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Book excerpt: The Impulse Economy

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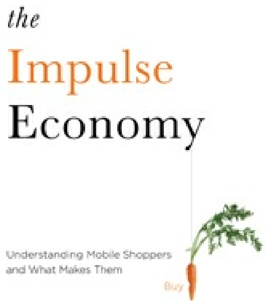

By Gary Schwartz

Ch. 1

Little Store on the Prairie

Your local store manager will tell you that there are two types of people: those who go to stores to buy specific items, and those who go to stores to shop. The history of retail, starting with the country store and moving to shopping malls, the Internet, and, more recently, mobile storefronts, is the history of following and serving these two types of shoppers.

Brand marketers and retailers compete for mind share. They woo their shoppers by price and brand affinity. These retailers also have segmented shoppers into groups that have profiles, patterns, and names: Alexa drops into the store for an item, but will browse opportunistically for other products. Suzy is self-directed, has a weekly shopping list and a mission. She motors down the aisle and out the store. Marge is store-directed and wants information on products first.

Marketing departments map the shopper's journey through their stores. They optimize the store layout and the shelf design. The US retail chain Target calls them "guests," Wal-Mart calls them "customers," and the clothing store Hot Topic calls them "friends." Using Kroger's new mobile handheld, the supermarket chain's marketing department can see shoppers as icons moving pixel by pixel on a master store diagram.

Despite all the science, shopper marketing is a black art. Shoppers have what Ginger Kraus, vice president of brand activation at PlayStation, calls a "subsense," making decisions based on impulse and lifestyle. Each time that shoppers select a game console, walk into a fast-food restaurant, or reach out in the aisle to select a hair care product, there are a myriad of factors behind each decision.

What are the key factors that influence shoppers' behavior? How can marketers better understand shoppers? Finding the answers to these questions is what keeps brands and retailers up at night. To attempt this, we first need to understand the shopper's store and how it has changed over the past 120 years.

The Store Is A-Changin'

In the mid-nineteenth century, retail was a farmer's market. There were no stated prices and no customer satisfaction policies. The arrival of Main Street, with a concentration of shops and merchants, changed this model, and we saw prices and policy change almost hourly. By the time that Richard Sears appeared on the American retail scene in the late 1800s, the storefront had evolved to offer fixed prices and satisfaction guarantees with the promise of exchange or refund. Armed with these modern retail practices in place, Sears set out to build the modern store.

Indeed, Sears was instrumental in advancing the American shopping experience. Follow Sears, and you follow the evolution of the store. His success in retail was built on three principles: limitless shopping, self-serve shopping, and evolution of the store. His success in retail was built on three principles: limitless shopping, self-serve shopping, and accessible shopping.

1. Limitless Shopping

Richard Sears knew that American farmers typically bought suppliesoften at inflated pricesfrom the local general store. Back in 1888, the first Sears catalogue provided a universal resource that clearly stated prices on a wide selection of goods. Consumers knew what Sears (then known as the R. W. Sears Watch Company) was selling and at what price, and could order goods conveniently without repeated buggy rides to the shop.

More important, Sears was no longer confined to a physical bricks-and-mortar presence. He could sell through the catalogue and was not limited to only what was in stock or on display in an aisle. For the American consumer, Sears quickly became the way to shop, and the catalogue became the "Consumer's Bible."

2. Self-Serve Shopping

Clarence Saunders brought the next wave of retail innovation when he moved the self-service efficiencies of the Sears catalogue back to the physical store. He patented the concept of the self-service shop and opened his first Piggly Wiggly grocery store in Memphis in 1916. Self-service made the store more cost-effective. Prices talked, and seven years later, there were 1,300 franchised locations across the United States.

In 1925, Sears, Roebuck and Co. followed the wave of retail chains opening across America by opening its first retail store. This was a far cry from the frontier general store concept that Sears had attacked successfully just a few decades earlier. This time the store was chock-full of modern efficiencies that would be further fine-tuned by Sam Walton, the founder of the Wal-Mart chain, later in the same century.

The stores were a draw, but the Sears catalogue continued to play an important role for shoppers. Specifically, Sears continued to use the catalogue as a way of dealing with the fact that aisles are limited in space and not always fully stocked. The catalogue provided shoppers with an always available list of goods that they could peruse, purchase, and have mailed to their doorsteps.

3. Accessible Shopping

On November 27, 1995, Nathan Myhrvold, Microsoft's corporate visionary, wrote a memo to chief executive officer Bill Gates* warning that the Internet would allow companies to communicate directly with their end customers in a cheap and easy manner. This was a new retail model, he emphasized, and "it threatens the role of the middleman or pure merchant that traditionally sits between the large manufacturer of a good and the final customers." Myhrvold told Gates that he could no longer focus on selling software shrink-wrapped via Egghead Software; that this would become "quite ridiculous from an economic standpoint." Gates needed to consider a new model, a "virtual Wal-Mart,' which presents goods directly to customers on the Internet, or via Internet catalogue kiosks in physical store locations."

Myhrvold's Internet was a natural extension of the shopping experience that Sears had revolutionized with the release of its first catalogues (although Sears may not have initially recognized it). In fact, the Internet has returned Sears to its roots. The Sears.com website mirrors the universal principals of shopping that Richard Sears advocated in 1895, when the catalogue had expanded to a hefty 350 pages of deals, more than any other approach. In many ways, the Sears catalogue was the World Wide Web for the frontier consumer, and it continues to be that destination today.

This is because the Internet allows the Sears catalogue to be clickable. However, early prototypes of the website had few clicks. The first e-storefront was literally a cut-and-paste of the catalogue. As the digital store evolved, designers adapted bricks-and-mortar metaphors, such as the "shopping basket" and the "check out," for the web. The result was an ergonomically friendly click-through shopping experience.

Meanwhile, Wal-Mart efficiencies in the supply chain chipped away at the margins achieved by bricks-and-mortar stores across the United States, a phenomenon that quickly went global. Against this backdrop, Sears and other chains moved commerce into the cloud, chasing first movers such as Amazon.com and Yahoo!

The result was a hybrid model that brought together the concept of the limitless catalogue with the experience of in-store aisle roaming. Similar to shoppers who stroll leisurely through shopping malls, online shoppers had time to think and browse before they made their purchase. They cracked open the laptop late in the evening, when the kids were asleep and the dog was tucked under the chair. They had time to save their choices to a shopping basket. And they had time to do much more than just shop. They could compare prices, hunt for recommendations, e-mail their picks to friends and family members, and check out hours or days later.

Today limitless shopping, self-service shopping, and always accessible shopping are the hallmarks of the modern shopper's experience. The new Sears, like the old Sears, is not one destination; it is a menu of shopping options. Sears's "Shop your waybuy your way" approach is shoppercentric.

But does this make the physical store obsolete? "No," says Brett Bonner, who heads up store innovation at Kroger. "The history of the store is like a pendulum. The catalogue and, more recently, the Internet have offered alternative shopping channels to bricks and mortar. But we always return to the in-store shopping experience. We have incorporated this learning back into the store. It is the anchor.

"People forget that families used to get dressed up to go shopping," explains Bonner. "The store was the entertainment center of America. We thought that we would lose this to the catalogue and the Internet, but it didn't happen." In fact, he contends, the "pendulum is swinging again." This time it is paving the way for digital efficiencies to be reintroduced into the physical store experience.

Enter the Mobile Phone

As we review the many forms of retail that have emerged over the past 120 years, no one could have foreseen the rise of the m-shopper and the impact of mobile on the store. This new breed of consumer is using the mobile phone in the physical store to select products, research purchases, and act on deals and coupons at the point of decision.

This shopping revolution is in full force. While some in the retail industry recognize that the m-shopper has arrived, few have strategies in place aimed at capturing the m-commerce dollar. Misguided mobile web designers are working hard to adapt online shops and commerce functions to the constraints of the much smaller mobile screen. This approach overlooks the fact that mobile is more than just another screen. In fact, one of the reasons that mobile commerce is perceived to be underperforming is not because m-consumption has not arrived or failed to ramp up. To the contrary, m-consumption has arrived and is thriving. Our mobile commerce models are simply flawed or embryonic.

Cookie-cutter online assumptions to mobile don't guarantee revenue or conversion. While mobile presents a world of retail commerce opportunities, it can also be ineffective and underwhelm consumers. In some extreme examples, the experience can actually hinder shopping. Indeed, shoppers with their noses glued to the screen of their mobile phones shut out opportunities to engage effectively with the product. What's worse, mobile can even interrupt the shopper's purchase of this product.

However, if leveraged effectively, mobile enhances the shopper experience by allowing consumers to be open to impulse product selection in the aisle. We're already seeing the implementation of successful mobile services that overcome device shortcomings and free the shopper to be less nose-to-screen. In fact, new technology will allow shoppers to be completely un-tethered and 100 percent impulse driven.

Mobile is entering the in-store environment at a time when our idea of the store is changing dramatically. As we stroll, head bent, nose-to-screen, down busy streets and navigate the store aisle using peripheral vision, is the phone a homunculus guiding our shopping behavior, or is it a distraction, interrupting the design and the role of the store? This raises some interesting and critical questions about the future of retail. Some suggest that the historic fight for real estate in the store may ultimately trigger a flight of consumers from the store. Will the retailer's adversarial relationship with brands end up encouraging brands to pursue direct relationships with shoppers via their handheld devices? Or will mobile help make the retail store more efficient and relevant to the modern shopper?

As we debate this, we face many challenges. Few industry insiders recognize the difference between a portable device and a mobile device, let alone how this affects the shopping experience. Even fewer recognize and accommodate the impulse-buying habits of the mobile shopper. And still fewer are generating anywhere near the potential revenue or reward that this new commerce platform has to offer.

It has the potential to become a perfect storm. Just not yet. That is what this book is about.

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