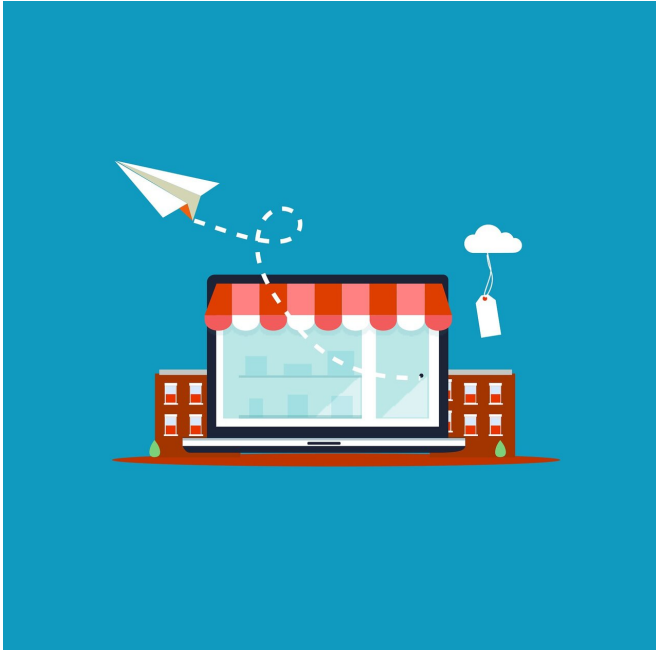


There's a good reason online retailers are investing in physical stores

18 June 2021, by Matt Weingarden



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Researchers from Colorado State University, Amazon, and Dartmouth College published a new paper in the *Journal of Marketing* that examines the role of physical stores for selling "deep" products.

The study, forthcoming in the *Journal of Marketing*, is titled "How Physical Stores Enhance Customer Value: The Importance of Product Inspection Depth" and is authored by Jonathan Zhang, Chunwei Chang, and Scott Neslin.

While some traditional offline retailers are struggling and are closing stores (e.g., Macy's, Walgreens), online retailers are opening them (e.g., Amazon, Warby Parker). This conflicting trend raises the question, what is the physical store's role in today's multichannel environment?

The research team posits that products differ in the inspection depth—"deep" or "shallow"—customers require to [purchase](#) them. Deep products require ample inspection in order for the [customer](#) to make an informed decision. We propose that physical stores provide the physical engagement opportunity customers need to purchase deep products.

To test this thesis, the researchers conducted three studies. The first used transaction data from a national multichannel outdoor-product retailer. Two lab experiments demonstrated the same effect.

The large-scale transactional data involving 50,000 customers show that by using a "deep products in-store" promotional strategy to migrate new customers from a "low-value state" to a "high-value state," average spending per trip increases by 40%, long-term sales increases by 20%, and profitability increases by 22%.

The lab experiments show that:

- By onboarding new customers to purchase a "deep product in-store" as their first purchase from a new retailer, their re-patronage intention for this retailer increases by 12% compared to all other product/channel combinations.
- By directing new customers to purchase a "deep product in-store" as their first purchase from a new retailer, they are more likely to: 1) buy deep products in the future online, indicating that they generalize trust across channels; and 2) buy adjacent categories online, indicating that they generalize trust across categories.

The last decade has witnessed a marked increase in the opening of physical stores by online retailers, despite myriad changes in the retailing environment. This attests that these findings are not ephemeral. Zhang says "The general lesson of our research is for retailers to create a concrete,

tangible, and multi-sensory experience for customers buying products that require this physical engagement. This sets the stage for favorable experiential learning and increased customer value." Retailers can do this in numerous ways:

First, when retailers find that a customer is buying deep products online but their spending is decreasing in value, they can provide a promotion for deep products in-store. This can increase customer value.

Second, retailers need to enhance physical engagement for deep products through merchandising and training sales personnel to walk customers through the engagement—e.g., by helping customers try and use deep [products](#) in-store.

Third, retailers cannot infer product inspection depth solely from predefined product categories because there is much variation in inspection depth within a particular category. Rather, management should infer inspection depth using the proposed measures, or expert, independent judges.

Fourth, retailers should use a deep/offline onboarding strategy for new customers. That is, they should use acquisition channels that encourage the first purchase to be deep/offline.

Zhang adds that "We also discuss related issues such as using stores versus showrooms; fielding full or limited staff; selling private label goods; designing loyalty and buy online, pickup in-store (BOPIS) programs; and leveraging technology to create physical engagement in online settings."

More information: Jonathan Z. Zhang et al, EXPRESS: How Physical Stores Enhance Customer Value: The Importance of Product Inspection Depth, *Journal of Marketing* (2021). [DOI: 10.1177/00222429211012106](https://doi.org/10.1177/00222429211012106)

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