

A retailing dilemma: sell only in-person or go multiple channel and digital?

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Accepted for: [Journal of Business Strategy](#), Vol. ahead-of-print No. ahead-of-

print. <https://doi.org/10.1108/JBS-07-2023-0149>

Abstract:

Purpose

Digitalization and omni-channel strategy have appeared as recurrent themes in retailing for years, yet some major international as well as domestic mass retailers have chosen to retain a single, physical channel focus for customer transactions. These retailers, despite the digital mindset pre-occupying the retailing sector, have chosen to rely fully, or predominantly, on their stores to generate revenues, even during the Covid-19 pandemic. A number of questions arise from this approach. This paper aims to understand the rationale for marketing and strategic practices which appear to go against the dominant, strongly digitally oriented, discourses and practices in the field of retailing. Why do some retailers choose not to add a digital transactional channel? Are there defensible reasons for this choice? Can such a strategy successfully create value?

Design/methodology/approach

This research is based on a qualitative, multiple case study of the strategies adopted by Primark (fashion) and Aldi (food), two major retailers that retain a largely mono-channel transaction focus, in France and the UK.

Findings

This research suggests that some retailers might still be able to succeed by maintaining a mono-transactional physical channel, in order to avoid a cost trap which extensive moves towards digitalization of transactions might mean for them. In such circumstances, refusing to adopt a digital value proposition might be a means of preserving the success of their original business model.

Originality/value

Despite the weight of academic and practitioners' discourses on the urge to undertake digital transformation, this work provides a comprehensive illustration of the rationale for sticking to a mono-transactional physical channel to preserve the profitability of a traditional store-based business model.

Keywords: omni-channel, mono-channel, business models, retail strategies, discounters, big middle, mass-market

Introduction

While digitalization and omni-channel strategy have appeared as a crucial strategic issue for retailers and a pre-requisite for successful future growth for retail firms, some major international as well as domestic store-based retailers have made the choice to retain a wholly or predominantly mono-channel strategy. Multi-national fast fashion retailer Primark may be the most instructive example of this approach, which still appears to work well commercially. These retailers, despite the digital mindset pre-occupying retailing, have chosen to rely only, or predominantly, on their stores to generate revenues, even during the Covid-19 pandemic. Several questions arise from this strategy. It is important to take the time to understand the rationale for marketing and strategic practices which appear to go against dominant, strongly digitally oriented, discourses. Why do these retailers choose not to add a digital sales channel? Why do they rely instead upon more traditional store-based revenues? Do we require a more nuanced understanding of the channel choices available to retailers, where a greater variety of approaches may be possible? Is this strategy relevant and replicable to others in the sector? Can such a strategy continue to successfully create value in the future?

Digitalization as a leitmotiv in retailing

Digitalization and omni-channel strategy have appeared as a *leitmotiv*, or recurrent theme, in retailing for several years (Verhoef et al., 2015; Ailawadi and Farris, 2017; Mencarelli et al., 2021; Neslin et al., 2022).

The influence of digitalization on retailers' business model

According to recent research, digitalization has clearly and deeply reshaped the environments in which retailers operate as well as their strategies and business models (Alexander and Cano, 2020); Treadgold & Reynolds, 2021). Retailers are encouraged to pursue an omni-channel strategy “to survive” (Rigby, 2011; Bell et al., 2014) in a world where consumers use multiple

devices as part of their digital customer journeys (Lemon and Verhoef, 2016). This transition towards omni-channel retailing is better understood in the context of a business model perspective (Jocevski et al., 2019). Indeed, most traditional bricks-and-mortar retailers have been engaged in a business model innovation process that consists of integrating their digital and physical business models into a new omni-channel business model (Do Vale et al., 2021). According to Jocevski et al. (2019), an omni-channel business model needs to be based on three dimensions (1) a seamless customer experience, (2) an integrated analytics system, and (3) an effective supply chain and logistics.

Complexity and costs linked to manage omni-channel retailing

Despite the business opportunities apparently created, an omni-channel strategy can be very complex to orchestrate for traditional retailers (Ailawadi and Farris, 2017; Mencarelli et al., 2021), not least leading to a negative impact on retailers' cost structures. For instance, among other huge digital investments, bricks-and-mortar retailers are increasingly pushed to integrate smart retail technologies to enhance the customer's overall shopping experience (Adapa et al., 2021). However, these technologies command significant costs without providing the assurance that revenues will improve and offset these costs. In addition, as suggested by Jocevski et al., (2019), an omni-channel business model requires an effective supply chain and logistics operation. However, in the case of a business based, for example, on a discount positioning model, combining an effective supply chain and logistics simultaneously for digital and physical orders at an acceptable level of profitability can create significant challenges.

Even more conventionally positioned firms can face cost pressures from digital transformation: a prominent UK retailer CEO pointed out that *“last year, every pound of [our] business that transferred from retail to online cost an additional 6p. In the short to medium term, the costs of structural change will persist.”* (Lord Wolfson, 2019, Chairman & CEO of Next). In addition

to cost increases, retailers are now in increasingly complex situations regarding appropriate resource attribution by channel (Salmani and Partovi, 2021) whilst seeking to maintain the resilience of their revenue streams. Indeed, as digitalization has empowered them, customers are now well able to adopt showrooming practices to better compare prices and other product attributes (Daunt and Harris, 2017; Gensler et al., 2017). In summary, it seems that some bricks-and-mortar retailers face a paradox in that, whilst adopting a digitally-oriented strategy can put at risk their conventional discount business model (based on selling products and services in physical stores), ignoring digital sales opportunities may be similarly risky. But as former Tesco CEO Sir Terry Leahy once remarked, doing nothing by accident is not an option: *“The greater the risk, the greater the precautions you must take. Yet doing nothing is often the greatest risk of all.”* (Leahy, 2013). So, what assumptions lie behind the decision-making of firms that choose to remain solely, or predominately, store based?

Empirical research

This research is based on an ongoing multiple case study examination of two international bricks-and-mortar retailers (the international discount supermarket chain Aldi & the multi-national fast fashion retailer Primark) that rely predominantly on their store channels, and which have chosen not to offer either no, or very partial, digital sales opportunities to their customers.

1. Research design

Multiple case studies are appropriate to answer “why” and “how” research questions in underexplored contemporary research areas (Yin, 2003), which is the case in this study. This study conducts a mix of semi-structured interviews with managers (4), alongside observation in stores and of online activity (by means of examination of owned and earned marketing communications through company websites and social media presence) as the primary sources of data. The study is then enriched by secondary data drawing on public domain commentary

from company press releases, the publically-expressed views of senior managers within the two firms, alongside discussion by analysts and journalists who are seeking to understand the commercial rationale for firms' channel choices.

2. Case studies

As for all empirical research, sampling is a key issue. Within a multiple case method, the sampling needs to be theoretically driven. Indeed, *“the method emphasizes careful case selection. This means choosing cases where the focal phenomenon is likely to occur”* (Eisenhardt, 2021). As Eisenhardt & Graebner, (2007: 27) underline, *“cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs”*. As a result, we choose to examine two cases which seem relevant to our research question: Aldi & Primark, in two countries. In this way we can make comparisons between different retail environments (UK and France) of two contrasting retail sectors (food and fashion) at the same time drawing on the knowledge and networks of the co-authors in the countries concerned. These firms were chosen for several reasons: both retailers are demonstrably positioned as low-cost operators on whom the margin-related pressures of omni-channel operation might be considered particularly significant; both have also made clear, public statements about their channel choices. However, each retailer represents low-cost positioning in contrasting business sectors, and each appears to have developed a different multi-country strategy. The qualitative analysis was conducted through continuous interaction between theory and data to refine the coding process (Saldaña, 2015).

Findings

This ongoing research (a) demonstrates the enduring characteristics of some retailing strategies across time as well as reminding us of the sector's original, fundamental role of intermediation; (b) demonstrates that customers are still willing to accept single channel availability when the

perceived value of that channel is high enough to justify its choice (for example through demonstrably attractive store environments, the availability of products unique to the in-store brand, or through the provision of compelling store-based pricing strategies); (c) shows that the absence of any or extensive transactional digital channels does not mean that such firms cannot develop a rich, sophisticated and effective *non-transactional* digital presence; and (d) as a result, firms can sustain commercially viable mono-channel business models. Through a scholarly lens, this research seeks to demonstrate that, despite the weight of academic and professional consulting discourse, some retailers might still be able to succeed by sticking to a single transaction channel and avoid what is in essence a trap represented by extensive moves towards the digitalization of transactions. In such circumstances, refusing to adopt a digital value proposition might be a means of preserving the success of their original business model. Indeed, adopting a digital value proposition would lead discount retailers to fall into the ‘trap’ of the “Big Middle” (Levy et al., 2005).

Companies such as Primark seem able to adopt a longer-term perspective regarding the profitability of their business model by sticking with their store-based revenue model. For instance, George Weston, ABF, chief executive (the owner of Primark) stated in 2020 *“I think that COVID has more demonstrated the strength of Primark than the weakness...when people are able to shop, they prefer to shop with us than to do so online”* (secondary data, article in Reuters, published in 2020). It may also help that neither of our case study firms are publically-quoted businesses, and so less subject to outside pressures to follow current trends. This does not mean that a firm like Primark has ignored the possibilities of ecommerce, however: the company ran a 12-week trial with UK pure play fashion business ASOS in 2013 but terminated the contract. It was suggested at the time that despite ‘phenomenal’ demand, the trial proved uneconomic thanks to high commission costs and competition from other brands on the platform (Alexander, 2013). More recently, the company has experimented a “click and collect”

service for childrens' ranges (from clothing and accessories to nursery products and toys) in 25 stores in the north-west of England. This hybrid service requires, of course, customers to call at a store to pick up their order and so the physical store still plays a critical part in the firm's ecosystem.

Yet having a predominantly or wholly store-based revenue model does not mean that retailers are avoiding using any digital touchpoints – for example, for marketing purposes, or to improve customer experience or increase operational efficiency - as our interview analysis and secondary data show. For instance, in-store observations show that Primark communicates about their stores by means of their online non-transactional channels and their social media pages. Similarly, the firms have different approaches to driving customers to the store: for example, Primark UK's website does not allow ordering online, but does permit customers to check available inventory at their nearest store prior to a visit. But such activity can vary by market and retailers follow a variety of paths regarding the use of their channels. For example, while Aldi in France has developed an app to improve its communication with its customers, Primark has not.

Table 1 demonstrates the different use of digital devices within elements of the current marketing mix of the firms studied in this research.

INSERT TABLE 1 HERE

This table shows that whilst the two firms follow the same revenue model - only based on their stores – they nevertheless use different marketing strategies to communicate information to their customers. For instance, while Primark France displays information on their stores about their website and their social media, Aldi France does not. On the other hand, Aldi invests resources to provide customers with a digital application while Primark does not.

Our results suggest that a non-transactional mono-channel business model can be successful in a digital world. It is to be noted that it cannot be demonstrated whether the firms under investigation may have been even more successful if they had opened up a fully transactional digital channel. However, the challenges faced by other traditional retailers in moving into this space does suggest that the extra costs involved would have significantly affected the firm's ability to continue to be able to provide the lowest cost offer, thus undermining their original business model (Shah, 2021).

Discussion

In considering our results, it is first important to differentiate between the strategies adopted for sales as against marketing channels. In our case studies, there was significant investment in developing new digital marketing channels, such as via social media platforms, despite decisions not to develop new digital sales channels. For example, Primark currently commands 24.5mn followers across its Instagram, Facebook, Pinterest and TikTok social media platforms, an increase of 10% over the previous year (Shah, 2021). Thus, it can be argued that these are still omni-channel retailers as they still aim *"to deliver a seamless customer experience regardless of the channel"* (Piotrowicz & Cuthbertson, 2014). Brynjolfsson, Hu, & Rahman (2013) have already highlighted that all retailers can adopt "successful strategies for omni-channel retailing" in the short-term. However, Brynjolfsson et al., go on to suggest that *"pure bricks-and-mortar retailers"* can only be successful in the long-term by moving *"toward becoming dual-channel retailers"*. Our research suggests otherwise, at least at present. In June 2023, Primark raised its profit outlook by 16% based on strong demand and higher prices. Long-term success via a mono sales channel (physical or digital) appears possible as long as it is consistent with the overall business strategy, which then dictates the relevant business model. Interestingly, Brynjolfsson et al. do not suggest that *"pure online retailers"* need to take this

dual-channel approach to long-term success, even though the investment is much less onerous – when we compare opening one physical store at a time for an online retailer, to making a full offer available online for a multiple store-based retailer. This conclusion also complements recent literature regarding omni-channel business model implementation, highlighting the heterogeneity of paths for firms having store and online based revenue models (Do Vale et al., 2021). Indeed, even retailers which only sell their products and services in-store can follow different paths regarding the way in which they use digital technologies to improve their customer relationships and their communication.

A growing body of literature encourages bricks-and-mortar retailers to move towards what is called “smart retail” (Pantano & Timmermans, 2014) in which retailers are pushed to integrate smart retail technologies within their business models to remain profitable and enhance customer shopping experience (Adapa et al., 2020). Such technologies can be embedded within stores. Interestingly, this research provides this trend with more nuance by suggesting that some retailers, in reaching mono-channel solutions, are being wise rather than just being smart. The issue is to better consider which digital technologies to adopt and which aspects of the marketing mix to focus on to remain profitable. For example, Primark is also experimenting with self-checkout technologies in its Sheffield store. Similarly, Aldi UK launched a ‘just walk out’ automated store in Greenwich, London, in February 2022. While the question of being smart for retailers remains of crucial importance, this research encourages retailers to also think in term of being wise by not falling into the trap of the wheel of retailing (Hollander, 1961) which would result in losing profits in the long-run. Indeed, Babin et al., (2021: 82), recently reminds us that “*pricing strategies remain paramount among the retail mix elements*”. It seems that to retain a discount price positioning, keeping a mono-channel transaction strategy may be wiser than trying to add an online transactional channel, due to the additional costs involved.

Indeed, store-based mono-channels may prove to be more profitable than online mono-channels as the recent decrease in profitability of Primark online competitors, such as ASOS, Boohoo, and Zalando, may suggest (Lex, 2023). This can be explained by the fact that an online retailer has to carry out tasks that a customer does instore: picking the product, transporting it, and returning it when necessary. A store-based retailer moving to omni-channel also has to carry the additional costs of the online channel. For example, witness the deterioration of John Lewis (food and fashion) profitability as its online sales have become a greater part of overall sales - even though total sales are growing. John Lewis department stores sales online have grown from 42% to 59% of total sales since 2019 (pre-pandemic). While total sales have grown by 2% during this period, trading operating profits have fallen by 8%. Meanwhile, the online sales of John Lewis' food brand Waitrose have increased as a proportion of total sales from 5% to 14%. While total sales have grown by 6% during this period, trading operating profits have fallen by 16% (p.14, John Lewis Partnership plc Annual Report and Accounts 2023). Established omni-channel retailers recognize this commercial challenge. Simon Roberts, CEO of UK grocery retailer Sainsbury's commented on the commercial considerations when moving online for grocery sales during the pandemic. The firm was, he said, *"moving sales out of our most profitable convenience channel and driving a huge step-up in online grocery participation, our least profitable channel"* (Eley & McMorro, 2020).

In classic strategic analysis terms (Porter, 1980), those discounters sticking with a store only sales strategy are clearly following low-cost competitive positioning. It is worth noting that other retailers sticking to such a store-based strategy include luxury retailers, where the in-person customer experience is paramount and underpins their competitive strategy of differentiation, at the other end of Porter's model. In the case of Primark, the business is relentlessly investing in its UK in-store experience through, for example, cafes run by bakery

company Greggs, nail and beauty salons, and through trialing the use of self-scanning technology in store.

The choices available may be illustrated by analyzing the basic marketing mix (McCarthy, 1964) for different retailers (see table below).

INSERT TABLE 2 HERE

Table 2 also reflects the tendency of retailers to migrate towards the “Big Middle” (Levy et al., 2005) in search of greater revenues, in this case by offering both store-based and online sales channels. This raises the question of whether those retailers moving online from store-based retailing, or to stores from online retailing, will eventually succumb to being “stuck in the middle” as described by Porter (1980). It is worth noting that the online focused retailer Amazon is closing more than 50 of its physical stores, including 24 bookstores and more than 30 Amazon 4-Star stores as these businesses have failed “*to gain traction*” (Weise, 2022). Further, some 74% of Amazon’s profits now come from non-ecommerce related activity, such as Amazon Web Services and the sale of ‘just walk out’ technology to other grocery retailers. Thus, while the “Big Middle” may be the desire of the mass market, offering everything through every channel, it may prove to be challenging for retailers to fulfil such all-encompassing desires profitably.

Conclusion and implications for theory and practice

We conclude that the imperative articulated by academics, commentators, and analysts towards a dominant omni-channel business model is incorrect in that it is not only imprecise and insufficiently granular, but also fails to match some current behaviours by practitioners in certain retail markets. Using the examples of two low-cost retailers in food and fashion, we

argue that retailers have more nuanced marketing as well as sales choices when considering developing their digital presence. Further, retailers who cannot justify a transactional digital presence for commercial reasons because of their low-cost positioning appear - at least at present - to be able to survive (and thrive) perfectly well through store-focused strategies and investments, including digital activities which seek to drive consumers to their stores.

Acknowledgements

This research is supported by the chair TREND(S) - Transformation of Retailing Ecosystems and New market DynamicS.

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