

RETAIL CHANGE: A LOOK AT THE PAST, PRESENT, AND FUTURE

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**By
Laura King McKee**

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By

Laura King McKee

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SUPERVISORY COMMITTEE:

Dr. Linda Manikowske

Chair

Dr. Holly Bastow-Shoop

Dr. Jaeha Lee

Dr. Jin Li

Approved:

11-10-14

Date

Holly Bastow-Shoop

Department Chair

ABSTRACT

The retail industry has evolved over time and has had constant change. Retailers adjust to accommodate with the changes, and those that are able to change with the times are more likely to be successful. The history of retail has adjusted with each major development of technology, from trains, cars, internet, to tablet computers today. Consumer behavior has also adjusted to the changes in retail and technology. This paper looks at the early history of retail to where we are today. Retailers that want to remain relevant in the future must adapt with the changes in technology and consumer behavior. It is clear that the retail industry is in a period of exceptional disruption and change.

TABLE OF CONTENTS

ABSTRACT.....	iii
LIST OF FIGURES.....	v
INTRODUCTION.....	1
HISTORY OF RETAIL.....	2
Early Retail.....	2
Technology in Retail.....	4
CURRENT RETAIL.....	7
Malls.....	7
Technology Influences Change.....	11
Multi-Channel Retailing.....	14
Consumer Behavior in Multi-Channel Retailing.....	15
Successful Retailers.....	19
Gap.....	21
Burberry.....	24
FUTURE OF RETAIL.....	27
Implications for Multi-Channel Retailers.....	27
CONCLUSION.....	32
REFERENCES.....	33

LIST OF FIGURES

<u>Figure</u>	<u>Page</u>
1. Total Retail Foot Traffic in U.S. Shopping Malls.....	8
2. Forecast: U.S. Online Sales Forecast 2012 to 2017.....	30

INTRODUCTION

In the year 1980 Oklahoma City had four large shopping malls and three smaller malls that were prospering, today there are two large malls and one small mall in this same area (Currin, 2013). The changes for the retail industry have been and will continue to be constant. Retail accommodates changes, and those that change with the times are successful. The firms that can adjust quickly will remain more competitive; those that do not will suffer. Consumer shopping behavior has always changed with the updates in technology and changing retail landscape.

The purpose of this project was to look at retail change over time and study the impact of current technology and multi-channel retailing on the success of retailers today. The questions to be answered were: What are the historical retail changes? Do multi-channel retailers' brick-and-mortar locations benefit from online shopping? What consumer and business trends are multichannel retailers encountering? How are multi-channel retailers adjusting to the increase of technology and use of the internet? Which retailers have shown success over time and why? What can retailers do to remain profitable and satisfy customers in the multi-channel retail environment?

In this paper, information from industry reports and research studies will be reviewed to show how retailing has changed over the years. Data from multi-channel retailers will be analyzed and reviewed. Successful multi-channel retailers will be noted and explored to identify best practices. Consumer behavior studies will be reviewed as they relate to retail shopping patterns in the multi-channel environment.

HISTORY OF RETAIL

Early Retail

During the early 1800's, general stores supplied food and other manufactured items. The rural areas of the 19th century were regularly visited by peddlers who carried their wares on their backs or on the packs of their animals. While lower cost distribution entered American cities with the arrival of department stores, rural America continued to suffer the higher costs of small stores and peddling. In 1872 the first mail order catalog was created by Aaron Montgomery Ward as a one-page catalog for rural shoppers. This was Ward's solution for the rural community that was too long a distance from a store ("The Museum," n.d.).

Mid-nineteenth-century grocers typically sold goods that were impossible to manufacture or process cheaply at home, such as flour, sugar, salt, tea, and tobacco. The phenomenal growth of the city in the second half of the nineteenth century led to city markets that became less convenient to the growing number of people (Gilmore, n.d.). In 1879, the first five and dime store was opened in New York by Frank Woolworth. Woolworth priced all items at five cents and pioneered the concept of fixed prices versus haggling. Weeks later his business was failing, so a second store was opened that included ten cent items and this was a success ("U.S. History," n.d.).

The late nineteenth century saw the growth of independent mom and pop stores. As residents moved into neighborhoods created by the new street railway and railroads and segregated by class and ethnicity, small family-run stores popped up to meet their needs. The rise of chain store companies after WWI challenged the dominance of independent grocers. After WWII the industry shifted to include fewer, larger grocery stores (Gilmore, n.d.).

From the 1890's to 1920's, there was a retail focus on family shops, general stores and department stores. Marshall Field and R.H. Macy realized that the railroad system and refrigeration enabled shoppers to travel more broadly and choose from a greater variety of merchandise. Department stores offered consolidated locations, longer hours, convenience, and better prices. Department store business grew briskly, especially during wartime, when jobs and wages were on the rise. In the 1920's, many downtown stores were able to be remodeled as their cash flow was good. Marble floors, wide aisles, high ceilings, and wide cathedral-like columns became common in these major department stores. These stores stunned the public with modern marvels that still were not yet available in many households. At the same time, the stores could no longer succeed with customers on price appeals alone, as they now faced competition from newly introduced dime stores. With the war rationing of the 1940s, American cities began to struggle as did the big stores. Consumer demand skyrocketed with the post-war baby boom, but families moved to suburbs and preferred to shop closer to home. The downtown stores saw a decline, and eventually opened branches in suburban shopping malls to keep afloat (Larson, 2006).

From 1920's to 1950's technological advances included automobiles, refrigerators in homes and the increase of catalogs. In 1929 supermarket chains were established and the Great Depression put a third of workers out of work. The first mall opened in the 1930's in Dallas. In 1956 the first indoor regional mall was built in Edina, MN ("A timeline," 2012).

In the 1960's Sam Walton opened the first Walmart, soon followed by K-Mart and Target. These discount stores relied on low costs and high turnover to offer customers low prices ("A timeline," 2012). In the 1960's, some of the biggest department stores in both sales volume

and physical size were Macy's, Hudson's, and Marshall Fields. In the 1980's retail industry focus turned from discount stores to category killers and club stores. Circuit City, Home Depot and Toys "R" Us became significant stores in the marketplace. Also in the 80's, the Transmission Control Protocol and the Internet Protocol (TCP/IP), common language of all Internet computers was created and we saw a boom in sales of personal computers. The combination of low-cost desktop machines and powerful network-ready servers allowed many companies to join the Internet for the first time. In the late 1980's there was an introduction of hypermarkets and a rise of the superstores ("A timeline," 2012).

Approximately every 50 years, retailing experiences a disruption of change (Rigby, 2011). The growth of big cities and the rise of railroad networks a century and a half ago led to the modern department store. Fifty years later mass produced automobiles came along and soon shopping malls in the suburbs challenged the department stores. Discount chains saw growth in the 1960's and 1970's. Soon after big box category killers such as Home Depot and Circuit City were transforming malls. While each change does not eliminate what was popular before, it does reshape the landscape and redefines consumer expectations (Rigby, 2011). Technology is discussed next as it has been a significant impact to the changing retail environment.

Technology in Retail

The term "e-commerce" initially was the process of completing commercial transactions electronically. Leading technologies such as Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT) have allowed users to exchange business information and do electronic transactions. E-commerce became possible in 1991 when the Internet was opened to commercial use. In 1994 the Internet began to gain popularity with the public. It took a few years to develop the security protocols such as Hypertext Transfer Protocol (HTTP), and Digital Subscriber Line

(DSL) which allowed rapid access to connection to the Internet. In 2000 many businesses represented their companies on the World Wide Web (“History of,” 2014).

In 1994 the Yahoo! Search engine was started as a directory of websites. Amazon.com became the first online book retailer in 1994 and shortly after EBay was created in 1995 as an online auction site. From 1996 to 2000 many “Dot-com” companies were created and run by people barely out of college. The NASDAQ exploded from 600 to 5,000 points in a four year period. In 1999 at the peak of the dot-com bubble, it was said that a new millionaire was created every 60 seconds. The Internet created an ecstatic attitude toward business and inspired many hopes for the future of online commerce. Many of the dot-coms were not successful and overvalued, and many of these companies crashed (Smith, n.d.) The collapse of the dot-com happened in 1999-2001, when many companies failed completely and others lost a large portion of their market capitalization (“History of,” 2014).

Shortly following the dot-com collapse, Radio Frequency Identification (RFID) came into the spotlight when Wal-Mart made a public announcement to use this technology in 2003. RFID is technology that allows businesses to share accurate information about inventory data and the supply chain network’s product flow between suppliers and retailers. Wal-Mart was the first to issue a RFID technology mandate, which meant that its top 100 suppliers were required to put RFID tags on their pallets and cases beginning in 2005. Soon after Target, Kroger, Home Depot, BestBuy, and Walgreens announced similar mandates. RFID allows for wireless automatic scanning, which can reduce scanning error rates as well as man-power required to scan the products. RFID can also reduce stockouts, which can lead to improved customer satisfaction and reduced revenue loss (Shin & Eksioglu, 2014).

Other technology that has affected retail over time is the invention of tablet computers. The first tablet, Linus Write-Top was seen in 1987 and was very revolutionary for its time (Bort, 2013). Two years later, 1989, the GridPad was created by Palm Computing. Some consumers believe that the GridPad was the first tablet computer, but typically it was overlooked. It was heavy and pricey compared to laptops in the same era. Through the years many different versions of tablets have been introduced. It was not until 2000 that Microsoft introduced its first Tablet, created by Bill Gates. Some credit Microsoft for coining the term “Tablet PC” with its earliest tablet devices. In 2010 Apple introduced the iPad which had an easy touch screen. By October of 2012 Apple sold 100 million dollars in iPad sales, and the sales were expected to continue to soar (Bort, 2013).

The iPad’s success spawned new tablet competitors such as the Samsung Galaxy Tab, Android, and Kindle Fire. The Kindle Fire undercut all other competitors’ prices and made the tablet affordable to everyone. This set the precedent that a quality tablet could be inexpensive and accessible. To date, no other tablets have been as successful as the iPad, mostly attributed to the superior hardware and broad collection of apps. Tablets are hurting the netbook market and are quickly changing the traditional PC. The evolution of tablets has taken decades, and will keep evolving for decades to come. It is predicted (by Cisco, the world’s largest maker of network equipment) that by the year 2017 consumers will each have five Internet devices such as a tablet, smartphone, laptop, and desktop computer (Bort, 2013). Many consumers are using their Internet devices to shop online. There are several different arguments that this way of shopping, while growing in popularity is hurting the future of shopping malls.

CURRENT RETAIL

Malls

The first enclosed mall in the United States (U.S.) was developed in Minneapolis in 1956 and was designed to get the shopper out of harsh weather. The two main benefits were airconditioning and plenty of parking. By 1960 there were around 4,500 U.S. malls (accounting for 14% of retail sales) and by 1975 there were 16,400 (accounting for 33% of retail sales). In 1987 there were over 30,000 malls accounting for over 50% of retail sales. In the first decades that malls were built, competition was primarily from downtown retailers, but by the 1990's malls were competing with one another. Nearly 140 malls were built every year in the 1990's. Today, about a third of the malls have either closed or are "dying", but the largest and newest malls are doing well. Most "dying" malls are in poor locations, mismanaged, or should not have been built. While the economic crash of 2008 is a factor, another contributor is the popularity of the Internet (Fisher, 2014).

Mall traffic has seen slow decreases since 2010 (Dixon, 2014) as seen in Figure 1 found in Banjo & Fitzgerald (2014). Shopping centers have struggled to rebound from the business downturn, while facing competition from Internet rivals and over development in the boom years (Hudson, 2012). Many malls are struggling with vacancies, and some malls have closed completely (Moss, 2013). Vacancy rates of more than 40% are increasing, with the Internet mostly to blame (Moss, 2013). Rental rates for most shopping centers remain far below levels seen during the boom (Hudson, 2012). Once the mall experiences the loss of an anchor store, it usually cannot be replaced, which has a snowball effect on the mall. The closure forces others out of the mall because the mall does not see as much traffic (Kapner & Whelan, 2014). This is one example of a common trend seen in malls across America (Kapner & Whelan, 2014).

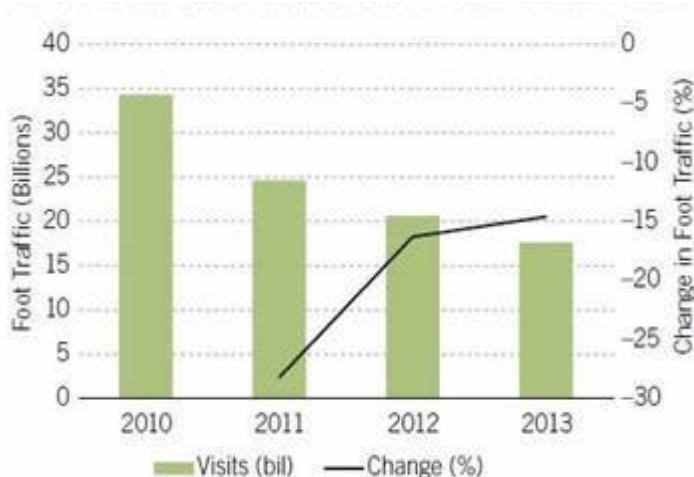


Figure 1. Total Retail Foot Traffic in U.S. Shopping Malls.

Note. Traffic data reflects November and December traffic of each year presented, and is collected from 60,000 traffic-tracking devices installed at malls and large retailers (Banjo & Fitzgerald, 2014).

Mall space is dependent on sales volume. If a retailer cannot boost their customer traffic and sales, they are likely to dispose of that space or use less space (Gregory, 2014). Historically, 20 to 40% of retail sales are usually seen during November and December. The number of visits to retail stores in November and December has plummeted by 50% since 2010 (Bainbridge, 2014).

The UCLA Anderson Forecast (2014) looks at predictions for economic outlooks for California and the nation. They present data that illustrates that commercial real estate is seeing disruptions from surging e-commerce sales (currently around 6.25% of U.S. retail sales) and high mall-vacancy rates which is currently about 11% among strip malls. The sales per square foot in the nations' malls grew by 2.6% in 2013, which is the slowest growth since 2009, according to the International Council of Shopping Centers (Kapner & Whelan, 2014).

One reason for the decreased mall traffic is a shift in consumer behavior (Dixon, 2014). Consumers have less time now for shopping, so they turn to smartphones, tablets, email and social networking. There is a mind shift change to what can be done more efficiently and what can be done from home or on the road (Dixon, 2014). Consumers are making fewer trips to the malls due to the fact that they are shopping more from mobile devices (Gregory, 2014).

Retailers that are able to forecast and adapt to the changing consumer behavior will have an advantage and edge over those that are slow to recognize trends (Gregory, 2014). They are having to find unique ways to motivate consumers to visit their stores. Some examples of retailers that are not losing traffic are fast fashion retailers, off-price/dollar stores, warehouse clubs, housing-related retailers, and those catering to a healthy lifestyle (Dixon, 2014).

There have been no new fully enclosed indoor malls opened in the U.S. since 2006 (Heywood, 2014). Streets are the number one retail location now, because of convenience for the consumer to jump out of their car and walk directly into the store. Indoor malls are not seeing growth post-recession due in part to the increase of e-commerce (Heywood, 2014). In the last 35 years, brick-and-mortar retail space has grown at twice the rate of the population (Bainbridge, 2014). Now U.S. domestic retailers are cutting back, claiming too many stores in too many malls (“United States,” 2013). Malls are struggling with store closures and vacancies, or closing altogether (Moss, 2013).

In recent years more developed markets have seen an increase of non-traditional retailers, particularly with the growth of online sales, which cut out the store as the middle man (“United States,” 2013). According to the United States Real Estate Report (“United States,” 2013), the Wall Street Journal has reported that mall occupancy in the U.S. is improving because of

discount retailers and international retailers expanding into the U.S. Online retail for the U.S. will continue to outpace the growth of physical retail stores (Lomas, 2013).

The two key drivers of demand for retail growth are population and income growth, both of which are declining in America (Bainbridge, 2014). These two factors along with overbuilding and competition from online sales in the last few years are hurting retail in traditional stores in the U.S. The retail industry has seen an increase in vacancies, lower rents, and plummeting values for brick-and-mortar stores (Bainbridge, 2014).

Location has mattered and always will in retailing, but the rising number of Internet shoppers is likely to change the current dynamic for shopping centers, with further emphasis on store productivity over new brick-and-mortar store openings. Many retail chains are already establishing smaller and fewer stores situated closer to their customers. In addition, the evolution of mobile point of sale (POS) systems and other cloud applications has allowed retailers to do business from anywhere, paving the way for on-the-go stores such as pop-ups (Bandolik, Lobaugh, & Simpson, 2014).

The demand for large physical spaces is likely to diminish with the rising popularity of virtual stores, and retailers may need to prioritize their real estate investments based on the highest potential for foot traffic (Bandolik, et al., 2014). The decline of department stores has been forcing regional malls to search for alternative anchors for years. In 2010 some malls replaced failing anchor stores with supermarkets, wholesale clubs, gyms, and theaters. Many of these new tenants are seeing less segregation of tenants by property type. Department stores' share of U.S. retail market dropped to 7% in 1990, and then to 2.5% in 2010, according to research by Customer Growth Partners, a consulting firm. One in every four malls in the country features at least one unconventional anchor (Misonzhnik, 2011).

Having a greater holistic view of customer behaviors and desires is expected to be invaluable in selecting optimal retail locations and providing an experience that is seamless for the customer (Bandolik, et al., 2014). There are a variety of different perspectives on the future of U.S. malls. Some believe that in five to ten years, up to half of American retail centers will be empty (Bainbridge, 2014). Green Street Advisors forecast that 10% of the nation's 1,000 malls will fail by 2022, and be converted to uses other than retail (Currin, 2013). But even as small shopping centers struggle with high vacancy rates and more shoppers are heading online, big malls are going strong and refuse to die (Binkley, 2011). Only time will tell what the future outlook will be for U.S. malls.

Technology Influences Change

Traditional retailers face substantial challenges when competing with online-only rivals, but according to Bandolik, et al., (2014), claims that brick-and-mortar retail will die out are incorrect and greatly exaggerated. Brick-and-mortar clothing stores have faced financial setbacks in the past 10 years, but online shopping continues to gain popularity. In 2008, 73% of American adults were Internet users, but only 40% used the Internet on a regular basis (Passyn, Diriker, & Settle, 2011). Online retail apparel stores have generated immense growth over the past decade for many reasons, but primarily due to convenience and cost (Paneva & Stampfill, 2012). Many online establishments now provide free shipping and returns, which attracts customers to buy from their outlets versus a retail store (Paneva & Stampfill, 2012). According to Forrester Research, the web will account for 11% of total retail sales in 2018, which is up from 8% in 2013. U.S. e-retail sales are expected to grow from \$263 billion dollars in 2013 to \$414 billion dollars in 2018, a compound annual growth rate of 9.5% (Enright, 2014).

Today, most retailers can track 90% of their overall sales to purchases from within the physical store. The role of the store is changing, however, and customers are more gradually looking for a blended experience of in-store and on-line shopping. Research done by Deloitte L.L.P. (a financial consultant group) finds that in 2014 digital technologies influence 36%, or \$1.1 trillion, worth of in-store retail sales per year. According to Forrester Research, ecommerce sales represent about \$288 billion per year, which would suggest that digital is four times more valuable at the store level than e-commerce sales alone. Given this trend, digital channels should no longer be considered an isolated or distinct business but should be used to enhance the store experience (Bandolik, et al., 2014).

There have been tremendous advances in technology related to smartphones and other devices that are changing retail shopping. Analysts identify the rise of smartphones and tablets as two notable changes that have propelled online growth (Lomas, 2013). Location-based applications on mobile devices are one of the most significant reasons for the changes currently happening in retail (Brynjolfsson, Hu, & Rahman, 2013). The Internet is available 24 hours a day, seven days a week and allows retailers to expand into new markets and easily gain new customers. Customers can quickly search the Internet to compare prices on an item, review other consumer's feedback or find product availability. This convenience makes it quick for the customer to search online for an item, whether he or she purchases online or in a store (Lomas, 2013). Deloitte L.L.P.'s (Bandolik, et al., 2014) study reveals that this year 53% of smartphone/tablet users paid for products with their smartphones, compared with 16% in 2012. This shift shows consumers' comfort with digitally-based transactions—one that poses a huge instore opportunity for brick-and-mortar retailers.

The Apple iBeacon is an example of how technology is used to benefit both the retailers and the consumer. This new technology offers small wireless sensors that are transmitted to your iPhone to enhance the in-store shopping experience (Carmody, 2013). The iBeacons cost a retailer around \$99 for three beacons, and can reach 50 meters. All iPhone users have access to the iBeacon, they just simply turn on the device through their settings on the phone. These devices benefit retailers by exposing shopper traffic patterns such as how long they linger, past purchases, and average spend. The iBeacon benefits shoppers the precise location of products, digital circular ads, and coupons all in real time (Carmody, 2013).

Another example of technology used to benefit both the retailers and the consumer is RFID. RFID has existed for over 20 years but the true impact and value has not yet been established. A key to RFID value is when it is integrated with other technologies. The technology is available for any item to be tracked in the supply chain and throughout its life cycle. There is potential to leverage inventory from throughout the supply chain directly tied to customer demand, which could improve margins and asset efficiency (Kalish & Bearse, 2014).

Most traditional retail stores follow changes with same-store sales and offer compensation systems based on those metrics (Rigby, 2011). When online sales were 2 to 3% of revenues, this system worked, but now that number often reaches 15 to 20%. Now it is more difficult for retailers to award compensation based off of same-store sales with the growth of Internet shopping effecting store sales. Retailers tend to focus on profit margin as a measure of success, but research shows that stock prices are driven by return on invested capital and growth, not margins. Amazon's operating margin is below the average for discount and department stores because they have no physical store assets and faster inventory turns. Amazon's return on invested capital almost doubles the average for conventional retailers (Rigby, 2011).

Multi-Channel Retailing

Multi-channel retailing is the use of a variety of channels in a customer's shopping experience, such as online stores, mobile stores, retail stores, telephone sales, catalogs, mail orders, interactive television, mobile app stores, and any other method of transacting with the customer (Linton, n.d). "Omnichannel" retailing is an approach that transcends multi-channel retailing to connect the web, mobile, and brick-and-mortar channels into a seamless customer experience (Griffiths, 2013). Global retailers are increasing their funding of technology, as more consumers prefer to shop from their homes. Most retailers already have an on-line presence but now the emphasis is on integrating various channels of sales and guaranteeing comparable experience across channels (Nandakumar, 2012). Many retailers are investing heavily in web divisions, such as online and offline capabilities that allow a customer to order online and pick up in a store (Lomas, 2013). This type of omnichannel is helping fuel the growth of ecommerce. Retailers are being forced to move towards omnichannel with the growth of technology (Frazer & Stiehler, 2014). The goal of omnichannel retailing is to create a seamless shopping experience for the consumer.

Retail landscape is becoming progressively more competitive with the combination of; 1) allowing consumers access to product price and availability information, 2) the ability of consumers to shop online and pick up products in local stores, and 3) the combination of off-line information and online content (Brynjolfsson, et al., 2013). Many shoppers are merging their online and offline shopping experiences which is causing retailers to think differently about the way in which they conduct business (Frazer & Stiehler, 2014). Consumers can migrate between channels and retailers, depending on their shopping benefits. Technology is blurring the distinction between physical and online retailers (Brynjolfsson, et al., 2013).

According to Paneva & Stampfill (2012), customers are more likely to make impulse purchases in brick-and-mortar stores than when shopping online. Traditional apparel retail stores offer the advantage of being able to try on clothing, shoes, and accessories. Another advantage of a brick-and-mortar store is that customer service can be personalized to the individual and their situation (Paneva & Stampfill, 2012).

Brick-and-mortar locations will see a large shift for the 2014 holiday season with the omnichannel, which is impacting holiday staffing strategies. According to Hay Group consultancy (a global management consulting firm), 47% of retailers surveyed in 2014 have a clear omnichannel strategy, compared to only 13% in 2013. Only 6% of retailers today do not have an omnichannel strategy, compared to 22% in 2013. Seventy-one percent surveyed are relying on their mobile platform to drive holiday sales (Stisser, 2014). With the increases and changes in multi-channel retailing, retailers will need to find a way to meet the shifting consumers' needs.

Consumer Behavior in Multi-Channel Retailing

Neslin and Shankar (2009) studied issues important to multi-channel customer management. They offer a framework firms can use to develop a multichannel strategy and suggest key customer-management issues that should be addressed. One of their questions was which channel gets credit for the sale? When a customer does product research on the Internet but buys at the store, there is no clear answer as to which channel generated the sale. If the website has an ordering capability but customers only use it to gather information, the website generates only a few sales which make it seem irrelevant. The sale, which took place in the store might not have taken place at all, had the customer not first checked the firm's website to research the product (Neslin & Shankar, 2009).

Shoppers do two types of on-line research. The competitive researcher searches at one firm but then purchases from another whereas the loyal researcher searches and purchases from the same firm through different channels (Neslin & Shankar, 2009). The challenge is for a firm to grow or maintain the number of loyal research shoppers and to convert competitive shoppers to loyal ones. Research shopping is driven by three forces: attribute differences, cross-channel synergy, and customer lock-in (Verhoef, Neslin, and Vroomen, 2007). Attribute differences between channels refers to a situation in which one channel is good for search because it is convenient and flexible, where another is good for purchase because the customer can actually see and feel the product. Cross-channel synergy refers to the increased effectiveness of a channel on a customer, because the customer has used another channel from the same firm. An example is a customer using the Internet to understand the key concerns in selecting a computer, so the customer knows how to compare products and interact with salespersons once he/she is in the store to make the final purchase. The customer lock-in refers to the ability of a channel to keep a customer present. It is much easier for a customer to leave a website than to walk out of a store while being serviced by store personnel. Researching the Internet and buying at a physical store seem to be the most common form of research shopping (Neslin & Shankar, 2009). However, retailers can lose customers if they do not understand what consumers value from a multi-channel experience. Customers who shop through multi-channels spend four times as much money as consumers who confine themselves to one channel for all their purchases (Goel, 2006).

Shankar, Smith, and Rangaswamy (2003) addressed the issues of customer satisfaction and loyalty for hotels for the same service whether the customers choose online or off-line. They found that when purchasing the use of a room for a night, people care more about the actual service received which is not different whether it is received online or offline. They found that customers exhibited greater loyalty when they chose a hotel online, and the relationship between

overall satisfaction and loyalty is also higher when the service is chosen online. This suggests that either loyal customers shop online or that customers better express their loyalty online. They also found that loyalty and satisfaction positively reinforce each other, and this relationship is further strengthened through the online experience (Shankar, et al., 2003).

Hsiao, Yen, & Li (2012) found practicality to be the most important value that consumers pursue in the multi-channel shopping (MCS) environment. They like to use the multi-channel to save their time, money, and effort. Consumers want to use MCS as a means to obtain a wide range of product assortments and enrich their product knowledge. Enjoyment is the second most important value that consumers want with a multi-channel experience. Consumers view MCS as an information source to efficiently enrich their product knowledge, which satisfies their inner pleasure during the knowledge acquiring process. Safety is the third value as consumers want to reduce information asymmetry and increase their confidence through the MCS experience. Fourth is freedom to make their purchases without any restraint and use personal control. The multi-channel customers who shop more often are more likely to monitor their shopping orders and item delivery through multiple channels, providing a feeling of control over their purchases. Lastly they found that experience plays a part in consumer values. They found a difference in expert and novice shoppers in their perception of utilitarian value of MCS. The experts use MCS as a way to enhance their product knowledge where novice shoppers use MCS as a way of convenience of time and location (Hsiao, et al., 2012).

In a study by Passyn, et al., (2011), 1,060 consumers of different genders and age groups were surveyed to compare their preferences for online versus store buying. The most significant difference in gender was in the statement, “Online shopping is more boring and less fun than store shopping”, where women responded with a much higher rating of enjoyment than men.

Men's ratings were similar to women in all but three of the 15 statements. Men responded with higher ratings on the following statements; "Online purchases are delivered so I don't have to carry them"; "I can shop online without concern for my appearance"; and "I can shop online as long as I want without getting tired" (p. 107).

Overall they discovered that women find store shopping more fun, but online shopping to be simpler. By contrast, the men felt that online shopping is an effective way to avoid the hassle of store shopping. Both genders found that online shopping was less demanding, tiring, fun, and enjoyable than store shopping. For the senior age group surveyed, their ratings were significantly higher than other age groups on the following items; "Online purchases are delivered so I don't have to carry them"; "I can shop online without concern for my appearance". The survey results showed that both genders and all ages were concerned with information privacy and online security when shopping online (Passyn, et al., 2011).

In a study by Pookulangara, Hawley, and Ge (2011), consumers were asked how they shop at cross-channel retailers. Findings were that for brick-and-mortar stores, consumer attitudes toward channel migration were significantly predicted by hedonic and utilitarian behavioral beliefs. Basically when consumers change channels from stores to Internet and catalogs, their behavior is predicted by both practical and experiential values. This supports the belief that even with the growth of online sales, physical stores will still play an important role in the retail industry because consumers still want the touch-and-feel aspect and convenience of shopping in a brick-and-mortar store (Pookulangara, et al., 2011).

Pookulangara, et al., (2011) found that consumers are less likely to be influenced by their friends and family, but their attitude towards channel migration is influenced by their subjective

norms. There is an increase in “social search”, which is the process of finding information online with the assistance of social resources.

Forrester Consulting (a global research and advisory firm) used an online survey to measure customer desires versus retailer capabilities with 1,500 multi-channel shoppers. The survey found that 71% of the shoppers expect to view in-store inventory online, and 50% expect to buy online and pick up their purchase in a physical store. Thirty-nine percent of customers surveyed were unlikely or very unlikely to visit a retailer’s store if its website does not provide physical store inventory information. Of those surveyed, 47% said they use in-store pickup to avoid online shipping costs and 25% indicated the reason being they could pick up their orders on the day of purchase (“Retailers face,” 2014).

Successful Retailers

Data from the Internet Retailer 2014 Top 500 Guide (Brohan, 2014) shows that many of the retail chains growing fastest online, are the ones doing the most to interconnect their stores and websites in hopes of making it more convenient for shoppers. Of the 159 chain retailers ranked in the 2014 Top 500 Guide, 24 chains increased their combined annual web sales by 27% to \$23.8 billion from 2012 to 2013. These 24 chains used their bricks-and-mortar locations to offer services such as buying online and pick up in store, ship to store and return to store (Brohan, 2014).

A store now needs to be more than just a place to purchase merchandise (Morse, 2011). Apple Store has done this successfully by letting customers try any product loaded with the types of applications they would actually use before they buy it (Morse, 2011). Once purchased, the associate sets up the product for the customer before they leave the store and shows the consumer how to use the product. Apple offers the consumer the benefit of being able to come

back for personal training if they have a problem. This type of service creates value beyond the transaction (Morse, 2011).

As online companies take sales away from traditional retailers, the sales per square foot of a physical store declines. Most retailers respond by cutting labor, reducing costs, and sacrificing service (Rigby, 2011). These measures only increase the problem when stores offer less service. Customers focus increasingly on price and convenience, which strengthens the advantages of online retailers. What if visiting a store were entertaining and exciting? Stores such as Bass Pro Shops and Cabela's have very engaging physical stores as well as highly regarded websites. These store experiences are expensive to create, but digital technology can be used cost-effectively. Digital technology can be used to customize recommendations, change prices instantaneously, eliminate checkout lines, and keep track of customer information (Rigby, 2011).

Home Depot is one example of a store listed in the 2014 Top 500 Guide for stores ranked to strategically drive e-commerce, and grew at twice the rate of other stores. Home Depot's ecommerce channel grew from \$1.79 billion in 2012 to \$2.75 billion in 2013, a 53.6% increase. Much of the growth came from the company trying to use the web to find new ways to encourage shoppers to buy more after they set foot in the store. They opened an e-commerce warehouse in Georgia and will open warehouses in California and Ohio in the next two years to handle online orders. They have invested \$300 million to boost e-retail, warehouse and supply chain capabilities. The company intentionally uses their 2,000 stores as a strategic asset to grow e-commerce, and they look at the two as interconnected (Brohan, 2014).

Retailers that can change and adapt with technology and meet the needs of their target customers will reap the benefits. Two retailers that are leading the way with host card emulation

(HCE), are Tim Horton's, a Canadian donut chain, and Starbucks. The technology behind the HCE program is a means of accessing a payment card at the point of sale (POS), without requiring the use of a card. The customer uses a smartphone app to pay for their purchase at appropriately equipped POS terminals in the stores. With HCE supported by a bank, customers can avoid retailers' systems, and funds remain with the bank, rather than at the retailers. To enroll in HCE the consumer can visit the retailers website, enroll, download the app, and then begin to use it at the store or online. The system connects the retailer membership program, such as the Starbucks card, to a debit or credit card. The next step is for the consumer to preload a selected amount from an enrolled credit or debit card to the smartphone app. Starbucks has an active seven million cards, and reported that in 2013 consumers spent \$4 billion using this system. One in three transactions were paid for with the Starbucks app. This is an example of Starbucks successfully connecting with their customers (Fisher, 2014).

While there are many examples of successful retailers today, Gap and Burberry were selected as two multi-channel retailers who have been operating for many years. Both retailers have been able to adapt to the many changes that the industry has faced over the years.

Gap

Company Background

Gap, Inc. is an example of a successful retailer that has been able to alter its strategy over the years. One of the largest global apparel retailers in the U.S., Gap Inc. owns Gap, Banana Republic, Old Navy, Piperlime, Athleta, and Intermix ("2013 Annual," 2014). The first store was opened in 1969 in San Francisco, CA when Don Fisher could not find a good selection of jeans in his size. He and his wife decided on the name Gap to refer to "The Generation Gap" and chose to sell Levi's jeans, records and cassette tapes. Early on Fisher knew that the Gap would

be a different type of retailer, one that would improve the quality of life for society. In 1977 the Fishers formed the Gap Foundation, which helps underserved communities around the world change the course of their lives and take personal ownership of their future (“Don Fisher,” 2014). In 2014 employees of Gap Inc. met the company’s promise to “do more than sell clothes” and volunteered over 500,000 hours of service to their communities.

Gap online was launched in 1997 and now smartphones, tablets, and social media are revolutionizing the relationship with their customer. Today, the majority of shoppers engage with the Gap brands first on their personal devices. In 2001 the company started consolidating its overly saturated Gap store base and by 2011 decreased the store count from 2,932 to 1,398. Piperlime (an online shoe company) was acquired in 2006, and the first brick-and-mortar store was opened in 2012. Athleta (a premier fitness and lifestyle brand) was acquired in 2008 and in the last two years 60 stores have been opened. In 2012, Gap Inc. acquired Intermix, a women’s fashion boutique known for its mix of luxury and contemporary fashion. During the last five years, Gap Inc. has closed an average of 45 Gap stores a year.

Global Strategy

Gap Inc. moved towards a more global strategy in 2009 and since that date has focused on expanding its operations in Asia with aggressive store openings in China. In 2011, Gap strategy was to operate multiple brands, through multiple channels and across multiple geographies (then in 39 countries). In 2011 Gap deployed a new tool to allow customers to shop easily from any location, including their smartphone, and invested in targeted and personalized online marketing (“2011 Annual,” 2012). In 2013 Gap entered Hungary, Peru, Brazil, Costa Rica and Paraguay. Since 2011 China has gained 80 Gap specialty and outlet stores. Seventy percent of Chinese consumers recognize the Gap’s brand name, and it should help to continue to

open stores in new cities going forward. In 2014 Gap Inc. launched in Slovenia, Austria, Hungary, Paraguay, Peru, Brazil and Costa Rica, which brings a total of almost 50 countries where the company has a presence (“2013 Annual,” 2014).

Focus on Technology

Since 2011 Gap Inc. has focused on the omnichannel presence and tried to find new ways to bridge technology and the in-store experience. *Ship from Store* was launched in 2011, which taps into inventory across all brands in the U.S. to seamlessly connect supply with customer demand. *Find in Store* launched in 2012, where customers across all of Gap Inc. brands can use their mobile devices to shop online and easily find items in any of their stores. In 2013, Gap Inc. launched *Reserve in Store*, which allows their online customers to easily place items on hold at a store. In 2014, *Order in Store* is being piloted and will allow customers to have a more personalized shopping experience by letting the in store sales associate to find the exact item they want, order it and have it delivered to their doorsteps (“Gap Inc. Digital,” 2014).

Gap Inc. is embracing technology as an important part of how people shop today. Their customers say that omnichannel has made their lives easier, and elevated their shopping experience. They’ve continued to build digital capabilities and increased online net sales by 21 percent in 2013 (“2013 Annual,” 2014). Gap launched the *Styld.by* program in 2011 to improve the brand’s style credibility by partnering with online content creators who have an audience Gap wants to engage with, such as namely, fashion, music and lifestyle bloggers. *Styld.by* has seen such a great reception in North America that it is expanding to 30 countries by the end of this year. In 2014 Gap added a new element called *Styld.by You*, which enable consumers to tag photos of their looks on Instagram, Twitter and Tumblr with the hashtag #styldby (“aDressed”, 2014).

Current and Future Plans

Gap Inc. has continued to grow around the world while allowing customers of all ages and generations to access fashion. Their global footprint now includes about 3,200 company-operated stores and nearly 400 franchise stores in 48 countries. In an effort to optimize the North American fleet, they closed about six million square feet of lower-producing stores since 2007 (“Gap Inc. Global,” 2014). They believe that the store experience needs to bridge technology offered by enthusiastic, dedicated and knowledgeable employees (“A new chapter,” 2014).

Burberry

Company Background

Burberry is another successful retailer that has evolved their strategies over time. Founded in 1856, Burberry is a global luxury brand with a distinct British identity (“Annual reports,” 2014). Thomas Burberry invented a breathable, waterproof gabardine fabric which allowed him to open his first London store. He was hired to design new officers’ uniforms for the British army and soon after his trench coats became regulation dress during the World War I. The trademark black, red, and camel check did not make an appearance until the 1920’s as a lining to the trench coat (“Burberry’s journey,” 2002).

Outerwear is at the central focus, best expressed through the iconic Burberry trench coat. The check itself became a fashion item in the 1960s when it was used on umbrellas, luggage and scarves. The company designs, produces and sells products under the Burberry brand including women’s, men’s, and children’s apparel, accessories, and Beauty (“Annual report,” 2014).

Company Changes

In the 1990's the brand was failing and in 1997 Rose Marie Bravo was hired as the new CEO in an attempt to restore the brand. She piloted new designs, new products and an advertising campaign starring supermodel Kate Moss ("Burberry's journey," 2002). When Angela Ahrendts took over as CEO in 2006, licensing threatened to destroy the brand's unique strengths. At that time, luxury was one of the fastest-growing retail sectors in the world, but Burberry was growing at only two percent a year. Ahrendts identified consistency and branding as two of Burberry's opportunities. She realized that there was lack of consistency between the designing and producing, and she quickly appointed a single global design director so that every item the consumer sees would be created out of a single office. Her relentless focus on reviving Burberry's heritage to market to the digital generation has worked well, with the company doubling sales since 2007 (Neate, 2013).

Current State of Business

Today Burberry operates in a period of change in the consumer area. Two examples of consumer change are the dynamic between the physical and digital worlds and a growing younger luxury consumer market emerging in developing markets. The company operates with engagement driven by innovative use of digital, social and traditional media to connect a global audience with their brand. Burberry sells its products to consumers through retail, digital, and wholesale channels. They have 497 directly operated stores in 32 countries as well as an online presence in 11 languages. They have 70 franchise stores in an additional 28 countries. For 2013/14, retail accounted for 70% of revenue and 27% from wholesale. Burberry has consistently focused on five strategic themes in the last eight years and has sustained growth during the period. The strategic themes are; leveraging the franchise, intensifying accessories,

accelerating retail-led growth, investing in under-penetrated markets, and pursuing operational excellence (“Annual report,” 2014).

Key Strategies

Key developments for Burberry in the 2013/14 include transforming the digital and physical store to create a seamless customer experience. All sales associates have access to iPads in stores. They rolled out collect-in-store service which allows customers to purchase online and collect their orders in selected stores the next day. They also invested in their digital segment with burberry.com, and increased online traffic and sales conversions (“Annual report,” 2014).

Their growth strategies for the future include:

- Beauty (a division of Burberry) which includes two new fragrances and the opening of a new Beauty Box store
- Further integration of physical and digital platforms including creation of personalized customer experiences
- Sustained focus on reclaiming Burberry’s menswear heritage, including the return of the men’s runway show to London
- Investment in flagship markets in the 25 cities that account for the majority of its retail sales and engaging in business functions to transform the brand in Japan, the second largest luxury market in the world (“Annual report,” 2014).

The Gap and Burberry were chosen as retailers who have shown success over time.

These two retailers were chosen because they are both global, multi-channel retailers who have adapted business strategies over time in order to stay relevant with their customers.

These companies set good examples for other retailers who want to remain competitive in the future of retail.

FUTURE OF RETAIL

Implications for Multi-Channel Retailers

A store now needs to be more than just a place to acquire merchandise (Morse, 2011). If a store helps shoppers find an item that makes them feel better about themselves, the store then has added value beyond simply offering merchandise. The retailers that can accomplish this will be the leaders in the industry. Multi-channel retailers who have both brick-and-mortar stores as well as an online presence should strive to create a balance between the two channels. Strategies include offering a seamless integration of the brand presentation and customer service for both online and store locations (Griffiths & Howard, 2008).

Hsiao, et al., (2012) suggested that multi-channel retailers focus on the two most important attributes identified in their study - flexible service time and location-based channel selection. Retailers should continue to offer diverse product selections to encourage customers to research on the Internet, then guide the customer to the appropriate channel for a practical shopping purpose. Since past experience was found to affect the consumers' perception of functional and hedonic values, the researchers suggest that retailers conduct two different marketing strategies to satisfy these two groups. A loyalty program would be a useful way to identify the shopping patterns in the multi-channel context. Customer information is collected from these programs and retailers could enhance shopping efficiency for these consumers and provide exciting elements (such as 3D presentation of products) to attract and retain novice shoppers. Finally the researchers suggest that retailers use effective promotion strategies to encourage customers to use multi-channel shopping. One example is offering a coupon online that can be printed and used in local stores (Hsiao, et al., 2012).

Retailers should pay more attention to the “social influence” in shopping. A study by Deloitte Touche U.S.A. revealed that 62% of U.S. consumers read consumer online reviews and that 98% of them view these reviews as reliable. Eighty percent of these consumers said that reading these reviews has affected their buying behaviors. Retailers would benefit from utilizing social media to enhance their overall marketing strategy (Pookulangara, et al., 2011).

Retailers wanting to improve their online sales should look for geographic areas where traditional retailers are not located, then try to meet the needs of those potential customers (Bell, Choi, & Lodish, 2012). Once a customer in a given neighborhood finds shopping online for particular products appealing, the likelihood increases that his or her neighbor will as well. Studies show that where offline stores are more numerous and easily reached, online retailers have lower sales. Consumers who live further from retail stores spend more shopping online than those who live near stores (Bell, et. al., 2012).

Sterneckert, an analyst who specializes in retail technology, has suggested that retail as we know it will be unrecognizable within 10 years (Swartz, 2012). He predicts that stores will no longer stock merchandise because it will be shipped to the consumer, which will allow the stores to compete with online retailers. Also, 3-D printers will eventually let consumers print their own clothing, as hearing aids and iPad cases have already been tested. This 3-D technology is still several years away from being widely affordable and available. Technology will improve efficiency and lead retailers to a leaner workforce. Sterneckert further predicts that retailers will stick around to offer the customer a “touch and feel” experience, but with no actual sales (Swartz, 2012). One recommendation is for retailers to fulfill web orders using store inventory, helping slower moving stores to turn inventory (Dusto, 2013).

Understanding consumer behavior and adjusting to it at critical stages along the purchase journey will be important when utilizing customer-facing digital technologies, such as mobile apps and digital store assistants. Retailers will need to find the balance between being helpful without being too invasive. However, it is imperative that retailers evaluate and begin experimenting with different approaches. Digital engagement is not an extravagance; it is likely to become the core competency for successful retailers in the 21st century (Bandolik, et al., 2014).

Forrester Research (a global research and advisory firm) is projecting that U.S. online retail sales will grow at 10% compound annually to reach \$370 billion by 2017 as seen in Figure 2 (Lomas, 2013). Forrester also projected that by 2017, 60% of all U.S. retail sales will involve the Internet in some way (Dusto, 2013). It is recommended that between now and 2017 retailers resolve the price differences between their channels. As more shoppers have access to instantaneously check prices, the discrepancies are going to work against the retailer, especially when the price variances do not support savings on the part of the customer (Dusto, 2013). Retailers should also make sure to support self-service mobile functionality for in-store shoppers or provide employees mobile tools to assist shoppers (Dusto, 2013).

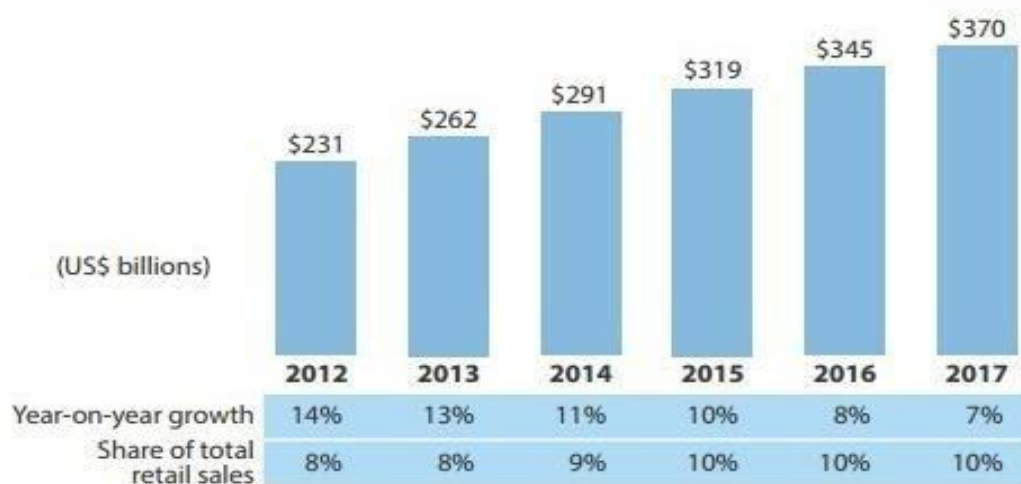


Figure 2. Forecast: U.S. Online Sales Forecast 2012 to 2017.

Note. U.S. Online Sales Forecast reflects sales of each year represented (Lomas, 2013).

Retailers could benefit from having a mobile app that is user friendly for iPads and tablets. According to Beal (2011), studies indicate that mobile devices drive traffic on ecommerce websites. iPads and tablets convert (into purchases versus just browsing) retail customers more often, which means that those users spend more money compared to smartphone users. The reason is that the images are seen on a larger screen compared to a smartphone, so the shopping experience is improved visually (Beal, 2011).

Retailers reaching the customer with the right offer, on the right device and at the right time can make all the difference. Customized experiences across the spectrum, informed by the customer's status, are crucial. With the importance of personalization to today's customers, it is essential to factor in the preferences and behaviors of a customer when researching and building a digital strategy. Connecting the right customer with the right offer, at the right time and in the right way, is important to sustained digital success (Bandolik, et al., 2014).

The 2014 holiday season will be a testing ground for many large retailers as they try to get a grasp on what today's consumer is going to buy, where they're going to buy it and how they want to receive it. Retailers need to have well-trained and energetic in-store employees who can serve as true brand ambassadors, leading customers to the point of sale, regardless of where the product resides. The successful retailers for 2014 and beyond will have flexibility to adapt quickly to customer' needs across a variety of channels (Stisser, 2014).

CONCLUSION

Retail has changed significantly over time, most recently the introduction of the Internet and other technology has had significant impact on shopping behavior. Ten years ago it might have seemed impossible to browse and purchase merchandise on a phone, but today this way of shopping is quite common. Malls are struggling as foot traffic is down, due to changing consumer behavior and an increase in Internet retailing. There are successful retailers who have adapted their strategies to stay relevant with the changing consumer and increase in technology.

Retailers are investing in the omnichannel so that their customers can have a seamless shopping experience between the retail store, mobile, and web divisions. The retail changes as a result of technological change are immense and rapid. Information, people, and objects will be continually linked and networked. The consumer has easy access to mobile devices and has access to relevant information which will more fully integrate the physical and virtual retail shopping experiences, as always the future retail environment will be very different from retailing today. Nearly every element of the customer experience will be altered and businesses will be challenged to adapt. The question now is which retailers will succeed and survive the next wave of change?

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