A NEW DISTRIBUTION STRATEGY :THE OMNICHANNEL STRATEGY

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In an increasingly globalized world, dependent on information technology, distribution companies are searching for new marketing models meant to enrich the consumer's experience. Therefore, the evolution of new technologies, the changes in the consumer's behaviour are the main factors that determine changes in the business model in the distribution field. The following article presents different forms of distribution, focusing on the omnichannel strategy. In the last part of the paper, the authors analyse the Romanian retail market, namely, the evolution of the market, its key competitors and the new distribution models adopted by retaileres in our country.

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1. Introduction

Currently, in the retail sector, we are witnessing a true revolution, the changes that occur in this field being comparable with the ones from the 60's when the emergence of the hypermarket took place.

Today, the distribution companies have to adapt their strategy according to the evolution of key factors, such as: consumer behaviour, the behavior of competition, the social-economic environment, behavior of the supply chain, the local and ethical system or the state of technology. (Dunne; Lusch; Carver, 2011)

The new technologies create trade premises that focus specifically on the client and take place anywhere, anytime, with any device, leading to an omnichannel distribution. In these circumtances, we are dealing with a very well-informed client, that uses all the distribution channels to make its purchases anytime, anywhere, with any device. As a consequence, the consumer is offered a series of amenities 24/7 which include the possibility of searching for a product, comparing prices, obtaining personalised offers, manage loyalty points, do on-line payment, booking and ordering goods/services.

2. From traditional trade to the omnichannel distribution

Distribuiton represents all the activities that aim to transfer the product from the producing company to the final consumer.

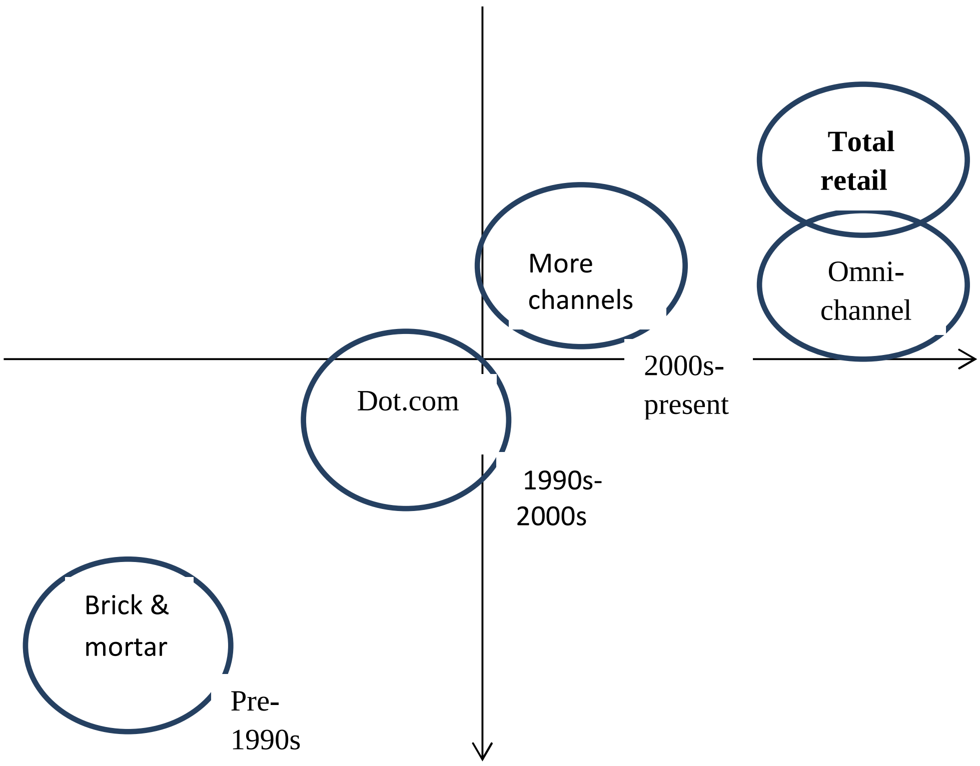
The functions of the distribution fall into two categories: traditional and modern. Purchasing/selling, transport, storage, conditioning, presentation, communication (information) and financing are considered traditional functions. By contrast, the category of modern features include: the retailer's brand, the using of bar code, the electronic data exchange, the automated supply and the development of new forms of marketing.

In time, the forms of distribution have evolved from the classic store formula to the omnichannel distribution. (see figure 1)

Trading food products is done, in its classical form, through attractive shops (such as the supermarket, the hard discount or the hypermarket) and proximity shops (for example: the *convenience store)*. Non-food shops can be divided in two broad categories: general commercial areas and specialized commercial areas .

Figure 1

The evolution of distribution forms



Source: PwC, *Achieving Total Retail: Consumer expectations driving the next retail business model*, 2014

After the 90's new forms of distribution such as distance selling, teleshopping, electronic commerce (the dot.com era) have emerged.

The electronic commerce means, *in the traditional way*, using value added networks for some applications such as electronic document transfer (EDI), fax communications, bar codes, file transfer and electronic mail.

Researchers have identified four types of *e-commerce* transactions. **B2C**, *business to consumer*, is a kind of virtual classical shop. The potential buyer is in front of a computer and visits the online store. He either fills in a form with his essential data or "Logs in", if he is a regular buyer. The main data required are his name, password, address, e-mail box, type of credit card, its number and expiration date, as well as under what name is the credit card listed. If the person logs in, he must specify only his name and password. Either way, the on-line checking of the authenticity of the credit card starts. Meanwhile, the customer is notified that he can move on to choosing the goods. Finally, he is advised on the receipt of the package at the address mentioned upon completing the form. **B2B**, *business to business*, involves a transaction that takes place between two companies, where there is no direct human intervention. Demand documents are issued in a standard format. They are sent to the bidding business entity. The documents follow the classic bureaucracy itineraries, the only difference being that communication channels are used and XML documents are transmited, i.e. EDI. **C2B**, *consumer to business*, represents a type of auction purchase, where the buyer (consumer) initiates the transactions. **C2C**, *consumer to consumer* involves accessing a particular commercial site. In exchange for a certain fee, the client is given the opportunity to sell its products.

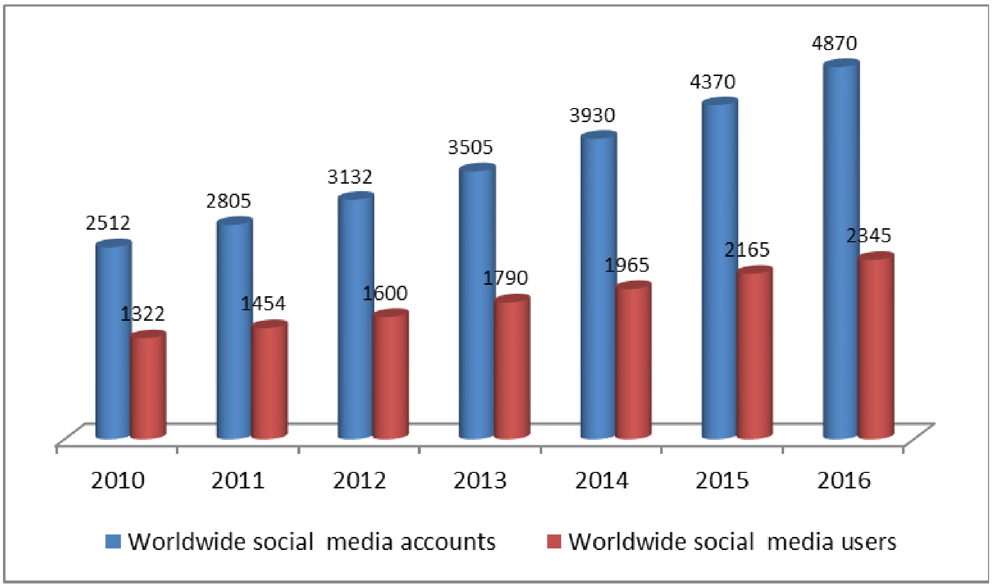
From the companies' point of view, *e-business* involves the development of at least six types of activities: the business's web presence, establishing relationships with partners in the supply chain, making on-line catalogs, the security of payments, achieving the delivery of products and concluding the transactions in order to achieve consumer loyalty.

The distribution channels based, currently, on the web, mobile and social media have determined a change in the retail value chain.

In the last two decades we have witnessed a development of the social community, reflected in the increase in the social commerce market from 9 billion US$ in 2012 to 9.30 billion US$ in 2015 (see Figure 2). The social networks are used to obtain the best offers, but also to gather as much information as possible on a certain product or service.

Figure 2

Social commerce market



Social networks give retailers the opportunity to contact millions of consumers and promote their products and services. According to a study done by The Partnering Group, consumers use social media primarily for the discount coupons and for the information provided on products, but at the same time, they are interested in the comments posted on these networks. In a ranking of social networks, Facebook places on top with an estimated 55 percent of customers using it.

However, social networks help physical stores to reach customers and increase brand awareness, while measuring at the same time customers' interest and shopping needs in order to help stores with problems. For example, the Facebook platform can be used as a focus group, thus helping traders to interactively know the interests of their customers. Group purchase sites increase the degree of brand and product awareness of a company during a promotion.

Social networks provide power for traders: once they understand how to listen and what to monitor, traders can find their target group and can provide the adequate products / services tailored to their needs. According to forecasts, 2014 will have more social sites beyond the traditional e-commerce platforms, including Facebook fan pages to engage the customers more.

Information technology has produced significant changes not only in the consumer behavior, but also in the relationship that it has with the retailer. If until recently the consumer was the one who went to the store, today, the situation has reversed.

From the consumer's point of view, the *e-business* model is based on the value chain model specific to the traditional trade: *attraction*- the customer is attracted to a particular site; *interaction*- the client's interest turns into an order, based on electronic catalogs of products and services; *action*- the order and supply chain management are included in a network, resulting in the delivery of products; *reaction*- the management of the customer relationship, including the process of gaining their loyalty.

The development of the Internet, smartphones and social networks are the main factors that have led to changes in the consumer's behavior. According to a GfK survey, 70% of respondents said that the Internet has become a very useful purchase tool and 44% mentioned that the social networks have become useful sources of information to make the best choices in the purchasing process. Many consumers consult reviews and compare prices (by scanning the barcode with their phone).

Consumers have a growing number of digital devices, but also different ways of being constantly connected online with their favourite retailers in the prospecting, order and delivery period. Traders will differentiate themselves through the manner in which they respond to the extremely dynamic needs/expectations of the customers.

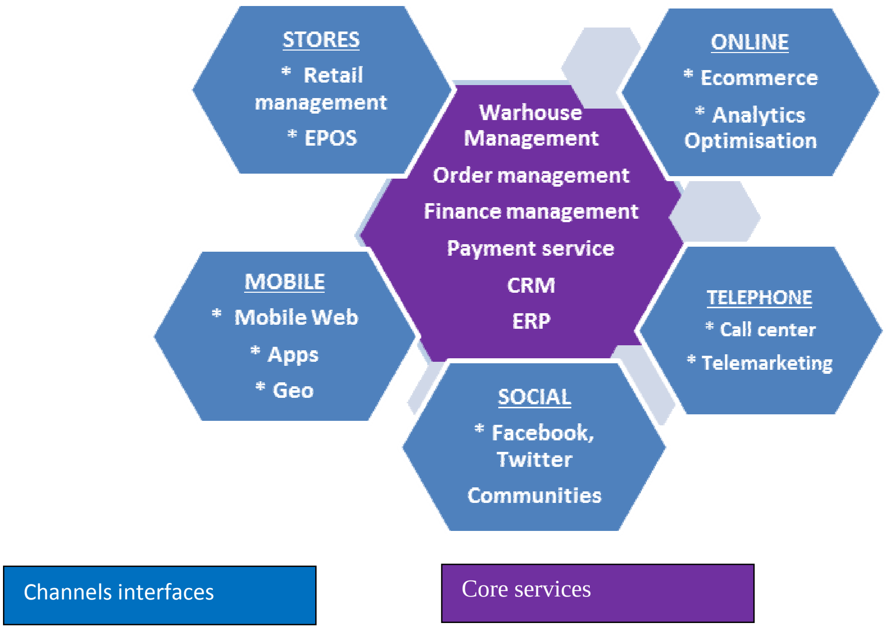
Buyers appreciate procurement tracking methods, for example, tracking their packages via e-mail or directly on the merchant's website. They use more and more integrated services for store and online purchases, meaning omnichannel.

3. A new distribution strategy - the omnichannel strategy

Omnichannel is the mix of all physical and digital channels to create an innovative and unified customer experience (Sealey, 2014). Adopting an omnichannel strategy entitles centralised and integrated information systems that drive the customer experience. (See Figure 3).

Figure 3

Omnichannel Retailing



Source: Sealey, David, *Omnichannel Retailing for Digital Marketers*

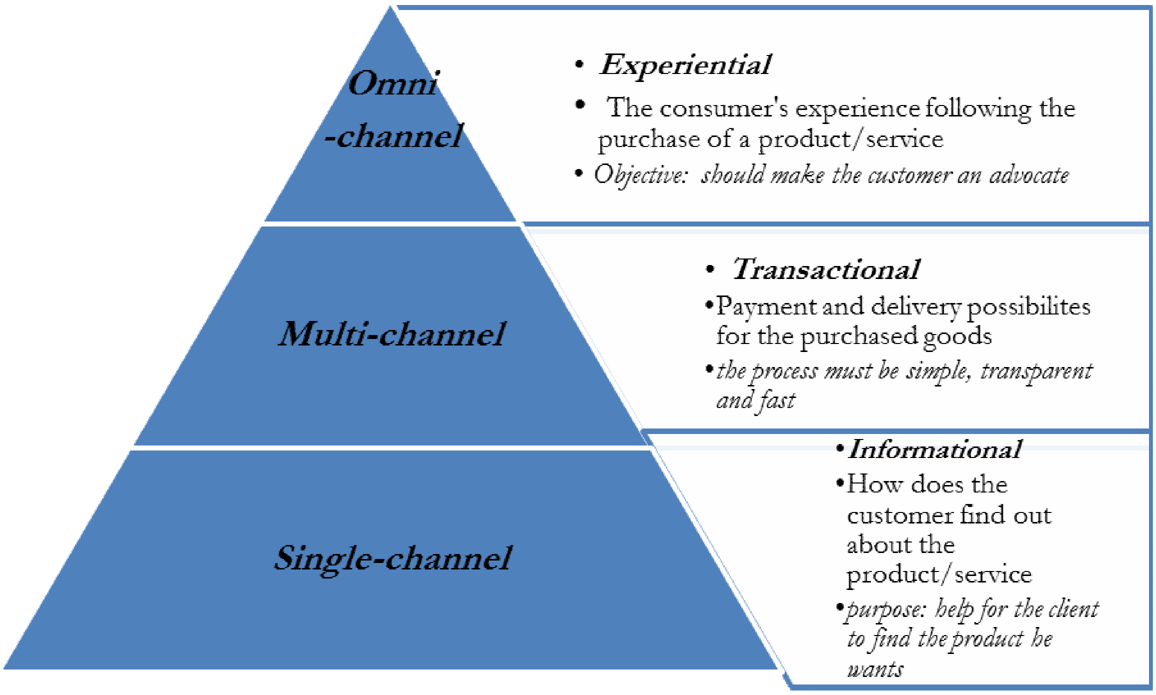
In order to be succesful with such a strategy, the retailer must consider three fundamental elements: he must offer the clients the services they expect, he must manage the flow of products, information and finances and last but not least he must have real time updated information regardless of the distribution channel.

The customer must be provided with the same services both in the physical store as well as in the website / m-commerce. He needs to know, regardless of the distribution channel, the order history, the evolution of an ongoing order and his loyalty points.

The process of the products must be coherent and there should be no difference between the prices shown on different distribution channels. Moreover, the client must be able to choose the payment method and the delivery location for the purchased goods (at home, in the store, etc).

Figure 4

Omnichannel Retailing



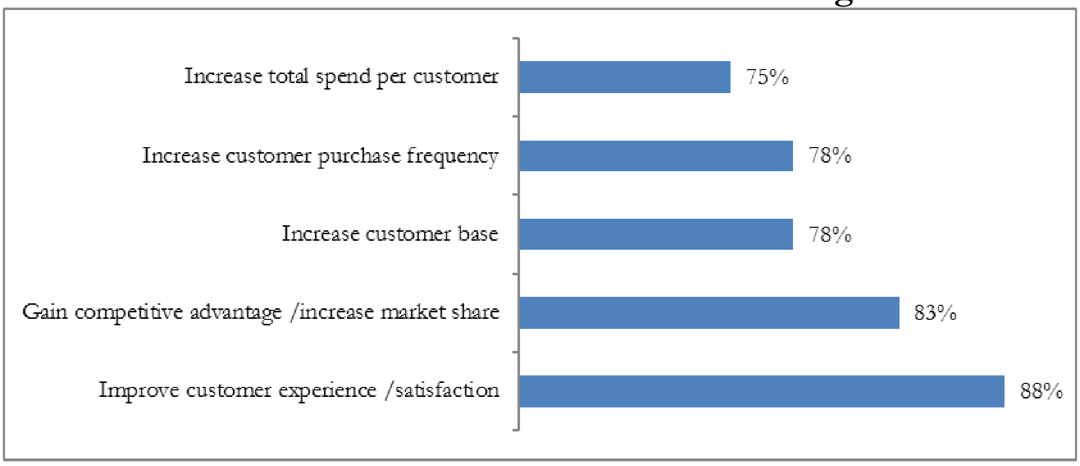
Source: Sealey, David, *Omnichannel Retailing for Digital Marketers*

A study done by the firm Ebeltoft Group on a sample of 146 retailers in 16 countries (Brazil, Canada, Denmark, France, Germany, India, Italy, the Netherlands, Portugal, Romania, Singapore, Spain, Sweden, Switzerland, UK and U.S.) show that in the countries where the e-commerce has a higher share (eg U.S., UK), there is a high potential for implementing the omnichannel strategy.

Electrical goods and U.S. cross channel players remain dominant in the global rankings, reflecting the highest level of cross channel development in this category and the strong position of the U.S. players (Ebeltoft, 2014).

Developing better customer experience and gaining a competitive advantage rank highest for retailers' cross channel business objectives. (see figure 5).

Figure 5



Source: Ebeltoft, Global, *Cross Channel Retailing Report. Entering the Omnichannel Era*,2014

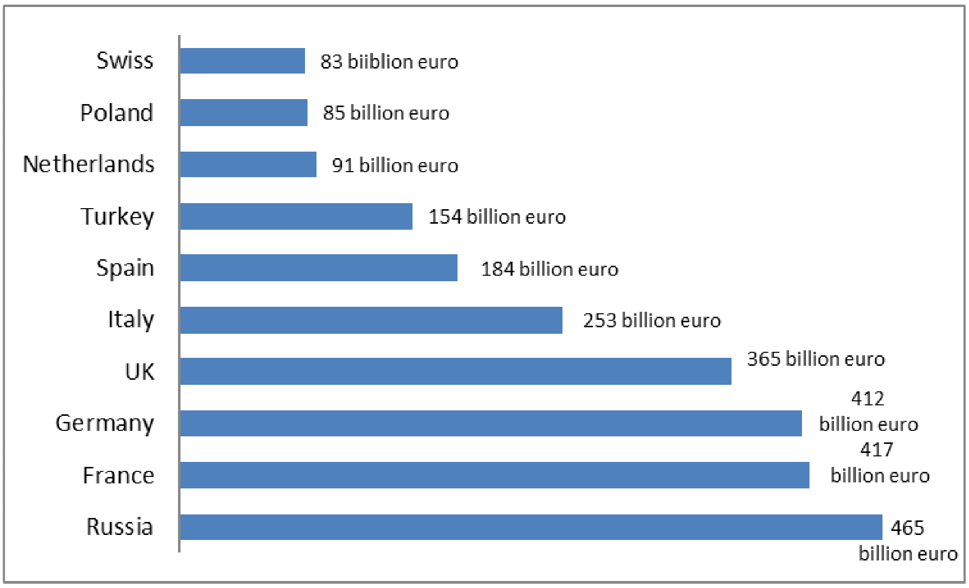
The results of the research according to Ebeltoft (2014) show a new trend in retailing, from the cross channel to the next era - the omnichannel.

4. New business models on the Romanian retail market-general overview

Romania is an attractive market for investors in the distribution sector, a statement supported by the significant increase in the market (4.9 % in 2013). If in 2013, the retail market in Europe has stagnated at around 3.1 trillion euros (GfK, 2014), Romania registered a significant growth (the market value was 26 billion euros). Figure 6 (see below) indicate the market value held by the 10 largest retail markets countries in Europe.

Figure 6

The first 10 retail markets in Europe



Source : Gfk, *European B2C E-commerce Report 2014*

The development of online commerce directly affects the traditional retail formats in Europe. According to the study mentioned above, for the current year, a moderate increase is projected for the classic trade for the 28 EU members countries, on an average of 0.6%. Romania is among the countries that will record the largest increases (4.3%). A significant aspect has been noted about our country, i.e. it has the lowest sales areas per capita (0.67 square meters) compared to the average of 1.11 square meters registered in the above analyzed countries.

In Romania the online sales are steadily expanding, the e-commerce market recording increases from year to year by 33-35%. The estimates for 2013 amounted to 600 million euros.

If in the EU the internet penetration rate reached an average of 77% in 2013, in Romania the rate is 55%. This is reflected in the share of Romania's population, only 8% using e-commerce below the European target area which is 47%.

Transactions in the retail market done in 2013, but also the expansion strategies adopted by various companies in the field have led to a change in the rankings of the largest retailing companies in Romania. (see Table 1)

Table 1

The first 10 distribution companies in Romania
(2013)

Company/Group	**Turnover mil. euro**		**Number of stores**		**Number of employees**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Kaufland	1630	1.445	89	81	13.500	11.947
Auchan	1.049	443	31	11	11.000	4.073
Carrefour	1.006	1.119	162	108	9.580	9.451
Metro Cash&Carry	977	1.018	32	32	5.325	5.440

Selgros Cash&Carry	699	768	19	19	4.026	4.343
Lidl Romania	700	650	169	155	3.800	3.300
Mega Image	530	394	296	193	6.820	5.693
Penny Market	492	432	156	142	3.212	2.735
Cora	372	328	12	10	N/A	3.972
Profi	326	259	207	149	N/A	3.313

Source : Ziarul financiar, 2014

In 2014, the retail companies that have achieved the most openings were the proximity ones such as Mega Image Shop & Go and Carrefour Market, Mega Image supermarkets, Profi convenience stores, discounters such as Lidl, Penny or XXL Mega Discount (Vrabie, 2014).

On the Romanian retail market, new business models have emerged. A retail business model articulates how a retailer creates value for its customers and appropriates value from the markets (Sorescu et al., 2011). A few such examples are listed below.

In the food distribution sector, more retailers have diversified their marketing formulas. For example, Carrefour Romania has launched in 2013 the online hypermarket, with an assortment of approximately 7,000 products. Mega Image, the largest supermarket chain in Romania, has developed in partnership with eMAG the online platform "supermarket at home", available nationwide.

Launching Mega Image in the online environment is according to a company representative "the expansion of the proximity strategy", designed to meet the needs of the consumer. Cora Romania launched in December 2013, the project coradrive.ro, the first hypermarket in Romania with a delivery type drive.

Auchan, the second largest chain of hypermarkets in Romania will launch an online store in our country in about two years.

In the category of cash & carry stores present online, Metro was the first online store - Metro Office Direct, which also has been offering its customers (since 2012) the posibility to purchase products by phone or online. The representatives of the company are considering implementing an omnichannel strategy that begins with the consumer, and then grows around him an interaction ecosystem that can mean e-commerce, online sales agents, social media, info-kiosks, catalogs, classical sales agents, physical stores. (Costea, 2014)

According to internal studies, the omnichannel strategy adopted by Metro Cash & Carry Romania was successful, recording the following positive outcomes:

- the omnichannel customers purchase 80% more goods than single channel customers;
- the omnichannel customers purchase 30% more from offline stores than single channel customers.

Moreover, the adoption of the omnichannel strategy resulted in attracting new customers and the online shop generated new customers for the offline stores as well.

EMAG Company, the largest online retailer in Romania, owned by the Naspers group, one of the largest global players in online has redesigned its retail business model.

The company adopted the eMAG Profitshare system, an affiliated marketing solution, a business model created by Amazon.com, the largest online retailer in the world. The Conversion Marketing company manages the affiliated marketing system for eMAG, dealing with the new Profitshare 2.0 - a multi-advertiser affiliation platform. The selection of the companies in the affiliated marketing system is based on criteria such as: company age, number of customers, reputation.

Conclusions

New technologies and new forms of distribution promise a transition to a relationship management model that allows traders to know their customers exactly and that enables customers to decide and define how they interact with the retailer, including what brands, products and locations they specifically want to communicate with.

Physical stores will become increasingly transformed into centers of expertise to counter the increased online shopping.

In the future, traders will focus on multiple distribution models, meaning classic trade (in stores), e-commerce (online commerce), m-commerce (mobile commerce), f-commerce (Facebook commerce), s-commerce (social) and v-commerce (video) .The omnichannel strategy is the future of retail business.

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