The Case for Showrooming

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Abstract

Showrooming has deeply affected the retail market in the past decade. As consumers became able to easily compare prices on their mobile devices, they started using retail stores to try on and experience products and then they ordered online the lower priced versions they liked best to be delivered directly to their homes. As retailers are trying to adapt to the showrooming challenges and the shift to online purchases, stores are increasingly adopting showrooming as a new selling format. We present examples of successful showrooming and develop a framework for when the new selling format can be expected to be used.

Keywords

E-Retail, Selling Format, Product Quality, Showrooming

1. Introduction

In the past decade, stores have seen a shift away from in-store purchases to online demand. The change from foot traffic in the stores generating sales, to foot traffic generating online sales for competitors has left brick and mortar stores with tough decisions. Consumers may use the Internet to research products before making in-store purchases, but they also use stores to try on products before buying them online to be delivered at home. The practice of customers' showrooming is much more costly for traditional brick-and-mortar stores than webrooming is for online retailers [1]. The battle is no longer for the consumer's attention, but for the consumer's order fulfillment after getting that initial attention.

Borders has closed its stores while Barnes & Noble is quietly trying to stay relevant by playing up the nostalgia for reading traditional printed books and by emphasizing services in their spacious, beautiful but costly to maintain stores [2]. Target is selling baby products designed specifically for its brand in the

hopes that new parents will come out to buy the "SnuggaMonkey" rather than settle for the "SnuggaBunny" swing they can get online. These swings which help babies fall asleep are priceless for sleep deprived parents, and Target hopes that such retailer specific brands will deter showrooming, despite the actual price difference between the products. Best Buy, after flirting with customized products and finding customers are not particularly store brand loyal (perhaps cameras and TV's are less loyalty inducing than newborn swings), is now embracing showrooming in ads—promoting its stores as "The Ultimate Showroom Experience" and even partnering with Amazon to sell Amazon branded products [3]. Toys'R'US has already given up the online fight and closed its doors [4]. Most traditional brick and mortar stores are struggling with various strategies to combat showrooming.

At the same time, there is a separate trend for e-retailers to set up pop-up stores for customers to try out their products. This serves as a way to build the brand, to instill consumer confidence, and to experiment with brick-and-mortar retail at a low cost. More importantly, we have recently seen showrooming-only companies like Bonobos and MMLaFleur achieve considerable growth: Bonobos was recently acquired by Walmart for $310 million [5] and MMLaFleur has been solidifying its presence in downtown NY as a signal that its business is profitable and stable [6].

These two separate trends have led many traditional retailers to open showrooms of their own. These showrooms offer the customer the opportunity to try out the products and then purchase them online from the same retailer. The showrooms are less expensive than existing selling formats, and are intended to fight customers' showrooming habits. For example, when Nordstrom is considering opening showrooms, the retailer is trying to preempt customers going into a traditional Nordstrom store, trying on clothes and then ordering from Amazon. The hope is that the new showroom created by Nordstrom would lead customers to order from the company itself instead. The drawback of cannibalizing existing sales and creating channel conflict is looming large over the new experimental showrooms.

In this paper, we aim to introduce showrooming, the practice of opening up a physical store with little to no selling capabilities, as a new selling format. We describe showrooming and present examples of companies that are starting to implement it. We then develop a framework for when showrooming can be used successfully, based on real cases. Our paper concludes with suggestions for further research.

2. Literature Review

Our paper is building on a large body of marketing literature on consumer trust. In particular, we are relying on research that delimits what sort of elements contribute to consumers' trusting of online platforms for selling products and services. For example, it has been shown that perceived risk can be alleviated via

product knowledge more than via brand image [7], which can be more easily done in a showrooming experience with a product demonstration. Moreover, once customers put in the time to search for information about the products they want to purchase online, they will also be more likely to repurchase. Thus, previous research [8] noted that companies that lower the information search costs are more likely to attract repeat shoppers. We propose that showrooming is a quick way to lower search information costs while also allowing for trial and demonstration of the products. In a service context, our framework is consistent with previous results that found that trust for a service provider is influenced both by the product attributes but also by the e-platform [9] and that organizational capabilities, like management practices and policies, can positively influence customers' perception of the service quality [10].

Our paper also relies on previous research on online retailing, showrooming and customer attitudes towards purchasing online. As traditional brick and mortar retailers struggle to adopt online platforms, they should consider that customer attitudes to purchasing online as well as previous online shopping experiences can influence the uncertainty of the product quality assessments [11] [12] as well as repurchase intentions and future purchases [13].

3. Companies Adopt Showrooming

Showrooming as a new selling format can be seen as a hybrid between traditional brick-and-mortar retailing and online selling. It has the benefit of having lower overhead costs than larger traditional physical stores, with none of the inventory problems associated with physical stores. However, it does need a clear investment in services and the creation of an enjoyable shopping experience for the customers. Also, all the demands of automated, efficient warehousing practices needed for online commerce are still needed in a showrooming selling format: after each customers tries the showroom, the purchase happens online and the delivery has to be fast so the customer can enjoy the product and experience the product-usage experience as a continuation of the showroom shopping experience.

Several companies have been excellent at developing a showrooming selling format, while others are still experimenting to decide whether showrooming is worth the investment for their particular industry and target customers.

Bonobos, an online only retailer of casual clothing for men, has thrived by using showrooms [5]. It has more than 41 "guideshops" in upscale locations where potential customers can try clothes on, take advantage of styling services and then order the products they like to be delivered home. The concept is easily implemented, with all orders then being fulfilled efficiently from warehouses. Bonobos has no traditional brick-and-mortar stores, no stock-outs and no overstocks in any particular location.

MMLaFleur, an e-retailer similar to Bonobos but aimed at professional women, has increased its showrooming presence. It opened new showrooms and sig-

naled it is here to stay by taking a long term lease in its Manhattan showrooms [6]. In one of the MMLaFleur showrooms or pop-up rooms, the customers can book an appointment for an hour of styling advice. During the "out-of-office" hour, the company arranges for several styles to be fitted for the customer as well as create an enjoyable atmosphere with drinks, tips and recommendations for work outfits. None of the outfits can be purchased on the spot, but rather ordered by the customer or the stylist online to be then delivered at the client's home or office.

Nordstrom Local is a showroom for Nordstrom customers to experience the services that the retailer usually made available to shoppers in its traditional stores. The first of its kind for the retailer, Local was created in highly fashionable Melrose Place in Los Angeles and strives to be a hangout for the patrons who make appointments. It offers manicures, drinks, alteration services and stylist advice. There are no clothes available for immediate purchase, but shoppers can order online for home delivery from other local stores. There is no data yet on how successful the store is, however there are reports that two more stores are being planned for the Los Angeles market with several more on the way across the country. It is an experimental store, from a very fashionable department store that already has the capability of excelling in service for its customers [14].

Urban Outfitters and Anthropologie both adopted showrooms for furniture and housewares in 2017. The brands were already known for being posh and preppy, with high priced, high quality, unique home products, and so the showrooms were a chance to allow customers to experience the products more fully. The concept is now being incorporated into other stores, where the showroomed products co-exist with products that can be purchased on the spot [15].

In a very different industry, Warby Parker, the prescription glasses e-retailer, combines fashionable frames with functional prescriptions lenses. The company used to have only online sales, where customers tried out eyeglasses mailed to them, and returned the ones that they did not want to keep. As a way to further resolve the uncertainty about the fit and the style for the glasses, the company opened showrooms in very popular locations. These showrooms are not the sort of place where a customer might have an eye exam, get glasses, have them fitted and take them home. Rather, the customers can try on different frames, and then get help ordering them online.

4. A Framework for Showrooming Success and Its Managerial Implications

We create a perceptual map of the competitive retail landscape in order to compare companies and their potential approaches to showrooming. Figure 1 presents a perceptual map for retail companies. In this case, we identify the fixed costs, and the level of uncertainty about product quality (or fit for consumer) as the two dimensions of interest. We place several companies on the perceptual map. For example, department stores such as Macy's, J. C. Penney or Sears tend
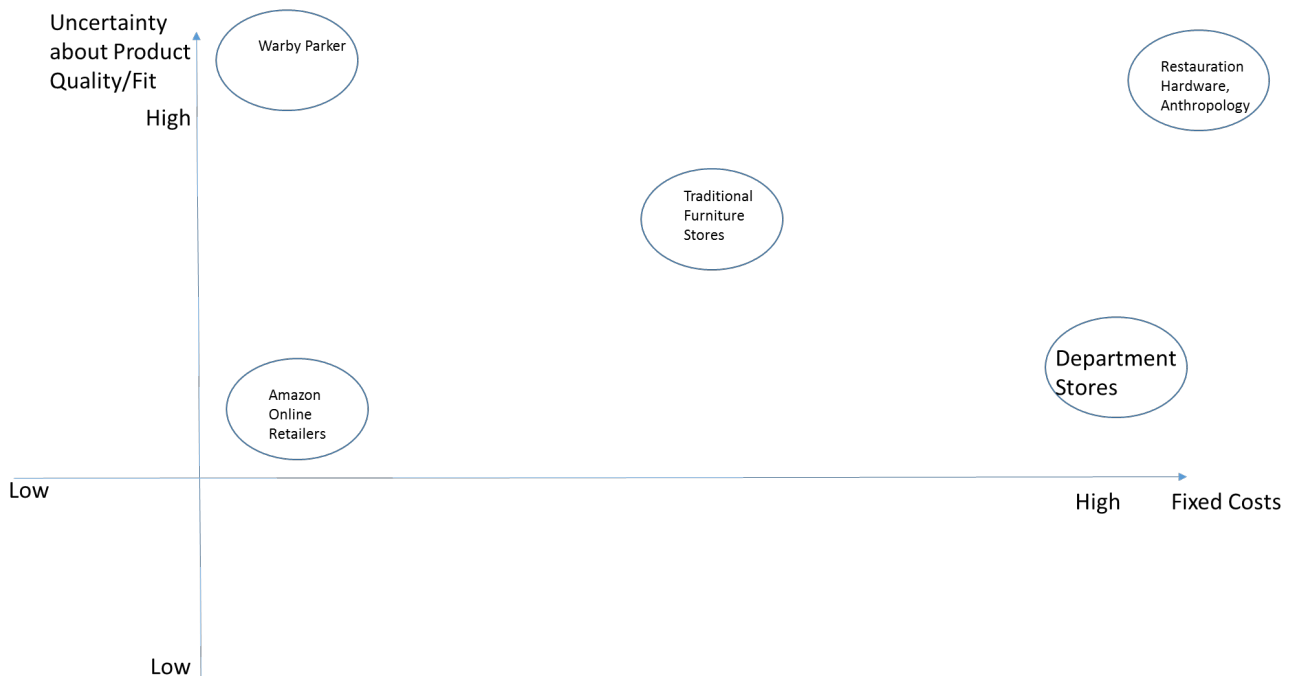
Figure 1. Perceptual map of retail stores.

to have large fixed costs of operating large footprint stores where merchandise in all sizes and colors is sold to customers who must visit the stores to purchase. In contrast, online retailers such as Amazon, and Ebay tend to have small fixed costs related to retail, as they rely on shipping direct to consumers and an online presence to make sales. Note that warehousing costs are not included in the fixed costs considered here. Warehousing costs may be quite large for online stores and traditional brick-and-mortar stores alike.

In the middle, we identify traditional furniture stores like "Ashley Furniture" and "Ethan Allen" as having moderately large fixed retailing costs. However, these retailing costs are kept low because traditional furniture stores tend to use a showrooming style: the stores are set up with a limited selection for the customers to browse and purchase in-store. The customers can get sales assistance to order furniture out of a much larger selection than what is available in-store, and the products will be delivered directly to the customer's home. This is not quite the modern approach to showrooming: it does not include the services and product related experiences customers have come to associate with showrooming stores. However, it does include the lower retail fixed cost, the in-store product experience and the home delivery associated with showrooming.

The second dimension of the perceptual map highlights an important part of why showrooming is a significant phenomenon for both customers and retailers: there is inherent uncertainty about product quality or fit beyond what can be resolved by the brand name, online reviews and product specifications. Different stores have various policies to deal with this type of uncertainty.

For example, Amazon or similar online retailers reduce this uncertainty by

making returns very straightforward and low cost for consumers. Similarly, department stores tend to have very low uncertainty as consumers can try on exactly the size they need in any location. There is also perhaps less of an expectation for a truly innovative product and more of a classic approach to product design. However, companies like Warby Parker or Restauration Hardware sell products that tend to be very distinct and novel, and include the edginess of their products in their brand image. This can lead to customers being uncertain about the fit of the products with the customer's tastes and lifestyle.

We argue that companies that are at least of medium fixed retailing costs or medium quality/fit uncertainty will benefit from setting up showrooms as a selling format. On the perceptual map, the companies that are higher than the ante-diagonal would be most likely to benefit from adding showrooming as a selling format. It is not a generalized recommendation for a full replacement of the traditional brick-and-mortar stores but rather a restrained analysis of the situations when a showrooming selling format would be beneficial, either in addition to traditional retail or replacing part of it.

For companies that are already established and experiencing a decline in demand because the customers are switching their purchases online, showrooming can help lean out the supply chain. For example, the locations with large foot traffic can remain traditional brick and mortar stores while locations that are particularly suffering from large fixed costs and low actual demand could transform into a showroom. There are other costs to consider: the showrooms must have an experiential feel for the customer and that is hard to deliver, so these companies will need to make investments into developing customer satisfaction skills. Nordstrom is a great example of a company that is attempting this strategy using their "Local Shops". Premium retail space that is costly to maintain with large inventory can be transformed into a showroom where customers can schedule services like tailoring, fitting, personal stylists, all while also shopping online for products to be delivered later at home.

The drawback of this approach is that it is difficult to implement for the brands that may need it the most. For example, companies like J. C. Penney and Target would benefit from having a showroom as it would decrease the expense in an industry with thin margins, but it is unlikely that their customers would appreciate the showroom for itself: it is believed that the customers tend to shop for bargains and consider all goods as commodities [16]. Thus, the customers would also be more likely to shop online and the added benefit of the showroom is perhaps not as compelling in this case. In fact, Macy's tried a showrooming experience in 2015, in one store in Manhattan Beach, California where customers could try on bathing suits then order them online (to have them delivered right during the shopping trip from the larger store available on the same property). However, the experiment was not continued as the general market is in decline and Macy's is struggling with closing stores and falling demand [15].

At the other end of the spectrum, companies that are online and offer prod-

ucts that suffer from customer uncertainty about product quality or fit can use showrooms to convert brick and mortar customers into online shoppers. Warby Parker is an excellent example of a company that started online only and uses mail samples to allow their customers to try on products. However, this selling format turned out to be limited, as customers have to be tech-savvy and not mind waiting for a mail-order sample that may not fit and need to be sent back and replaced many times. Instead, Warby Parker added showrooms in highly trafficked locations (like Beverly Hills) in order to allow customers to try on the glasses, and feel more comfortable purchasing online.

If there is a drawback to this approach for lean companies that are mostly online, it is that it requires quite a bit of an upfront fixed investment in the showrooms and the retail skills to be showcased in the showroom. For example, would Stitch Fix benefit from having a showroom but is perhaps not doing well enough at the moment from an investor standpoint or internal profit standpoint in order to be able to experiment with having one? Stitch Fix relies on algorithms and human interaction and is a mid-level brand for clothing services (unlike MMLaFleur which is geared to highly paid professional women). It remains to be seen if Stitch Fix will be able to adopt showrooming and benefit from it beyond a brand image advantage.

5. Conclusions

Showrooming as a new selling format is a promising way for brick-and-mortar stores to combat online retailers but also an opportunity for e-retailers to allow consumers to resolve the uncertainty about product quality or fit of the products. The framework proposed in this paper allows for different types of businesses to use showrooming successfully.

We note that retailers with large fixed costs may benefit from showrooming, if the products they sell include an experiential component or a high end brand. At the same time, if these retailers sell commodities that are not highly valued or differentiated in the customer's mind, then showrooming will not add a benefit beyond a traditional online presence.

We also identify that online retailers who will benefit most from showrooming are those whose products tend to have large potential variance in quality. If the consumers have uncertainty about the products, that doubt can be resolved in a showroom. However, if there are alternative ways to resolve the uncertainty, like having easy and free returns or allowing for trial by mail, then the benefit from showrooms is unlikely to exceed the costs associated with setting up a showroom.

From a product standpoint, our paper suggests that commodity-like products or brands that are undifferentiated should not use showrooming. The thin margins associated with such products would imply too many new customers would need to adopt in order to break even and make showrooming profitable.

From a global marketing perspective, showrooming can be used by interna-

tional brands as a way to gain a foothold in new markets. We are seeing examples of international companies such as the Lasso group [17] [18] purchasing a deserted mall property in Long Island and using it as a showroom for homewares. "Lasso Home", the showroom for housewares, is a way to enter the US market and resolve customers' uncertainty about quality of the new brand being introduced. Further research is needed to analyze the potential costs and dangers of this approach, particularly using quantitative methods to evaluate a timeline for success for showrooming a new brand.

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