space.

Questions to Consider:
• How does your company leverage social media, and what other uses might be beneficial?
• How does your company employ customer reviews and other online recommender systems? What are your plans for the future?
• What measures does your company currently use to track social media's effectiveness? What data would you like to have?

Battle of the Retail Channels: How Product Selection and Geography Drive Cross-channel Competition
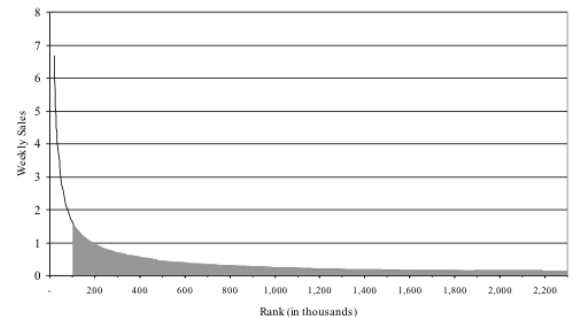## Erik Brynjolfsson
Schussel Family Professor, Professor of Management, MIT Sloan School of Management; Director, MIT Center for Digital Business

Erik Brynjolfsson presented findings from a set of research projects that give insight on the interaction effects between channels, used as both sales and advertising platforms.

Sales Across the Assortment: Long Tail Curve
The first stream of research looks at how evenly sales of items distribute across online and offline assortments. Both online and offline sales form a drawn-out curve—a Long Tail curve—with high sales for a small fraction of best-selling items and lower sales for the rest of the assortment (see graphic below). This shape is generally consistent across product categories, including fashion.

Pareto Curve at Amazon

$$\ln(Quantity) = \beta_1 + \beta_2 \cdot \ln(Rank) + \varepsilon$$

Source: Brynjolfsson, Hu and Smith, "Consumer Surplus in the Digital Economy" *Management Science*, 2003

However, the curve is steeper for offline stores because their assortments generally focus on bestseller items. An example is airport bookstores, which tend to carry literary bestsellers. Online stores usually carry an assortment multiple times larger than brick-and-mortar stores. A case

Product Variety Comparison

Product Category	Amazon.com	Typical Large Brick-and-Mortar Store
Books	2,100,000	40,000 – 100,000
CDs	250,000	5,000 – 15,000
DVDs	18,000	500 – 1,500
Digital Cameras	213	36
Portable MP3 players	128	16
Flatbed Scanners	171	13

in point is Walmart, which carries six times as many items online as in its Superstores. Amazon's SKU counts are multiple times higher than a typical brick-and-mortar store (see overview chart above). Thus, online assortments can supplement offline assortments. Amazon, for example, derives 40% of its sales from books that aren't available in brick-and-mortar stores.

Online prices of books and music CDs have been found to be 9-16% and 9-13%, respectively, lower on average than offline. Generally, prices decrease with more competition, which typically applies online, and they are less dispersed and more consistent online than offline. Moreover, prices and profit tend to be higher in the tail of the curve because the items are more unique and people are willing to pay higher prices for niche items.

Erik Brynjolfsson, MIT Sloan School of Management

Drivers of the Long Tail

The Long Tail of online assortments results from both supply-side and demand-side factors. Supply side factors include cost-efficient virtual shelf space, made-to-order production, electronic delivery, pre-ordering of items such as books that aren't available yet, and access to a larger group of customers. These factors provide an incentive to carry a larger, more varied assortment, including niche products. As for the demand side, customers have access to powerful online search tools and are exposed to recommendation systems, customer reviews, dynamic storefronts, and online communities, which facilitate the discovery of a wider range of brands and items, including obscure products. In contrast, in the offline world, recommendations by sales associates and friends tend to be for popular, head-of-the-curve products.

An analysis of the sales distribution of a retailer with identical online and catalog assortments supports the online vs. offline sales curve difference. Online sales turn out to be more evenly distributed than catalog sales. Customers' use of niche products might have a reinforcing effect in the future through changes in taste from exposure to new products and access to more varied sources of information.

Online Versus Offline Assortments

Supporting the idea that it can be advantageous to focus more on niche items online is research on the often-cited competition between online and offline channels. Using a vast data set from a large women's clothing retailer with a catalog and online business, the research looked at how the availability of offline shopping options for women's clothing in customers' local vicinity impact online sales in those geographic areas. As the number of local stores increased, the online demand for popular items, which tend to be widely available in local stores, went down, while the demand for niche products, which are difficult to find in local stores, wasn't affected. Thus, it can be beneficial to focus more on niche products online and take into account local market structures in assortment decisions.

In fact, Zappos grew by offering more non-mainstream products, according to a quote by CEO Tony Hsieh: "Many consumers came to the company's website looking for offbeat styles. The more variety the company offered online, the faster it grew. Today the company sells more than three million products across 1,000 brands." In addition, the impact of local offline competition reflects in Zappos' sales distribution curve: Niche sizes sell better in densely populated areas with more shopping options while the size distribution is normal in other geographies.

Advertising Effects Across Channels and Over Time

A field experiment investigated how catalog advertising, an important advertising vehicle for retailers, impacts current sales of the catalog and online channels as well as future sales. Well-designed field experiments are often better for gaining valid insight than analyses of existing data because they are able to identify causality as opposed to correlation. In this study, customers of a women's clothing retailer with identical catalog and online assortments received a total of 17 or 12 catalogs over a nine-months period, depending on whether they were in the test or control group.

The research found that more frequent catalog advertising generally increases both catalog and online sales and profit but that it takes away near-term online business by the best customers and also affects those customers' future purchases. The sales and profit effects are as follows:

	Good Customers	Best Customers
Sales catalog channel	+11.6%	+6.3%
Internet channel	+30.3%	-9.6%
Short-run catalog profit	+$0.36	+$1.58
Short-run Internet profit	+$1.08	+$1.53
Long-run profit	+$2.43	-$0.73

While advertising can create greater short-term and long-term sales, other effects such as cross-channel cannibalization, substitution of future sales by earlier purchases, and segment-specific responses (e.g., good vs. best customers) need to be considered to optimize the overall business.

The interaction between channels is important to consider in decisions about the product assortment, marketing program, and managerial policies such as incentive systems for employees to promote the mutual support by the individual channels.

Panel: Online-Offline Interaction

Panel moderator
David Bell
Xinmei Zhang and Yongge Dai Professor, Professor of Marketing, The Wharton School

Panelists
Kusum Ailawadi
Charles Jordan 1911 TU'12 Professor of Marketing, Tuck School of Business, Dartmouth College

Denise Incandela
President, Saks Direct, and Chief Marketing Officer, Saks Fifth Avenue

Arnie Katz
Co-Founder, President and Chief Operating Officer, RelayFoods.com

Timothy M. Laseter
Professor of Practice, Darden Graduate Business School, University of Virginia

Leonard Lodish
Samuel R. Harrell Professor; Professor of Marketing; Vice Dean, Program for Social Impact, The Wharton School

Online-offline panel: Tim Laseter, Denise Incandela, Kusum Ailawadi, Leonard Lodish, Arnie Katz, and panel moderator David Bell in the background

Interaction and Integration of Online and Offline Channels

While retailers used to operate channels as separate businesses, they have moved to an omnichannel model to combine the unique capabilities of all channels and to provide a cohesive customer experience. They increasingly consider channel interactions and work to integrate channels operationally (e.g., offline returns of online purchases) and managerially (e.g., incentive systems). Cross-effects between channels are not easy to capture. Plus, the lines between channels are blurring, for example when customers use cell phone shopping apps at the store.

Channels support one another through complementary features and by transferring capabilities. Online channels, which for traditional apparel and fashion retailers typically constitute a relatively small fraction (often about 10%) of the overall business, bring traffic to stores. The website and promotional e-mails generate business not just for the company's e-commerce site but also for its offline stores. A national retailer was quoted to have a 75% consistency rate between its online and offline promotions while the remaining 25% are to optimize individual channels.

E-mails by the retailer yield a financial return five times as high for the offline stores compared to the online channel.

Another positive cross effect of online channels is that they have infused offline channels with data management expertise, knowledge of customers from the online data, and unique online features. Multi-channel retailers often promote online experts to positions in the offline business because they know the largely multi-channel customer base from online data. Those experts can leverage their data mindset and digital expertise to enhance offline data systems and integrate interactive technology, online reviews, recommender systems, and cell phone apps into offline stores. A case in point is panelist Denise Incandela who was promoted to the CMO role at Saks Fifth Avenue after building Saks's direct business.

Retailers also experiment with new technologies in stores to figure out how to leverage digital technologies and online reviews and what kind of device to use—e.g., kiosk, tablets, customers' own devices—to enhance the in-store experience. Saks, for example, shows runway videos on ipads in stores.

Denise Incandela, Saks Fifth Avenue

To optimize the overall business by utilizing multiple channels, retailers are looking for suitable ways to credit the appropriate channel for generating business for individual channels. Effective incentive systems don't create competition between channels but support the overall business outcome. With online growth rates of 30% per year versus single-digit rates offline, offline channels might argue that they spur the online growth by serving as showrooms for online channels and are thus being cannibalized. However, in reality, the online market is growing, also propelled by the entrepreneurial spirit of online businesses. Cross-channel effects also raise the question about whether e-commerce sales should be included in comp store sales numbers.

Offline Returns of Online Purchases

A common challenge for offline-online retailers are returns of online purchases to offline stores. Return rates of online purchases can be much higher than of offline purchases. A rate of twice as high is not uncommon. The driver is mostly not a size or fit issue but customers' convenience orientation. Customers order more items online than they intend to buy to try them on at home and return the unwanted items. In fact, the best customers might have high return rates, and retailers keep track of customers' total spend, return rate, share of revenue bought on promotion, and shipping fees paid.

Returns are the "hidden costs of clicks" for categories of sized items such as shoes, which have a 30% return rate online. Unlike eBay, which drop ships items to customers and doesn't keep an inventory, Zappos reintegrates returned shoes into its inventory. Shoppers are more likely to return Long Tail, or niche, items and high-price items. Return rates also vary by gender. To mitigate online return rates, retailers feature product videos and dynamic product recommendations based on other customers' purchases.

Local and Tangible Features of Online Businesses

Most retailers have both offline and online operations and a local presence of online businesses will be seen more and more. Even online businesses rarely operate purely virtually since they need local capabilities to support the online business. Examples are Groupon, which offers deals online for local businesses; custom-made shirts ordered with online vendors, which require offline measurements; and grocery deliverer Relay Foods, which takes online orders for local delivery to pick-up locations in Charlottesville and Richmond, Virginia.

Relay Foods was founded based on two observations: There is no satisfactory solution yet for the distribution of groceries, especially in terms of the price (Fresh Direct is the best-known online player) and purchases in any category are increasingly made online. Relay Foods' business model of taking online orders for delivery to local, highly-frequented pick-up locations such as schools and gyms combines online convenience with a reasonable price. Customers' covering the last mile in the delivery chain saves a significant portion of the delivery cost while offering the convenience of online ordering and order assembly. An additional local feature of the business model is that the supply partners are local grocery retailers and producers, who share in the revenue.

Panelist Arnie Katz, RelayFoods.com, and panel moderator David Bell, The Wharton School

Kusum Ailawadi, Tuck School of Business, Dartmouth College

There has been an evolution from "everything is online" to a more differentiated application to find the right customers online, considering what their needs are and how to serve them best by the distribution system.

While multi-channel customers have been found to be more profitable, it is unclear why. Shoppers' price sensitivity might not always be higher online and therefore prices might sometimes be discounted unnecessarily. While shoppers might start searching on price, other criteria might ultimately be more important. Other pricing questions include what the effect of online pricing is on offline pricing, how it affects manufacturers' price points, how retailers should respond to Amazon's pricing, and how online sales taxes will impact online and offline sales.

Tangible features are especially important for online businesses whose products and services can't be evaluated online such as fabrics or shoes. To overcome this challenge, Warby Parker, an online vendor of prescription glasses and represented on the social media panel, offers a free home try-on program of five pairs of glasses.

Customer satisfaction and word of mouth are even more important for online businesses than for offline stores. Satisfied customers buy more and are more likely to recommend the retailer. Diapers.com's rate of new customers based on referrals may be as high as 35-40%. A big challenge for online businesses is customer acquisition and maximizing the longtime value of a customer.

Objectives and Assessment of Multi-Channel Models

In order to evaluate the strength and weaknesses of multi-channel business models, various criteria need to be considered and objectives defined for each. They include whether customers are driving multi-channel operations by making retailers follow them where they are or whether retailers operate multiple channels to reach different market segments; internal organizational competencies; competition; and suppliers.

Trends

Trends that the panelists pointed out include same-day shipping which requires the building of internal capabilities; grocery subscription models where customers receive a box of groceries selected by the supplier at a typically discounted price compared to the sum of the individually priced items; and established online companies such as Amazon, eBay, Google, and PayPal opening or being integrated in physical stores for showcasing, new customer acquisition, and brand awareness reasons and to save customers delivery time and shipping cost.

Áslaug Magnúsdóttir, Moda Operandi

Moda Operandi:
Tomorrow's Fashion Today
Áslaug Magnúsdóttir
Co-Founder and Chief Executive Officer,
Moda Operandi

Moda Operandi is an e-commerce site that allows shoppers to preorder runway fashion and accessories from global top designers right after they have been presented at fashion shows. Áslaug Magnúsdóttir explained the unmet needs that Moda Operandi addresses, the different waves of using the online channel for retailing, aspects of Moda Operandi's business model that defy conventional wisdom about online selling, and how offline, tangible, and personal features supplement the online service.

Addressing Designers' and Shoppers' Unmet Needs

Moda Operandi was founded to meet needs by designers and shoppers that the traditional distribution chain of designer—retailer—consumer hasn't been able to satisfy. From the perspective of designers, relying on retailers to buy their collections to sell them to end customers precludes many pieces from reaching the market even if they might be marketable based on media and customer feedback. Retailers might also order items in small quantities to not be left with inventory or ask designers to take back unsold inventory, which can be substantial, considering that sell-through rates at full price are 50-60%. This process also makes it hard for designers to predict what styles will sell since they don't receive customer feedback until months after a fashion show.

In the traditional distribution chain model, it is hard or impossible for consumers to find designer pieces, especially in the right size, and popular items sell out fast. Moreover, the wait time for the runway pieces to reach stores is long. Moda Operandi's business model of connecting designers and consumers more directly eliminates some of these challenges although customers still have to wait for the product. Its customers include shoppers that would have shopped at traditional retail stores a few months later, including shoppers from Brazil who travel to the U.S. specifically to buy designer fashion, and aspirational shoppers.

Evolution of Offline and Online Channels for Designer Retailing

Traditionally, designer fashion has been sold through offline channels. Designer fashion is ordered and sold at full price by department stores and specialty boutiques during the season. Any leftover inventory is sold at a discount through outlet stores and sample sales after the season.

Following the offline era, three waves of online designer fashion retailing can be distinguished. During the promotional wave starting around 2000, the online channel supported offline stores mainly as a research medium. The commercial wave commencing around 2005 focused on price. Customers looked for deals online, which enabled the growth of novel discount designer retailers such as Gilt Groupe, Vente Privee, RueLaLa, Ideeli, and Yoox. During the current third wave, which started around 2011, online has been a channel for full and convenient access to designer goods at full price. While ten years ago consumers had limited knowledge of runway styles, were reluctant to buy sized items online and use credit cards, they now have direct access to runway fashion, which has created more excitement about runway fashion. In addition, online is no longer a low-price channel.

Defying Conventional Wisdom about Online Retailing

Moda Operandi's business model has shown that traditional assumptions about online retailing—that expensive, sized items such as shoes or apparel won't sell online, let alone at full price, and that customers won't accept long wait times until delivery—can be overcome.

Moda Operandi sells mostly sized items (60% of units sales), the average value of which is $930 for apparel and $850 for shoes. The average transaction value is almost 30% higher during fashion weeks. Moda Operandi doesn't offer discounts. Customers typically wait between six weeks and six months for an order. Despite wait times of four to five months, apparel is the bestselling category. 40% of customers make repeat purchases, many even before their first delivery. At 10%, Moda Operandi's return rate is lower than that of competing online designer fashion retailers.

Offline, Tangible and Personal Features to Supplement Online

Moda Operandi supports its online operation through a variety of offline, tangible, and personal services and features. In addition to attending fashion shows and sponsoring select designer shows, Moda Operandi has given out branded iPads to invited celebrities seated in the front row at fashion shows to endorse Moda Operandi. It also organizes trunk shows and promotional events for offline interaction with customers, both domestically and internationally like in Brazil and the Middle East. To make the Moda Operandi experience more personal, Moda Operandi provides personal stylists and sends special gifts such as hand-drawn illustrations to its best customers wearing Moda Operandi clothes they have bought. To make Moda Operandi more tangible and give customers touchpoints with the brand in their daily offline environment, Moda Operandi uses archival packaging such as stackable boxes and garment bags.

Moda Operandi also utilizes online media and partnerships to support its e-commerce site. Besides Facebook, Twitter, Polyvore and Pinterest, Moda Operandi has its own online magazine providing trend reports. It features the company's favorite picks, designer picks, interviews, as well as front row and backstage footage. Moda Operandi also has editorial partnerships with celebrity and fashion bloggers and with the U.S. edition of Vogue, which drive traffic to the Moda Operandi site. Going forward, Moda Operandi plans to integrate editorial and commerce even more, given that there is an early indication that shoppers are twice as likely to buy fashion featured in an editorial.

To grow in the future, Moda Operandi is working on technology such as smartphone and tablet apps, shoppable videos, and sizing tools to enhance the shopping experience. It also plans to expand internationally through local partners in China, the Middle East, and Brazil.

Social media panel: Baohong Sun, Tim Riley, Dennis McEniry, Chuck Hansen, Dan Clifford, and panel moderator Kartik Hosanagar

Panel: Social Media

Panel moderator

Kartik Hosanagar
Associate Professor of Operations and Information Management, The Wharton School

Panelists

Dan Clifford
Vice President, Marketing, Victoria's Secret

Chuck Hansen
Vice President, Media Strategy, Macy's, Inc.

Dennis McEniry
President, Estée Lauder Companies Online

Tim Riley
Director of Online Experience, Warby Parker

Baohong Sun
Dean's Distinguished Chair Professor of Marketing, Cheung Kong Graduate School of Business (New York)

Customer Experience and Relationship Building

For many retailers, social media serve a relationship and engagement rather than selling purpose. Therefore, companies don't want to replicate their websites on Facebook or focus solely on promoting new product launches.

For Warby Parker, social media such as Facebook and Twitter are part of the customer experience. Since half of its customers come from referrals by existing customers, Warby Parker focuses on delivering an exceptional customer experience at all times and encourages customers to share their experience online. Customers who write reviews about Warby Parker on blogs or elsewhere receive a thank you note, regardless of the size of the reviewer's audience. Warby Parker also uses Facebook to advise customers on different styles of glasses and to inspire interactivity between followers. For example, customers using the at-home try-on program are invited to post their pictures wearing the five pairs of trial glasses on Facebook to get advice from Warby Parker staff but also from other followers.

Estée Lauder tries to generate interaction between customers through customer-generated content. Given that beauty-related videos rank fourth on YouTube as a category and customer-produced videos often receive more attention than company-produced content, inspiring customers to produce their own videos might be more effective.

Social media are an opportunity for retailers to build a relationship with individual customers like Zappos did when it responded to a customer's posting about not being able to return a Zappos purchase because of her mother's illness. Zappos sent her flowers along with a truck to pick up the shoes.

For Macy's, the relationship aspect of social media is important, given that shopping is a social experience and that online interfaces are the equivalent of associates at the store. The goal is to create a cohesive experience between online and offline channels.

Customer Input and Feedback

Social media channels are also used as portals for customer input for new products and customer service matters. For example, Estée Lauder and Victoria's Secret have asked followers for feedback on product-related questions. Victoria's Secret's social media team works closely with customer service to share feedback.

People's behavior on social media, which help users to create their social image, is influenced by social psychology. Research has found that people are more likely to share knowledge if it supports their image building and to contribute to posts by sources that are considered knowledgeable.

Special Promotions for Engagement and Follower Acquisition

Retailers use social media for promotions and contests to foster engagement and gain new followers. For example, Estée Lauder's Aveda brand gave away 25,000 hair care samples via Facebook which made its Facebook site the most visited site in the world at the time. Since the samples were gone within seven minutes, Aveda referred followers that didn't obtain a sample to local stores.

Macy's ran a contest on Facebook to design a balloon for Macy's Thanksgiving parade. There will also be a campaign for the 4th of July holiday which lets followers vote on the songs to be played at Macy's 4th of July fireworks.

Warby Parker invited customers to its headquarters in New York City for a "photo walk" contest to generate Warby Parker-tagged postings on Instagram. The 120 participating customers received Warby Parker glasses and were asked to take pictures wearing the glasses as they walked around the city. Participants who received the most "likes" to their Warby Parker-tagged pictures on Instagram won prizes. This promotion not only provided an in-person connection with customers but also added 750 Warby Parker tags on Instagram to the previous 700.

To acquire new followers, retailers use paid and organic strategies. Macy's, for example, promoted its Thanksgiving parade contest through Google ads, which generated many new "likes" on Facebook. Macy's also utilizes the unique capabilities of social media to gain new followers. An example is its campaign to donate a certain dollar amount to a designated charity for each new follower. Once a new follower hits the "like" button, the new follower's network sees a note about the Macy's donation in the news feed, which intends to inspire other people to "like" Macy's, generating more donations in the process.

Differentiated Content and Evolving Social Media Strategies

Retailers differentiate content by geography and type of social media. Using the local language and tailoring content around the local culture keeps content locally relevant. Accordingly, Estée Lauder's offices in Taiwan, Japan and other locations have localized social media strategies. Macy's localizes its Facebook content, for example in response to hurricanes.

Retailers' social media strategies are evolving. For example, Macy's started out communicating about fashion trends on Facebook and, driven by customer feedback, shifted to featuring promotions. A next step might be to incorporate coupons into Facebook followers' feeds.

Usage of Social Media by Employees

Employees using social media in their personal lives can be a benefit but also a risk for companies. Examples are a Google employee writing an unfavorable blog about his experience working at Google and Kenneth Cole leveraging the uprising in Cairo in early 2011 to promote the new Kenneth Cole spring collection on Twitter.

Employees can be valuable brand ambassadors, and some companies train employees on using social media for company-related communication. Estée Lauder differentiates between three categories of employees regarding the use of social media: make-up artists and beauty advisers giving

advice online; social media managers for individual Estée Lauder brands; and general employees who are encouraged to advocate for the brands they work for but are asked to disclose their employment with Estée Lauder.

Measuring Impact

Panelists agreed that the number of followers is not the ultimate metric to assess social media effectiveness. Important metrics include customers' level of engagement, also relative to competitors, positive sentiment and influence, and whether customers share content, which can be measured as the number of retweets, for example. In addition to a follower's value based on their own purchases, the influence on other customers, i.e. the ripple effect, might be an even more insightful metric.

While text mining can aid tracking sentiment on social media, it can be a noisy indicator if it doesn't reflect customers' true relationship with a company. For example, customers might complain for strategic reasons or to build their social image.

There seems to be little data on how customers' value develops after engaging with the company via social media. The analyses that are conducted stay at the segment as opposed to individual level because of privacy policies.

Takeaways & Topics for Future Research

Participants shared a variety of takeaways:
- There is no online-offline dichotomy. Rather, it is an integrated experience for customers. It is important to create one cohesive message for customers across online and offline channels.
- The online channel is suitable to sell items and services with features that have traditionally been thought of as making online selling impossible. Premium prices, long wait times until delivery, and non-digital attributes such as fit and fabrics of apparel items are no hindrance to online selling.
- Despite the growth of online retailing, the vast majority of retail is still offline so the offline channel cannot be neglected in retailers' strategies.
- Retailers are trying to figure out multi-channel retailing but none has all the answers yet. There are a lot of questions on a variety of aspects, including how to utilize talent the best in this new environment and how to report comp store sales in a multi-channel world.
- Online versus offline retailing is not well defined yet, let alone well understood, and requires more exploration.
- Retailers seem focused on creating a seamless message and experience for customers and modify their organizations accordingly. They seem less focused on developing differentiated online and offline marketing strategies for different market segments.
- Social media and the online platform are an opportunity to create informational shortcuts between parties who usually do not interact and to leverage market inefficiencies, which exist in the fashion industry. The online/mobile outlet is not just another channel but a dramatic change in the informational dynamics, which is often key to how markets operate.

- Multi-channel retailing has to keep in mind how it helps customers and improves their experience.
- Unlike mass-market retailers and their suppliers, upscale fashion retailing doesn't worry (at least not yet) about price erosion within the online channel because their suppliers control prices so tightly.
- Many companies ask for data-driven insight, which academic research can help provide. The key to successful academic-industry collaborations is to find an overlap in interests to match academic rigor with industry relevance. Field experiments can be useful to gain insight and are often superior to using existing data, which might not allow controlling for all relevant influence factors.

Participants suggested the following topics and questions for future research.

Multi-Channel, Multi-Media, and Cross Effects
- How can the effect of online/offline efforts on sales be measured?
- What is the impact of traditional marketing channels (direct mail, TV, etc.) on the online business, and what is the impact of an online presence on the brick-and-mortar channel?
- What are the sources (ipad, mobile, PC, etc.) of website traffic? How can customer behavior be influenced?
- What are the pitfalls of geographic targeting?

Marshall Fisher,
UPS Professor,
Professor of Operations and
Information Management,
The Wharton School

- Are shoppers who visit the online sites of brick-and-mortar retailers the same as those who visit the physical stores? If they are not, how should brick-and-mortar retailers adapt their offering to capture these opportunities?
- Can multi-channel retailers broaden their brand appeal through their e-commerce sites by creating value for shoppers outside their core customer groups? Can an online store change the image of a retailer's brand by offering an assortment with a broad appeal and an exceptional shopping experience?
- Can the work on advertising attribution be applied to the online/offline work on retailing? If not, what are the differences?

Pricing
- Pricing strategy: Do regular pricing, coupons, and other promotions need to align across channels?
- Do retailers need to match Amazon's price and shipping policies? Are customers price sensitive or brand loyal?

Competition
- What is the impact of pure online players' short- and long-term market share on multi-channel retailers?

Social Media
- Customer engagement: Given social media and the changing market, how can customer engagement be promoted, measured, and leveraged?

Mobile
- How should mobile commerce be integrated?
- Will mobile serve commercial goals or brand building objectives? How large will the shift be from fixed sites to mobile? Is the channel use the same? How important are apps? How can the best experience be developed?

Organization and Management
- How can traditional silos be broken down?
- What are best practices for the communication with associates?

Participating Organizations

Companies
105looks.com
Ascena Retail Group
Brown Shoe Company
Dick's Sporting Goods
Estée Lauder Companies
Macy's, Inc.
Moda Operandi
Motyx Incorporated
Perry Ellis International
RelayFoods.com
Saks Incorporated
Stylitics
Victoria's Secret
Walmart.com
Warby Parker

Universities
Cheung Kong Graduate School of Business (New York)
Columbia University
Darden Graduate Business School, University of Virginia
Fox School of Business, Temple University
H. John Heinz III College, Carnegie Mellon University
Kenan-Flagler Business School, University of North Carolina at Chapel Hill
Krannert School of Management, Purdue University
Leonard N. Stern School of Business, New York University
Marketing Science Institute
MIT Sloan School of Management
The Wharton School, University of Pennsylvania
Tuck School of Business, Dartmouth College
University of Calgary
University of Connecticut
University of Maryland
University of Pennsylvania
Yale University

About the Jay H. Baker Retailing Center

The Baker Retailing Center is an interdisciplinary research center at the Wharton School that was established by Patty and Jay Baker (W'56), former president of Kohl's Corporation. The Center's mission is to expand retail through student and alumni activities, knowledge creation, and global engagement.

For more information about the Baker Retailing Center, visit http://www.wharton.upenn.edu/bakerretail.

Notes

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