ICSC

The Halo Effect II

*Quantifying the
Impact of Omnichannel*

Contents

Executive Summary

In 2018, ICSC published a landmark study exploring the influence of physical stores on retailers' web traffic. The findings demonstrated how brick-and-mortar stores form the foundation of a halo effect, defined as the direct impact of brick-and-mortar stores on digital engagement and consumer awareness of those brands in a given market. The study found that the presence of physical stores boosts the share of those retailers' web traffic in the markets where the stores are present; that closing stores causes a corresponding drop in online clicks; and, that the presence of physical stores has a demonstrable effect across several metrics of brand health, including considerably higher awareness of brands for each newly opened store in a particular market.

A new ICSC analysis of more than $31 billion in consumer spending for 2016, 2017, and 2018 demonstrates that the halo effect is critical and multifaceted – through the additional spending that occurs in physical stores in the days immediately following an online purchase, and vice versa.

This new analysis considers a halo event to be triggered when a purchase is made online and followed by another purchase in-store within 15 days, or, conversely, an online purchase followed by in-store spending by the same consumer at the retailer within the 15-day window. The analysis reveals that total average net spending for halo events is significantly higher than the original purchase, whether that initial purchase is online or in stores:

- Halo events starting with a $100 online transaction followed by an in-store purchase at the same retailer within 15 days, for all retailers sampled, average a net spend of $231.

- Halo events starting with a $100 in-store purchase and followed by an online transaction, for all retailers sampled, average a net spend of $267.

Through this research we now have a clearer view of how retailers capture additional sales through halo events, and why physical stores, which account for approximately 91 percent of total spending in our sample, play a critical role in those efforts. By digging into the data on these transactions we've unearthed some of the trends around spending at traditional retailers as well as emerging, fast-growth categories. Also in this report, experts in retail and consumer behavior offer valuable perspective on the motivations of consumers as they shop across digital and physical channels.

Methodology

ICSC partnered with the analytics and consumer insights firm 1010data to analyze over $31 billion in transactions from over 41 million debit and credit card holder records. This study of the halo effect covers spending for 2016 through 2018 at retailers across multiple categories: home; large-format specialty retailers; discount department stores; apparel; cosmetics; traditional department stores; and emerging digitally native brands.

In order to quantify the halo effect as defined by this study, we looked at the influence on spending in one shopping channel when starting in another. 1010data provided the total net value of purchases that start in stores and end in online transactions, in five-day increments through 30 days after the initial transaction. The net value of purchases was compiled in the three-year period tracking the same credit and debit cards at the same retailers by store category. ICSC then calculated ratios and analyzed the results. Conversely, the study also assessed the total net value of purchases that start with online sales and end with in-store transactions, in identical five-day increments after the initial transaction.

This report focuses primarily on the increase in total average net spending in the first 15 days after the original transaction. The incremental growth in transaction value generally subsides after the 15th day, though the full data set tracks 30 days from the initial purchase.

Each consumer transaction beginning with an in-store purchase, followed by an online transaction by the consumer at the same retailer within 15 days, is defined as an in-store-to-online halo event. Similarly, each consumer transaction starting with a web purchase followed by in-store spending at the same retailer within the 15-day window, is defined as an online-to-in-store halo event.

Halo Events

Drive Spending Across Channels

Sales at physical stores account for nearly nine in 10 retail dollars spent today. Yet consumers are giving retailers ample justification for the continuing convergence of physical and digital operations. Shoppers are setting halo events into motion in greater proportions by making purchases within days of visiting a store or shopping online.

Our analysis of more than 41 million credit and debit card holder records shows how a single online or in-store transaction is not an isolated occurrence but rather leads to a series of additional transactions. When consumer spending starts in a retail store, it is typically followed by additional purchases on that retailer's website. And when buying begins online, consumers make subsequent purchases in the retailer's brick-and-mortar stores. These halo events give rise to millions of successive transactions, additional incremental spending, and increased engagement from the moment a sale begins in one location and shifts to a complementary channel within the retailer's business.

According to the data, when a consumer spends $100 online then goes to a physical store within 15 days of that purchase, they spend an additional $131 for a total of $231.[i] The halo effect is even more powerful for shopping that begins in stores and moves online. Total average net spending is $267 when shoppers begin with a $100 transaction at a physical store location.

Our study also notes differences in the number of halo visits compared to total spending. Shoppers are generally more likely to visit stores in the wake of an online purchase: Across all categories on average, halo customers complete 2.1 in-store transactions within the 15-day interval following an online purchase. Discount department retailers have the most in-store visits following online transactions – 2.4 transactions on average, according to the analysis.

Although consumers generally spend more online after initial in-store transactions than they do the other way around, halo shoppers typically only complete 1.3 online transactions within 15 days of an in-store purchase.

The Halo Effect Increases Overall Spending
based off an initial $100 spend

IN-STORE TO ONLINE

$267

15-Day Average Spend

VS

ONLINE TO IN-STORE

$231

15-Day Average Spend

Distinctions Across Categories

Across the seven retail categories in our study there are wide-ranging differences in spending behavior. For instance, discount department stores show the highest average share of in-store spending over the three-year period (96 percent) compared to online purchases at those retailers (4 percent). At digitally native retailers that started online before opening physical retail locations, shoppers make approximately 60 percent of purchases at those retailers' brick-and-mortar stores, compared to an average of about 40 percent of purchases made online at those retailers over the course of the study.
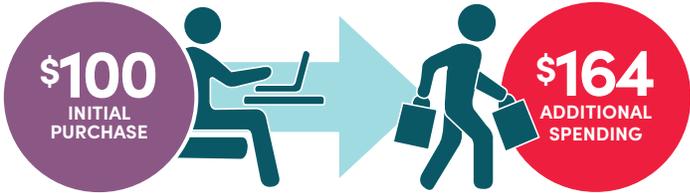
In-Store Shopping Still Preferred

■ **In-Store Spending**   ■ **Online Spending**

96% IN-STORE SPENDING
DISCOUNT DEPARTMENT STORES

60% IN-STORE SPENDING
DIGITALLY NATIVE RETAILERS

62% OF ONLINE APPAREL SHOPPERS pick up purchases in-store

DRIVING ADDITIONAL SPENDING

$100 INITIAL PURCHASE → **$164** ADDITIONAL SPENDING

At apparel retailers, which account for 13 percent of the total number of transactions analyzed in our study, average additional halo spending at the 15-day mark amounts to $164 when compared to a $100 initial online purchase. A separate ICSC snapshot of shopping behavior indicated that apparel shoppers favor retrieving web purchases in person; that study showed that 62 percent of online apparel shoppers visit stores to pick up items they purchase online.

These findings demonstrate that physical stores remain the core of the shopping experience, even if the appearance and function of store locations continue to evolve. Consider one of the most visible signs of omnichannel shopping today: the presence of self-service kiosks and lockers for online orders and pickup at brick-and-mortar stores[ii]. Shoppers get the convenience of picking up or returning items at physical locations for transactions that started online. But in practice, as our analysis shows, consumers don't simply retrieve digital orders from lockers and leave the store.

> " The store plays an important role in triggering subsequent sales. Particularly in categories where customers want to check out a product in terms of quality, if they do that in-store, they're a lot more confident about that purchase, and – having been reassured – they will subsequently spend more online. "

-Jonathan Reynolds, Associate Professor in Retail Marketing and Deputy Dean at the Saïd Business School at the University of Oxford

Continued Spending Through Longer Halo Events

While our study focuses primarily on the 15-day window following an initial transaction, incremental spending typically continues to accumulate for a full month. For halo events that begin in stores, spending increases almost immediately (within 5 days) across categories in those retailers' online channels – totaling $252 in average net spending compared to $100 in average spending from initial transactions at those retailers' stores. By the 30th day, in-store-to-online halo events average $263 in total net spending compared to a $100 initial purchase.

Spending also continues to climb for online-to-in-store halo events. For instance, in the discount department store category, five days after spending $100 on the retailer's website, consumers will spend an additional $140 in-store on average. But by the 30th day after the initial $100 online purchase, consumers will have spent an additional $319 in stores, on average.

By contrast, for traditional department stores, total spending from online-to-in-store halo events represents only slightly more than 50 percent of original online spending by the 30th day of the halo event, after accounting for in-store returns.

"Return logistics and post-purchase are still being figured out," says Susan Hogan, a researcher with Deloitte's Center for Integrated Research. "There needs to be some friction in the system on return policies, and it needs to be stated up front. Retailers are still testing the right formulas."

30-Day Halo Effect Increase in Spending

IN-STORE TO ONLINE

$263

Total Spend
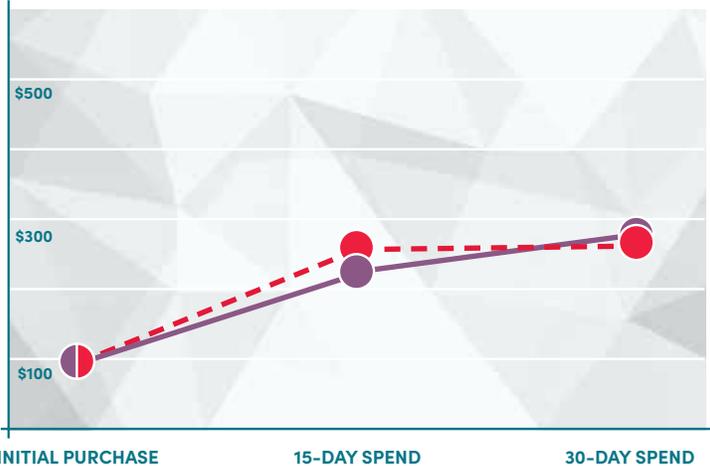
ONLINE TO IN-STORE

$271

Total Spend

$500

$300

$100

INITIAL PURCHASE   15-DAY SPEND   30-DAY SPEND

Shopping Motivations
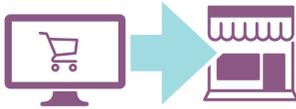## Influences Along the Purchase Path

Long-Term Halo Effect Increase in Spending

based off an initial $100 spend

$243 in 2018

$232 in 2017

$214 in 2016

ONLINE TO IN-STORE

$29

Spending Increase Over 3 Years

Today's consumers are channel neutral in many respects. They also demand a superior customer experience—regardless of shopping method. What's more, as our analysis found, they're spending more on transactions that move from one channel to another while sticking to the same retailer, and are willing to support brands that provide a range of omnichannel conveniences.

From 2016 to the end of 2018, for online-to-in-store halo events, our analysis shows the halo effect has been increasing at every five-day interval over the course of a month. In 2016, for instance, at the 15-day spending interval, total average spending after an initial $100 online transaction was $214. By 2018, total average spending had climbed to $243 – an increase of $29 over the three-year period.

Total net spending was also up for in-store-to-online halo events over the course of our study. While total average net spending at the 15-day interval was $265 compared to an initial $100 purchase in stores in 2016, the total increased to $271 by 2018.

Compared to the U.S. Consumer Price Index ("CPI"), a measure of national economic growth[iii], the results for halo events that began in stores surpassed the growth of the CPI, which rose 2 percentage points when averaged over the same three-year period of our study.[iv]

Customer Insights

Retailers have a limited window to read cues related to customer motivations or capture a shopper's attention in stores, though technology is making that easier. Nathan Yang, assistant professor of marketing at McGill University's Desautels Faculty of Management, points to research on leading-edge technology, such as cameras and sensors, that make inferences on the emotional state of shoppers[v] as an example.

"Retailers that wish to capture those incremental purchases have a limited window to read customer cues once they're in the store," Yang says. "This idea that brick-and-mortar isn't really able to compete in big data is false."

Oxford's Jonathan Reynolds says deciphering the data collected requires a deep understanding of the customer journey, the segments within the customer base, and the dynamic conversations that happen in stores and online as shoppers make purchase decisions.

An example of how retailers are using data collection to enhance the consumer experience is formerly online-only retailer M.Gemi. Customers of the custom Italian shoemaker now have two brick-and-mortar stores in New York City where they can schedule custom fittings of heels, sandals, and oxfords.

The stores allow M.Gemi to fulfill its omnichannel goals and realize the potential of the halo effect across formats, says Ben Fischman, cofounder and CEO. Cross-channel customers spend 60 percent more than M.Gemi's single-channel shoppers.

During an in-store fitting experience, teams armed with mobile devices learn customer preferences for color, size, and style. Having captured these preferences, the company can quickly personalize the customers' online shopping to feel like a high-touch experience.

"Spending time with a sales associate and having that person learn about you to be able to create a personalized experience is a huge opportunity," Fischman says.

"Stores can provide a physicality and sense of place, an opportunity for immersion and a type of social engagement that cannot be created online," Reynolds wrote in a 2016 paper on reinvention of the retail landscape. "But this must be experienced in a context that makes sense to the customer. The role of the retailer in this new landscape is to create a web of engagement possibilities comprising multiple touchpoints, some virtual, some physical, but always with the shopper at the center."

Hogan points to tracking technologies as one of the multiple tools retailers can use to amass better intelligence on shoppers. Additionally, systems that can analyze interactions inside the store and gauge customer satisfaction after initial transactions are critical for providing consistent experiences across channels, she says.[vi]

"If you buy the fact that one channel has influence on the other, how do you make sure customers have the same experience across channels?" Hogan asks. "With observation online and in the store you track behavior, understand which experiences work, and replicate them so the halo effect isn't broken."

Tomorrow's Shoppers

Another key focus for retailers is keeping pace with the omnichannel motivations of the youngest group of consumers, Gen Z shoppers born after the mid-1990s. Despite the fact that these consumers are the first digitally native generation, an ICSC survey found that 95 percent of Gen Z shoppers visited a mall at least once during a three-month period. Three-quarters of respondents in the survey said that shopping in physical stores provides a better experience compared with online shopping, while 59 percent said they visit the mall to socialize with friends and family.

Tom Gillpatrick, Professor of Marketing at Portland State University in Oregon, says retailers are sorting out ways to balance this generation's familiarity with digital channels with their interest in analog experiences when they visit shopping centers and other brick-and-mortar establishments.

"There is an increasing need among this group for high-touch experiences," Gillpatrick says. "They're surrounded with digital. Real experience has become novel."

Halo Customers as a Percentage of Omnichannel Customers: 2016-2018	Online to In-Store	In-Store to Online
HOME	60%	62%
LARGE FORMAT	46%	44%
DISCOUNT DEPARTMENT STORES	78%	79%
APPAREL	45%	49%
COSMETICS	35%	35%
DEPARTMENT STORES	55%	43%
EMERGING/DIGITAL NATIVE	41%	53%
TOTAL	62%	61%

Seamless Environments

Planning and Executing for Omnichannel Success

At UNTUCKit, the digital-first brand that introduced a line of men's shirts designed to be worn untucked, brick-and-mortar stores have provided far more than stylish shops where customers can interact with shirts and sales clerks. The stores have become a data-rich environment where the company can get better insights on its omnichannel customers and ultimately drive halo spending across channels.

"Someone who's a repeat buyer who has shopped in the store and online is going to be higher frequency than a repeat buyer who just shops online or just shops in store," says cofounder and CEO Aaron Sanandres. "Our stores are a competitive advantage, and there's real estate that we have now that we can leverage."

A finding in the ICSC halo analysis supports a justification for such investments: omnichannel consumers in our study are more motivated to spend. Omnichannel shoppers represent 17 percent of total customers, but twice as much (34 percent) of total spending across all categories in the study, compared to shoppers who buy only online or only in stores. A separate ICSC survey of in-store spending showed how physical retail locations influence consumer spending in the omnichannel environment. Having a digital channel augments in-store sales, as 67 percent of click-and-collect users purchase additional items when picking up their original order.

Omnichannel Experience Driving Spend

OMNICHANNEL
CUSTOMER SHARE

17%

34%
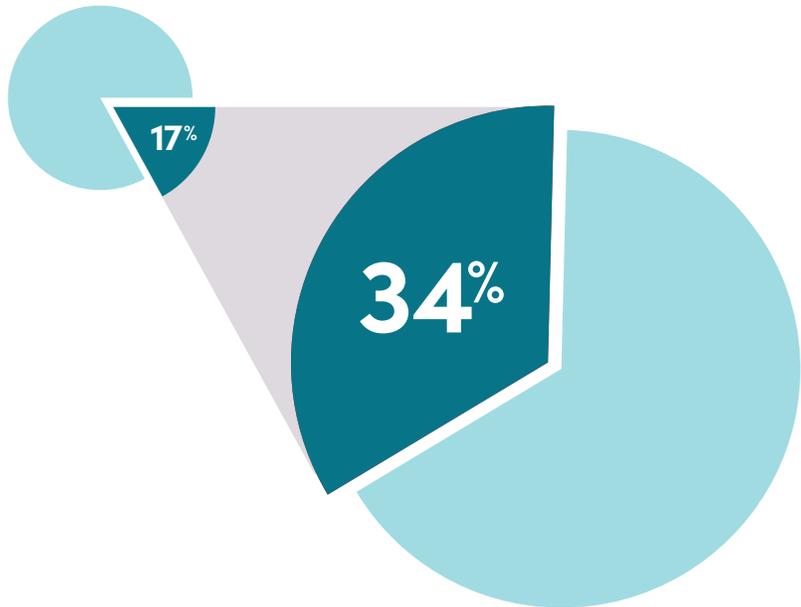
OMNICHANNEL
CUSTOMER SPEND

Other omnichannel retailers attest to the value of a strong physical presence. Indochino, the digitally native brand that sells made-to-measure suits, now has 46 showrooms with plans to open dozens more in the coming years. Drew Green, President & CEO of Indochino, says the benefit of having both a physical and digital presence is ensuring that customers have an exceptional experience from the moment they discover the website or walk into a store.

"We know that there are customers who prefer to see the fabric in person, seek advice from our expert Style Guides, and get professionally measured," Green says. "Others enjoy shopping online. Ultimately, it's about giving our customers the choice in how they interact with the brand."

Once customer measurements are in the system, future orders both online and in stores are easy to repeat, Green says.

Technology and Talent

Staying current with digital advances is a must-do for retailers to attract halo shoppers. ICSC click-and-collect survey data from 2017 through early 2019 found that approximately 26 percent of consumers said they buy items online and pickup their orders from those retailers' physical stores in an average month.

Click & Collect Behavior

67% **BUY ADD'L ITEMS**
at Pickup Store

Keeping those shoppers engaged and triggering halo events increasingly requires retailers to incorporate emerging technologies such as artificial intelligence (AI), analytics, and automation technologies with the know-how of in-store staff. A recent McKinsey analysis suggests that some brands are having success at expanding the potential of the halo effect by using technology such as geospatial analytics to analyze their omnichannel operations.[vii]

Nonetheless, Tom Gillpatrick says there's a delicate line between automation and the personal touch that customers want when they visit a brick-and-mortar store.

"AI can really be effective, in combination with people, with sales associates," Gillpatrick says. "AI can do things that people just can't do, by analyzing data and communicating it in an informed way."

Foxtrot, the thoughtfully curated "corner store" launched in Chicago in 2013 as an online-only service with a limited range of items – an app-based "corner store" with one-hour delivery, says Mike LaVitola, cofounder and CEO of Foxtrot – is powering their expansion with a tech-focused strategy.

"We can track everything because most of our customers are paying with our native app in store," LaVitola says. "So, we know which customers are buying online and which customers are buying in store."

The retailer's proprietary app reveals that the chain's omnichannel customers are making purchases about eight times per month. In addition, 40 percent of e-commerce orders are coming from customers within half a mile of its retail stores. This data allows the company to better anticipate consumers' need and provide a better customer experience overall.

Store Staff: Incentives and Rewards

Retailers should also consider personalized experiences that reward customers for taking their business from online shops to retail stores, according to the experts who reviewed our analysis.

Retail workers need incentives, too. Hogan says another way brands can enhance the halo experience is to ensure that employees in stores are recognized for sales regardless if they happen online or not – perhaps by getting credit for online sales that happen in neighboring ZIP codes near retail stores. Some retailers are doing just that – allowing physical stores to get credit for sales happening on their associates' watch, whether those transactions originated in stores or online, McKinsey found.[viii]

UNTUCKit CEO Sanandres builds upon this stating, "[T]he goal is to get people that are online to connect with our physical store, but to really play into this omnichannel view. It's giving people the level of customer service and consistency in customer service no matter where they go."

> "Our stores are a competitive advantage, and there's real estate that we have now that we can leverage."
>
> -Aaron Sanandres, co-founder and CEO of UNTUCKit

Conclusion

Today's retailers are investing billions to upgrade their physical and digital stores as the very customers they're courting are becoming agnostic about the formats where they do their shopping. Consumers want a favorable experience they can depend on and brag about, and as our study of halo spending shows, they're willing to cross formats and spend substantial additional sums after an initial brick-and-mortar or physical purchase.

This unprecedented look at spending throughout halo events offers a compelling case for the value of maintaining physical stores as part of an omnichannel strategy. The rise in net halo spending over time for halo events starting online and moving to stores, the increase over time in net spending starting in stores and moving online, and the spending behavior of omnichannel consumers compared to single-channel shoppers create powerful momentum for brands that are investing across their retail channels.

As seen in this report, retailers are equipping in-store staff with analytics and other digital tools to better understand their customers, while creating exclusive communities to build brand loyalty. The in-store spending growth rate among emerging retailers in particular is further endorsement of the value of physical stores.

Today's retailers have more data on customers than they've ever had. As experts who specialize in consumer behavior and retailers told us, each shopping channel within individual brands are making the other more effective, and that's good for consumers.

Appendix

[i]   This total is average of net spending which includes original purchase, any returns, and additional spending.

[ii]   https://www.marketwatch.com/story/stein-mart-shares-soar-45-after-plan-to-install-amazon-lockers-announced-2019-05-21

[iii]   https://www.bea.gov/news/glance

[iv]   https://www.bls.gov/bls/news-release/cpi.htm

[v]   https://www.cbc.ca/news/technology/facial-recognition-stores-1.3487754

[vi]   https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Technology/gx-tech-live-customers-smart-retail.pdf

[vii]   https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/whos%20shopping%20where%20the%20power%20of%20geospatial%20analytics%20in%20omnichannel%20retail/perspectives-on-retail-and-consumer-goods-number-7-january-2019-vf.ashx

[viii]   https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/whos%20shopping%20where%20the%20power%20of%20geospatial%20analytics%20in%20omnichannel%20retail/perspectives-on-retail-and-consumer-goods-number-7-january-2019-vf.ashx

Thank you to 1010data for providing the underlying data used in this report. 1010data transforms Big Data into smart insights to create the high-definition enterprise that can anticipate and respond to change. Their modern cloud-based analytical intelligence, alternative data and consumer insight solutions enable over 50 clients including the Buy-Side, Brands and Retailers to achieve improved business outcomes quicker, with less risk.
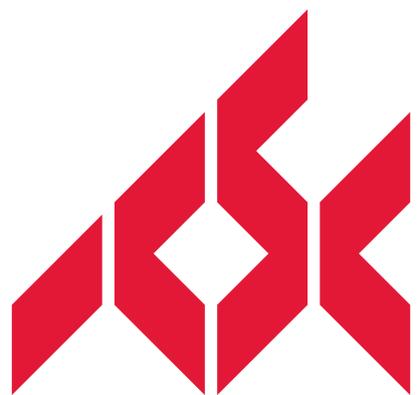
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