

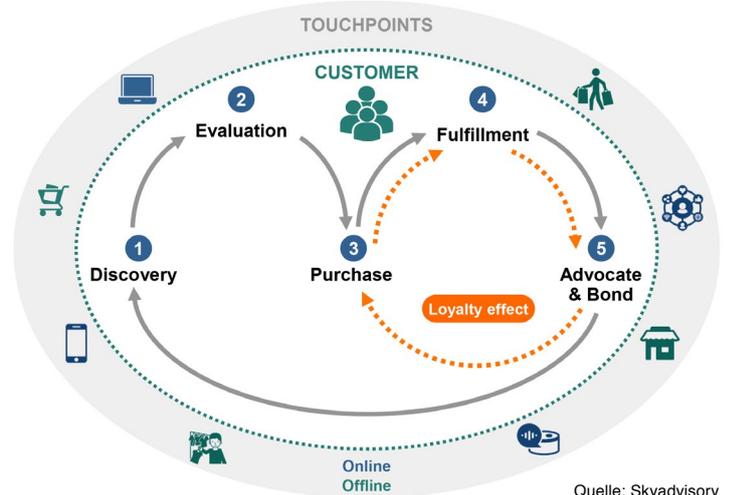
# FROM OFFLINE TO ONLINE, FROM ONLINE TO OFFLINE - O TO O: The O2O Customer Journey offers new growth potential

Customers expect consumer goods and retail companies to deliver an integrated, consistent and seamless customer experience. A comprehensive understanding of the O2O Customer Journey and of the relevant customer needs create opportunities to leverage trends into sales-generating ideas, products, services or marketable platforms.

Physical retail is declining, while e-commerce sales and foreign market participants are growing successfully.

The visitor frequency in physical stores in Switzerland has been declining sharply for years. Since 2010, more than 6'000 retail outlets have disappeared.<sup>1</sup> There are regular reports of bankruptcies and branch closures of formerly strong retail chains such as Companys, Yendi, OVS or local post offices.

However, Swiss e-commerce sales grew by 10% in 2018 compared to the previous year. This positive development has been driven by the strong presence of foreign e-commerce retailers in Switzerland: While the number of orders from domestic providers grew by 9%, orders from foreign providers increased by more than 16%.<sup>2</sup> Looking at Asia, set records and growth plans amaze us: On Singles Day 2018, Alibaba achieved a new sales record of \$ 30.8 billion within 24 hours. 90% of all transactions were processed via mobile. Globally, revenues generated via mobile payment methods increased from around \$ 450 billion to over \$ 1 trillion between 2015 and 2019.<sup>3</sup> Nonetheless, we are also hearing ambitious plans regarding the expansion of stationary retail from the Far East: JD.com wants to open up 1'000 new physical shops this year – per day.<sup>4</sup>



Quelle: Skyadvisory

## An integrated online - offline approach: the O2O Customer Journey

These developments demonstrate, that retailing with consumer goods is not at a standstill, but continues to grow, although it is currently undergoing transformation. Customer needs and expectations towards companies are changing and new trends are emerging. This offers exciting opportunities to develop sales-

## SEPHORA CASE STUDY



When cosmetics retailer Sephora took a close look at their customer journey, they discovered that many customers, while in their local store looking for products **1**, were using their smartphone to compare the product range available in their store with alternatives and to obtain product ratings. As a result, Sephora developed a website, a web shop and a mobile app which, like an experienced sales consultant, perfectly support shoppers in evaluating **2** and purchasing products **3** online and offline.<sup>5</sup> This includes, for example, the Virtual Artist, an artificial intelligence system that allows users to try out cosmetic products visually by projecting it virtually onto their own faces, which improves the customer experience both at the physical store and at home. Sephora furthermore guarantees a 100% smooth and seamless checkout **4**. Sephora's strong loyalty program (the Beauty Insider program) completes the purchasing process and ties customers to the brand in the long term **5**.

relevant ideas, platforms, products, services or experiences that impeccably serve the needs of consumers. Yet, how can consumer goods be successfully marketed in times of such a complex and disruptive environment?

The O2O Customer Journey consists of five steps that encompass both online and offline worlds. The modern customer no longer sees physical and online environments as two separate units, but perceives them as one integrated experience. This O2O approach forces companies to create a customer experience that is integrated, consistent and seamless in the eyes of the consumers - across all channels. Most importantly, modern O2O approaches not only create a seamless and individualized offering, but also unite a community of common interests on a platform that additionally enables new business models. The customer is not only attracted or retained, but is also turned into an advocate of the brand for the long term. Studies show that well integrated omni-channel concepts can retain 89% of customers, compared to 33% for weakly integrated formats.<sup>7</sup>

### The three principles of the O2O Customer Journey

**Customer focus:** Consumers have learnt from the big players such as Amazon, Zalando and Alibaba that they can expect seamless support throughout the entire purchasing process. In addition, they count on personalization, tailored to their personal needs, whether it is express delivery, context-relevant offers or a particularly helpful after-sales service (servitization). The customer's needs are at the heart of everything, right from the start. For retail and consumer goods companies, it is important to understand which motivations and barriers exist in consumers' purchasing processes.

**Digitalization of the value chain:** We see the impact of digitalization in the following four main areas:

- Digital technologies enable innovative business models, new offerings and omni-channel coverage,
- digitalization offers a deepened engagement with all internal and external stakeholders,
- processes and IT capabilities can be handled more efficiently, and
- all of these changes create new demands on the organization, its values and its internal corporate culture. Only with an integrated O2O Customer Journey and a consistent and seamless channel presence a brand is able to present itself credibly and to achieve increased customer loyalty.

**Transparency:** Millennials move much more deliberately on our planet and rely less on the reputation of certain traditional brand names than other age groups. Thanks to the ever-present internet, which provides free access to all information at all times, consumers nowadays know much more about products, brands, manufacturers and distribution channels and are actively involved in discussions, e.g. about ethical standards in the industry. Every touchpoint between the brand and its target group must fit into an overall picture and incorporate both cultural and ethical value promises.

In addition to these three principles, challenges such as shortage of skilled labor, rising labor costs, and global risks and uncertainties represent major challenges. In order to remain a competitive force against foreign and domestic competitors, your company must not only understand the new O2O Customer Journey, but take appropriate measures to ensure that it is integrated and consistent in all steps.

### Implications for the retail and consumer goods industries

We recommend five measures to retail and consumer goods companies:

1. Establish a unique, integrated point of sale to improve frequency,
2. use O2O and accompany the customer before, during and after the purchase and ensure the seamless nature of the process in order to increase the conversion rate and sales,
3. build an integrated, internally and externally consistent culture to increase long-term loyalty,
4. develop and implement a differentiation strategy for the selective addressing of target groups and the formation of communities, and
5. cooperate with other brands or vertical partners to exploit synergies and increase value through the leverage of platforms.

In the upcoming articles we will discuss these recommendations in detail. We look forward to your comments and feedback on this white paper.

Sources: 1 GfK Hochrechnung Jahr, <https://www.cetoday.ch/news/2018-06-28/trendwende-im-schweizer-detailhandel> 2 Berechnungen basierend auf GfK 2019, Online und Versandhandelsmarkt Schweiz 2018, 28. Februar 2019 3 <https://www.statista.com/statistics/226530/mobile-payment-transaction-volume-forecast/> 4 <https://www.caixinglobal.com/2018-04-13/jdcom-aims-to-open-1000-shops-a-day-101234240.html> 5 <https://sephoravirtuallartist.com/> 6 <https://www.sephora.com/beauty/loyalty-program#BIFAQWhat> 7 Yek, Justin: Starbucks brewed an O2O retail revolution. You can too. <http://altitudelabs.com/blog/starbucks-o2o-strategy/>, 03. April 2017



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