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## Local Retail Endangered by Extinction – Counteracting with Omni-Channel Strategies

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**Abstract:** Local retailers are struggling to keep up with digital developments in the retail industry and remain competitive against online players. Therefore, this research aims to explore how omni-channel strategies can be successfully integrated in the business models of small, owner-managed and local retailers. As part of a recently founded living lab in Aachen, Germany and in cooperation with retailers and consumers, we investigate how the integration of innovative omni-channel strategies can succeed in local environments. To investigate success factors of local omni-channel strategies, we propose an iterative research approach combining quantitative and qualitative research methods. First research results indicate that the ability and knowledge on how to implement omni-channels is missing and that its acquisition is a great obstacle on the way to become an omni-channel retailer.

**Keywords:** Omni-Channel; Business Model Innovation; Local Retail; Customer Experience; Real-Life Laboratory; Living-Lab; Quantitative Research, Qualitative Research

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### 1 Introduction and Theoretical Background

Increasing competitive pressure and the transformation of traditional offline retail to digital business models pose major challenges for the German retail industry (Brynjolfsson et al., 2013). Technological developments and changing customer behavior are necessitating far-reaching changes within companies (Cao and Li, 2018). Digital

technologies allow the customer to engage and interact with companies in various ways via an increasing number of touch-points. Touch-points can be digital or physical and describe all opportunities where the customer can get in touch with the retailer and vice versa, e.g. social-media accounts, events, websites, show-rooms or expert advice (Jocevski, 2020; Larke et al., 2018). They lead to merging boundaries between online and offline channels and to the customer purchasing through the channel that best suits the requirements in the moment of product purchase. With the emergence of digital business models and their blurring lines between online and offline channels, customers are not only obtaining the opportunity to find online information about desired products, but also the option to purchase products and interact with the retailer anywhere at any given time. Emerging from this, convenient alternatives to local-stationary retail developed fast. Moreover, in the course of improving prosperity the purchasing power of consumers has intensified, resulting in the customer loyalty to local-stationary retailers being more fragile than ever (Hesse, 2019).

Facing the reorientation of the customer towards online purchasing channels, the local retail sector only slowly realizes that significant changes to their traditional business models are mandatory for their survival. One challenge is that small, owner-managed retailers lack knowledge on how to adjust their businesses and seize the opportunities given with digitalization (Bailey, 2020; Böckenholt et al., 2018; IHK, 2017). This knowledge gap is extended by scarce financial and human resources which again are rooted in declining customer numbers (Handelsverband Deutschland, 2020). Although some retailers offer their customers access to more than just one purchasing channel, the channels are often not integrated, which leads to problems regarding customer data and price management as well as brand and supplier management (Böckenholt et al., 2018).

Recent research results show that the coverage of multiple distribution channels are a prerequisite for survival in the retail sector in the long term (Jocevski, 2020). The central approach in combining and integrating multiple channels is omni-channel management. Within omni-channel strategies all available communication and sales channels are used and linked together to enable the simultaneous use of several channels on both the customer and retailer side. This allows customers to switch seamlessly from one channel to another without the customer even noticing the change in channel (Bailey, 2020; Böckenholt et al., 2018). The use of omni-channel offerings promises companies to remain competitive with chain stores and online competition in the future. To support businesses in the integration of omni-channel strategies so that all customer touch-points are integrated in the overall business strategy e.g. enabling online purchase, social-media purchase, offline purchase and event purchase simultaneously, the majority of research engages in strategies of omni-channel integration for large companies. In this, drivers and barriers for successful integration are examined (Lee et al., 2019; Saghiri et al., 2017). A further stream of research is engaged with the question on how to increase the number of touch-points with the customer (Jocevski, 2020; Lee et al., 2019; Mirzabeiki and Saghiri, 2020).

However, experience has shown that owner-managed retail locations, whose individuality provides a decisive impetus for an attractive city center, have the greatest difficulty in implementing such measures such as the renewal of the technical infrastructure or the adjustment of operational processes. In Germany the frequency of stationary purchases reduced by 12%, while the purchasing frequency in online retail has increased by 47%.

This has particularly affected the German consumer electro sector, with a reduction of 12% and the fashion section with a purchasing frequency reduction of 18% (Handelsverband Deutschland, 2020). Despite its social and economic relevance, research that is explicitly focusing on omni-channel strategies for small, owner-managed and local retail<sup>1</sup> is scarce.

The goal of our research is to close this elaborated research gap. We want to enhance existing research on omni-channel strategies for local retail. In the context of a real-life laboratory and in collaboration with local retailers and consumers we investigate how the integration of omni-channel strategies can succeed in local and regional environments. The focus of our research lies on small, owner-managed retail businesses. In cooperation with consumers and retailers, we aim to identify requirements, needs and measures that will eventually lead to the development of new business model patterns and strategies. Elaborated strategies will be implemented and iteratively evaluated. The superordinate goal is to achieve a new, gradual and sustainable fusion of digital and stationary retail.

This paper is structured as follows: In Section 2 we describe the current research regarding omni-channel strategies and their impact on business model innovations. In Section 3 we explain our methodological approach, the real-life laboratory and our process to expose sustainably working omni-channel strategies for local retailers. In Section 4, we subsequently present an excerpt of the results from our first qualitative workshop. The paper closes with an outlook about our further research in Section 5.

## **2 Current Understanding**

Omni-channel strategies are becoming increasingly important. Numerous recent studies have dealt with the extent to which omni-channel management can bring success to companies and help business to innovate their business models. Omni-channel endeavors affect the entire business model. They include the complete integration of processes and decisions in all process steps of customer interaction (Haderlein, 2012).

With disappearing boundaries between the virtual and physical world – caused by e.g. mobile devices as well as emerging online offerings and services – customers can switch between online and offline sales channels as often as they like during the purchasing process (Verhoef et al., 2015). Verhoef et al (2015, p. 176) define omni-channel as follows: “Omni-channel management is the synergetic management of the numerous available channels and customer touchpoints, in such a way that the customer experience across channels and the performance over channels is optimized”. For our research, we take this definition as a basis. In addition, we enhance it by stating that in omni-channel offerings the different channels have to interact with each other and can be used simultaneously. Omni-channel management needs to link all available communication and sales channels to enable the simultaneous use of multiple channels on both the customer and retailer side. The customer is at the center of the strategy, can actively control the purchasing process and is in control with regard to transparency and data integration. Customers can use several channels simultaneously, resulting in strong

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<sup>1</sup> In this research we define small retail as a retail store that is owner-managed and locally represented only. They sell self-produced goods or products directly purchased from the manufacturer in small quantities to the end-user.

interaction between the retailer and the customer as well as between the channels themselves (Böckenholt et al., 2018).

Griffin et al., (2017) emphasize the growing importance of distribution via multiple channels over the past decade and describe the premises for successful omni-channel strategies. For example, they highlight the necessity of the integration of operational and delivery services to “provide personalized shopping experiences across different channels” (Griffin et al., 2017, p. 6). They also stress that all channels of a company have their role in the omni-channel strategy, but that the individual channels must be used according to their strengths. For example, a retail store offline channel serves best for showrooming purposes and click-and collect services, while online channels serve best as transaction managers, social networks or customer service. Regardless of their size and sector, omni-channel requires a rethink and transformation of corporate culture and organizational structures. At the same time, Griffin et al. (2017) point out that the definition and implementation of a concrete omni-channel strategy is essential to enable increasing sales and greater customer satisfaction. Above this, recent research explains that the success of retailing business models is closely related to the cohesive view of channels and the creation of a seamless shopping experience between channels. This also includes a sustainable understanding of customer behavior and the influence of omni-channel strategies on corporate profits (Grewal et al., 2017).

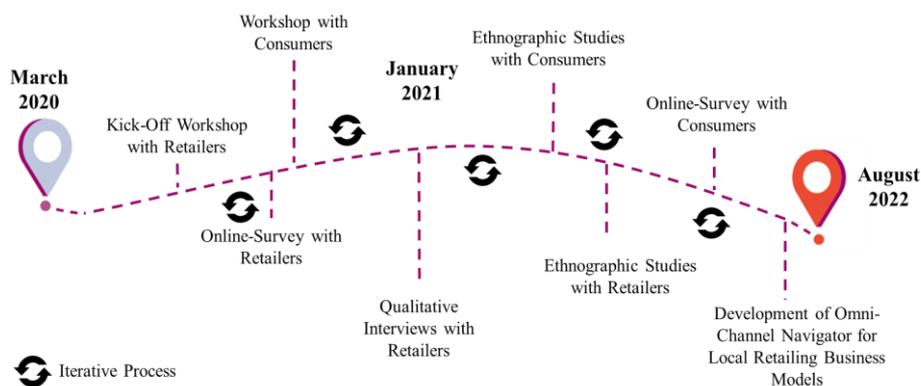
A further mandatory aspect for omni-channel success is the willingness within the company to make adjustments in the strategic context. Heinemann (2010) stated that the change of organizational structures by implementing an omni-channel strategy is a decisive factor for omni-channel success. The organizational structure acts as an enabler of a multi-channel strategy, which must be implemented by all employees and especially by the management (Heinemann, 2010). Jocevski (2019, 2020) investigated a number of retailing companies to identify different omni-channel strategies and the associated development of business models (Jocevski, 2020; Jocevski et al., 2019). He points out that technological innovations play a decisive role in the development and implementation of omni-channel strategies. He furthermore addresses the optimization of omni-channel activities through data-driven management as research area. Further research deals with changing customer behavior. In this, it is examined how customer experiences and the corresponding customer journey change through omni-channel operations (Bijmolt et al., 2019) and which factors lead to consumers using omni-channel offerings repeatedly (Silva et al., 2018).

Summarizing we observe, that there is a consensus within the omni-channel research community regarding the relevance and design of omni-channel strategies. Omni-channel strategies require a general and holistic rethinking as well as transformation processes within corporate management. They request a general willingness to change within a company in order to train competence and create acceptance for the transformation of sales and its processes. Finally, a strong customer focus is indispensable.

### 3 Methodology and Research Approach

With this research we develop a navigator that poses concrete instructions for action to successfully implement omni-channel strategies in local retail environments. We therefore identify specific drivers and obstacles that retailers face when integrating omni-channel strategies in a local context. We furthermore investigate consumer acceptance factors that are necessary for the successful establishment of local omni-channel strategies. We elaborate on which digital technologies and channels are preferred by consumers and which consumer needs exist for a fusion of digital and stationary services. Convenience has gained importance in recent years, which is why factors relating to usability will also be investigated.

Our research is designed in iterative process loops and in several stages. We combine quantitative and qualitative methodologies and collect continuously the requirements of retailers and consumers in various contexts. We choose (online) surveys for the quantitative data collection. This quantitative approach serves two goals: first to assess the status-quo of the digitization and technology acceptance of retailers and second to validate the information collected through the qualitative data collection. For the qualitative data collection, we use interviews, workshops and ethnographic research approaches like research diaries or behavior observation. The ethnographic approach serves to better understand decision-making mechanisms of consumers and retailers. By engaging in qualitative methods, we use an explorative proceeding to identify new, undiscovered acceptance factors and to deliver new results concerning requirements of local retailing environments. Finally, we develop an omni-channel navigator that supports local retailers in re-designing their business models (see Figure 1).



**Figure 1** Research Approach

Our first qualitative process step was undertaken as online and interactive workshop with eleven participants with use of the video communication software Zoom and the digital collaboration whiteboard Miro. As a first step, the participants were asked to document their expectations, concerns and experiences regarding digitization in the retail sector using a mindmap. In the second step, the participants evaluated and scored twenty digital omni-channel services that had been extracted from literature analysis as leading omni-channel services and presented during the workshop.

For the scoring of the introduced omni-channel services, the participants got three anonymous votes to evaluate useful services and three additional anonymous votes to evaluate unnecessary services for the application in local contexts. This approach aims at ensuring that only the most useful and most unnecessary services are identified. This in turn serves as information for which services the retailers are reliably willing for implementation in the course of the project and for which services they are not.

#### **4 Results in Progress – Kick-Off-Workshop**

We started our research with the identification of needs, requirements, promoters and obstacles that retailers face in connection with local online and stationary retail by conducting a requirements workshop with owners of small and local retail stores. Within this workshop, concerns regarding the digitization of the retail sector, activity preventors and potential local applicable digital services were jointly discussed. Resulting from the initial collection of topics, the following issues were subsequently discussed:

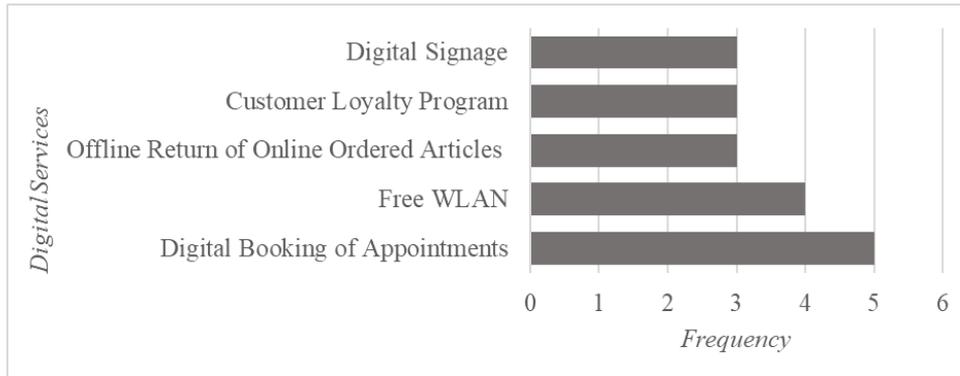
- the availability of goods,
- digital activities already in place,
- customer relationships,
- networking within the retail environment,
- SARS-CoV-2,
- opportunities of digitization and
- sustainability.

In the next step the participants evaluated twenty introduced omni-channel services<sup>2</sup>. Figure 2 and 3 illustrate the highest positive and negative rated services. For example, the option to digitally book consulting appointments (online or in store) was rated as particularly useful by five retailers.

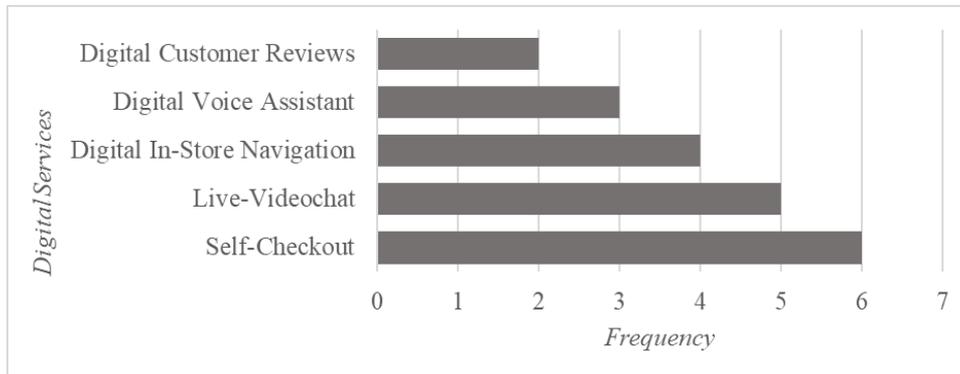
In our qualitative analysis of the workshop, we observed that retailers expose a great willingness to develop and use omni-channel strategies, but that the knowledge on how to integrate them is largely missing. The willingness to integrate omni-channel strategies was explosively promoted against the background of the Corona-pandemic and the necessity to offer products and services online. We also observed that there is a desire for cooperation among local retailers. Retailers would like to network on a regular basis, jointly support in the availability of products and set up combined collection points for customers' ordered purchases.

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<sup>2</sup> The presented omni-channels services are: AR/VR, Customer Loyalty Program, Digital Booking of Appointments, Digital Customer Reviews, Digital Price Tags, Digital Signage, Digital Voice Assistant, Discounts, Feedback-System, Free WLAN, In-Store Navigation, In-Store Online Purchase, Live Video-Chat, Omni-Channel Loyalty Card, Multisensory Technology, Offline Return of Online Ordered Articles, Pater Noster, Search Engine for Products, Self-Checkout, Virtual Shopping Shelf.



**Figure 2** Rating of digital services by retailers as useful (n=11)



**Figure 3** Rating of digital services by retailers as rather unnecessary (n=11)

Current challenges include digital measures, such as the creation of information and images of products for their own online store, or the linking of all digital systems with each other. It was also mentioned that the recognition of individual customer inquiries is an obstacle, as is the effort required for delivery. The merging of online and offline channels, better service offerings and increased visibility are cited as opportunities for sustainable business models. Ecological sustainability potentials were also discussed. It is hoped that the merging of stationary and digital channels will lead to resource conservation, more efficient logistics and long-term economic success.

In line with their core competency of product and customer knowledge, local retailers consider digital bookings of online and offline services and consulting appointments as particularly useful. Moreover, retailers consider free WLAN to be beneficial. While we discussed the omni-channel service of self-checkout cash desks with the participating retailers, we identified that retailers do not consider this particular tool to be useful in local environments. This is especially surprising against the background of this service being a huge success for larger retail chains.

## 5 Further Research and Outlook

From October until the end of November 2020 we run an online survey collecting the digitization readiness level from small, manager-owned retailers. The survey examines the current state of digitization, the retailers' willingness to invest financially and with personal resources in digital projects, and if there are already any measures in place. We also survey the need for strategical, economical and technological coaching with regard to special knowledge in handling digital services. Finally, we survey which digital services are already known or even implemented and what services are desired for future adjustments. The statistical analysis of the survey is currently ongoing and will be part of our further research.

At the end of November, we furthermore conduct an interactive digital workshop with consumers. The initial results provide insights into requirements, personal needs of consumers (e.g., privacy policies, preferred channels) and behavioral mechanisms when shopping. From the qualitative analysis of the workshop we expect to uncover acceptance factors that have not yet been addressed in the literature.

From a practical perspective, we expect to develop new local omni-channel retail tools, services and strategies that can be implemented quickly in context of local retail. From a theoretical perspective, the results provide insights on concrete requirements of retailers as well as personal needs of customers and behavioral mechanisms while shopping. With this, we reveal acceptance factors not tackled by literature yet and address the consumer centricity for the design of new business models in retailing.

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