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Transition to omni-channel approach: the case of Italian retailers

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Abstract

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State of the Art

The retailing industry is undergoing a change due to the ongoing digitalization. Physical stores are changed, logistics are transformed and e-commerce is growing. One implication is manifested in the advancement of online presence of retailers, and the development of online channels of interaction with the consumer (Verhoef et al., 2015). Moreover, end consumers

are undergoing digitalization of their own purchasing behavior, using smartphones in almost any situation in their daily routine. Previous research has observed a growing interest of retailers to build an omni-channel strategy (c.f. Grewal et al., 2016; Piotrowicz and Cuthbertson, 2014) which is based on creating seamless customer experience across all channels. However, little attention has been dedicated to the organizations' transformation process and activities performed in order to reach this goal.

Theoretical Arguments

In order to study the phenomena ? transition of retailers towards achieving omni-channel strategy, we will follow the logic of resource-based view

combined with the dynamic capabilities perspective (Eisenhardt and Martin, 2000; Teece, 2007). We start by outlining the current state of retailers' strategies, and then discuss drivers for transformation and critical areas that need to be addressed for a successful transition. This also allows us to build propositions for future research.

Method

Our goal is to develop ideas for future studies which led us to deploy an inductive case study approach. We used a multi-method data collection which included review of academic literature, results of interviews conducted under ongoing research at Politecnico di Milano, results from a panel discussion organized at SDA Bocconi, and secondary data like online reports and presentations.

Results

The results in this paper represent conclusions of the pilot study of the current state of retail industry in Italy and their activities leading them towards a full omni-channel approach. We provide examples of current channel strategies from thirteen retailers in industries like fashion, book selling, and consumer electronics. We also highlight state of the art research and use a thematic bottom-up approach to draw conclusions for future research areas. Based on this analysis, we present two propositions for future research:

- How does the need to integrate mobile channel and mobile commerce interplay with the need for business model innovation of a retailer?
- How do different types of retailers in different industries (fashion, consumer electronic, etc.) address their strategic aspects for successful transition? Are dynamic capabilities a critical factor for a successful transition?

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Transition to omni-channel approach: the case of Italian retailers

Abstract

Addressing consumers' needs and expectations is one of the main retailers' concerns. More and more of these expectations have been driven by consumers' constant use of their mobile devices for almost any aspect of their lives. Therefore, we build on the argument that digitalization is affecting how retailers are operating and how they re-organize their channels so as to meet those expectations. Many argue that the common approach retailers embrace is adopting omni-channel strategy. In their endeavor to fully integrate the channels into an omni-channel model, retailers need to pass several milestones, such as successful customer engagement, effective logistics management, and integrated analytics systems. This paper is concerned with current state of channel integration and further development of channel integration towards omni-channel approach. We collected data by surveying and interviewing thirteen Italian retailers operating in three sectors: fashion, bookstores and media, and consumer electronics. Moreover, we also analyzed results of panel discussion at which nine retailers participated. The results of this explorative study show current state of retail industry in Italy and their activities towards channel integration. We highlight state of the art research and use a thematic bottom-up approach to draw propositions for future research areas.

Key words:

Explorative Study, Dynamic capabilities, Mobile Devices, Omni-channel, Retailers

1. Introduction

In recent years, the rapid digitalization of our society has resulted in many implications on society at large, and on retail industry in particular (Grewal et al., 2016). It is already generally accepted to have self-serving points of sales in fast moving consumer goods shops, self-ordering kiosks in fast food chains, and different types of touch panels in fashion stores. Moreover, much evidence show that consumers are using their smartphones in almost any situation in their daily routine. Such intensified usage of smart mobile devices is directing retailers to establish accessible and mobile-friendly online presence. Not only that, but integration of physical and online store channels into a single omni-channel has been identified as a trend among many retailers (Peter C. Verhoef et al., 2015). This has led to a situation where retailers urged to address consumers changing behavior, have run into a challenge of successful transition to omni-channel model (Piotrowicz and Cuthbertson, 2014). Therefore, investigators have recently turned to study retail channel integration and aspects of retail digitalization towards an omni-channel approach.

Previous research has reflected on several moves by practitioners that show growing interest of retailers into the omni-channel strategy (Grewal et al., 2016; Hagberg et al., 2017; Piotrowicz and Cuthbertson, 2014). Moreover, they state that both academics and practitioners agree that topics such as impact of mobile technologies on retailing and channel integration are important aspects for retailers' business. Several other authors have reflected on these issues (Bezes, 2016; Burnes and Towers, 2016; Fulgoni, 2014) and have highlighted consumers' perceived risks and retailers' incentives, but also challenges retailers are facing towards omni-channel strategy, and consequences of not adopting omni-channel approach.

In spite of these efforts, correct paths for retailers' transition to omni-channel approach have remained under investigated. As a result, no comprehensive explanation across different retail sectors and markets seems to exist. It is therefore, of interest to shed some light on the topic, and present current state of one market as an example. Therefore, the aim of this paper is to build a deeper understanding on the interplay between retail digitalization and the realization of omni-channel strategy. We build our discussion on a previous findings in the research on omni-channel transition management, multiple case studies and panel discussion data, so as to gain new insights and build proposals for future research.

We do so by adopting dynamic capabilities perspective, which allowed us to see activities performed by retailers and their ability to adapt to external factors (Ambrosini and Bowman, 2009; Eisenhardt and Martin, 2000). We were able to observe retailers' efforts to transform from a strong single-channel (or multi-channel) established model, to a successful omni-channel model. Furthermore, the paper pinpoints milestones of the transition process of a retailer towards omni-channel strategy.

The remainder of this paper is organized as follows. Section 2 outlines the theoretical underpinnings for this exploratory study. In section 3 methodology is presented and section 4 provides literature review on omni-channel strategy. Section 5 illustrates findings and provides discussion on those findings. Section 6 outlines concluding remarks and future research directions.

2. Theoretical underpinnings

In order to observe the phenomena, transition of retailers towards their omni-channel strategy, we have had dynamic capability (DC) perspective, which was built on resource-based view (Barney, 1991; Eisenhardt and Martin, 2000; Teece, 2007). Observing shortcomings, mainly inability to incorporate external effects, they establish DC perspective by adding this dimension to the RBV. Since we are looking at the process of realization of omni-channel strategy by integrating mobile channel and creating seamless customer experience, we believe that this perspective is adequate for use.

According to Barney (1991) bundles of resources refer to: *physical capital resources* (e.g. geographical location, physical technology, and equipment), *human capital resources* (e.g. training, experience, intelligence, insight in the individual worker) and *organizational capital resources* (e.g. formal reporting structure, planning, controlling, and informal relations among groups in the firm's environment). Moreover, firm's capabilities are, in a sense, also considered as resources, but the dynamic capabilities view has another perspective. It has a particular focus on industrial change and firm's ability to adapt to technological and market changes (Teece, 2009).

Therefore, dynamic capabilities represent a process that influences current base of resources and advances them, so that they can contribute to the sustained competitive advantage (Ambrosini and Bowman, 2009). They are strategic capabilities that refer to capacity of an organization to build, integrate and reconfigure its resources. Thus they encompass four processes: *creative integration, learning, leveraging and reconfiguration* (Ambrosini and Bowman, 2009; Bowman and Ambrosini, 2003; Teece et al., 1997). Creative integration refers to the ability of the company to create new resource bundles e.g. use of technology in physical stores. Learning is enabling firm to leverage on its successes and failures and in the long run to perform tasks more effectively and efficiently. Leveraging relates to the use of a process already implemented in another unit, or a resource available in another domain on a product or a service already existing or just created e.g. developing mobile app, when mobile browser shop is existing. Finally, reconfiguration represents recombination of assets or transformation of resources i.e. adopting omni-channel instead of multi-channel approach.

In addition, the dynamic capability perspective allows us to study activities related to the change perspective in this process. Furthermore, the notion of sustained competitive advantage in situations of rapid and unpredictable change is reinforced by the assumptions of dynamic capabilities. In their paper on dynamic capabilities Eisenhardt & Martin (2000) restate the definition of competitive advantage as a result of a firm being differentiated in its offering, ultimately doing better than its competitors. More from the same authors, we read that dynamic capabilities can enable an organization to form resources into value creating strategies. In retailing that is omni-channel strategy, and one of the most important elements that should help in guarding against competitors are intellectual capital which firm has, best practices and relationships it has with other firms (Campbell & Park 2016).

3. Methodology

According to Myers and Avison (2002) case study has proved to be a good choice for studies where capturing the knowledge of practitioners is needed in order to develop theory. It is commonly used also for its ability to capture the view of many sides and provide in-depth insight into the context of researched phenomena. Moreover, multiple case studies provide opportunity for capturing dynamics, change and transition, and therefore, case study approach has been chosen as a research strategy (Eisenhardt, 1989; Halinen and Törnroos, 2005; Yin, 2014). As part of multiple case study, interviews were conducted in thirteen firms in three Italian retailing sectors i.e. fashion, bookstores and media, and consumer electronics. All of whose names were hidden due to the confidentiality agreements. We investigated existing channels, and trends in omni-channel strategy. In addition, transcript from comments given by representatives of OVS, Luxottica and former Banzai during a panel discussion have been used.

While thirteen companies are anonymized and whose data is representing existing availability of retailing channel, three comments will represent examples of three pioneering firms' current strategies and activities in place towards omni-channel approach. Examples include traditional brick and mortar retailer (OVS), and original glass producer for different brands of glasses (Luxottica) and originally e-commerce retailer (ePrice, former Banzai).

To be clear on our classification of firms we present three used retail categories:

- Fashion – which includes: clothing, shoes, bags, and accessories e.g. glasses
- Bookstores and media – which includes: books, movies, music, and games
- Consumer electronics – which includes all home and lifestyle appliances

Finally, we want to mention that we have used business model Canvas (Osterwalder and Pigneur, 2010) for some part of the data analysis and later proposition building. While analyzing transcribed comments from the panel session, we were informed of vocabulary present in BM literature and aware that this particular model is known across different industries. Moreover, research in business models in retailing sector has not been so broad (e.g. Sorescu et al., 2011), so our idea was that this aspect can help in the aim of transition towards omni-channel strategy

4. Literature review

In this section we go through previous literature on retailing, specifically channel integration and creation of seamless customer experience throughout customer journey i.e. omni-channel approach. These will motivate and support proposals brought up in the end

Retail channel

Retailing industry is undergoing a change due to the ongoing digitalization through adoption and use of electronic and mobile commerce (e- and m-commerce). This is manifested in the observed advancement in online presence of retailers, and the development of online and mobile channels of interaction with the customer (Peter C. Verhoef et al., 2015). To discuss retail channels we use the definition of Neslin et al. (2006) and consider *a channel* to be “a customer contact point, or a medium through which the firm and the customer interact”. Dennis et al. (2014) distinguished three channels: traditional (physical i.e. brick and mortar) store, web-based interaction via the user's computer (online store), and usage of mobile (smartphone app or mobile browser– mobile store) in order to perform the purchase.

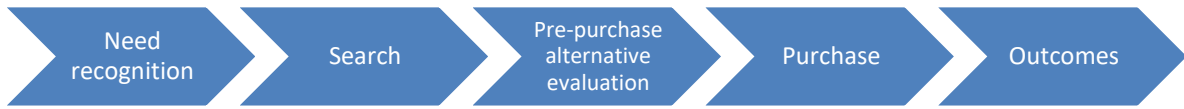
The expressions with “omni” in retailing channel context have started to occur more often from 2010, while “cross” was more common before (Beck and Rygl, 2015). Term “omni” refers to state of channels in which customers in a seamless manner can shop across multiple channels anytime and anywhere (Juaneda-Ayensa et al., 2016). On contrary, prefix “multi” goes with the state of channels that are not interconnected i.e. multi-channel approach precedes omni-channel. However, it has been observed that multi-channel is moving to omni-channel retailing (Peter C Verhoef et al., 2015). The point, for a company, to have an omni-channel approach is that only then they can benefit from their existing multiple channels through integrated promotions, product consistency and data sharing across channels (Berman and Thelen, 2004). For example, options like click & collect (shop online and pick up in a physical store) or “showrooming” (discover in a physical store, but finish the purchase online) are getting popular.

The transition process towards an omni-channel model has not been a fast one; researchers have rather observed a fragmented channel landscape with slow channel integration (Beck and Rygl, 2015). When considering the omni-channel model, as an ultimate objective where all channels are integrated and are functioning in coherence and seamlessly, Beck and Rygl infer that one should bear in mind both sides – the firm and the customer. The firm (a retailer in this case) is controlling the *integration*, as part of its overall strategy. The customer (i.e. end consumer) is able to *activate* an interaction with multiple channels (e.g. ordering product online and picking it up in a physical store) and is also in control over the key element for the communication between two sides, i.e. the mobile device, smartphone (Zeng et al., 2016). For example, consumers could use their devices to pay for goods in a store, search for a more affordable option online, or order product online to be picked up at the local store. However, these possibilities, of a consumer to activate the interaction with multiple channels, has been so far limited mostly due to the fact of low integration of the channels from the retailers’ side (Beck and Rygl, 2015).

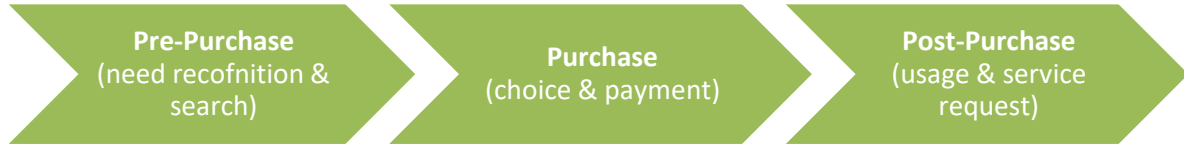
Customer journey

If a retailer is to build an omni-channel structure, the firm also needs to consider the process through which customers make their purchasing decisions. In other words, what are the stages that a person goes through and experiences they have on their “journey”. Previous research has shown that consumer decision making process to perform a purchase can be modeled in five steps: need recognition, search, pre-purchase alternative evaluation, purchase, and outcomes (East, 1997; Nordfält, 2005). These five stages are shown in Figure 1a). Similarly, Lemon and Verhoef (2016) have conceptualized purchasing customer experience as a customer “journey” in three stages. It can be seen in Figure 1b). Without intention to review extent literature on the topic, and in order to structure the discussion on channel integration we have worked with a three stage process, which essentially embodies all five previously mentioned ones.

Some previous studies (e.g. Wang et al. 2015) have considered *search* as the most relevant stage, but other seem relevant in its own way as well. Consumers use their smartphones to check prices and/or other options in pre-purchase stage; to make decisions on which payment option to use and whether to purchase in a physical store or order online, in the second stage; and the question of taking away the product or having it delivered at home is also there, as one belonging to the third stage.



a) Adapted from (East, 1997; Nordfält, 2005)



b) Adapted from (Lemon and Verhoef, 2016)

Figure 1: Purchasing stages

Nine pillars to advance in omni-channel strategy

Some of the key challenges during the integration of existing channels identified by Neslin et al. (2006) are understanding customer behavior, data integration across channels and coordination of strategies of different channels. And while facing such strategic challenges and looking on the ways how to ensure continuity of customer experience in an omni-channel environment, Bettucci et al. (2016) suggest nine critical factors to be addressed for a transition to omni-channel approach. List and adapted description can be seen in Table 1.

Table 1: Nine critical factors to be addressed for a transition to omni-channel approach

	Pillars	Description
1	In-store Technology	Use of digital devices in physical stores to enrich customer experience
2	Social Customer Engagement	Turning the customer into company's asset by engaging the customer through social media
3	Single Customer View	Often the data of the client from one channel is not properly leveraged in another – not shared intelligence
4	Data Analysis	Low usage of gathered data; need for new business intelligence activities that cross channel/brand borders
5	Key Performance Indicators (KPI) and Incentives	Measures are often focused on a single channel, and thus the synergy (between channels) that exists cannot be quantified
6	Organizational Model	It often happens that the organizational structure is often incoherent with the omni-channel approach
7	Demand Fulfillment and Delivery	Demand fulfillment and delivery processes across channels should be integrated
8	Reverse Logistics	A different element of the supply, but also a part of the offer differentiation, thus an integral part of the shopping experience
9	Product Mix and Pricing Policy	Pricing and promotions in an omni-channel perspective should not create differences in perception of the customer and its experience

5. Findings

Due to our focus on digitalization through usage of mobile channel, results from multiple case study are only based on companies' online presence on a mobile device. Actually, all firms already have established online stores, but when it comes to mobile stores (apps) and integration the state is a little bit different. Moreover, we touch upon traditional (physical store) channel when talking about the service such as Click & Collect (an option for a customer to shop online and collect purchased item in the store) or Pick & Pay (a similar option where payment is done once product is picked up).

In order to better understand the comparison of firm's offering and its progress on the way to full omni-channel Table 2 gives sector and company comparison. A few remarks can be made here. First and foremost, all thirteen companies that were part of multiple case study have mobile web-page i.e. a web-page optimized to a smartphone environment. Through this page they all support the customers before and after the purchase, as well as actual purchase via mobile commerce. In Table 2, red a green field represent absence or presence of a particular option for a particular retailer. It can be seen that the majority of the companies also offer mobile application for a smartphone that can provide consumer with pre and post support services (green color); just three companies (firms one, six and seven) operating in fashion business don't have it (red color). However, even a larger part of companies doesn't offer mobile commerce over mobile application – purchase stage not enabled in this channel. To be more precise, four out of eight fashion stores and one out of two bookstores don't have it enabled, while all consumer electronics ones do.

Table 2: Sector and company comparison

Retail sector	Company identifier	Mobile application		Click & Collect	Change of sales over mobile device
		Pre & post purchase stage	Purchase stage		
Fashion	One				0%
	Two				2%
	Three				10%
	Four				2%
	Five				-3%
	Six				3%
	Seven				2%
	Eight				2%
Bookstore and media	Nine				7%
	Ten				6%
Consumer electronics	Eleven				0%
	Twelve				0%
	Thirteen				0%

Moreover, two additional columns represent option “Click & Collect” and a percentage of increased sales over mobile device, registered between 2015 and 2016. It is interesting to observe however, that there is not always clear explanation of what is a success factor in terms of sales over smartphone increase. Sometime the percentage of sales over smartphones on online sales reduces (like in one case), and sometimes it can be as high as 10 per cent. For example, company five has all the options offered to the consumer but hasn’t seen an increase on the sales over mobile device. Similarly, companies six and seven haven’t offered mobile app, but they still have done well in year 2016 in terms of sales. This sale came through a web page over connected device sale. But still they haven’t given much for creation of mobile channel. It is also interesting to mention, that none of the consumer electronics companies has had increased sales over mobile device in the 2015/2016.

Therefore, clear causality between existing establishment of mobile channel in different stages of customer journey and sales in this small sample is unclear. But it can serve to inform that retailers tend to first enable mobile channel in pre- and post-purchase stages, and then introduce mobile commerce i.e. usage of mobile channel for purchasing stage. Therefore, further research is needed to understand firms’ activates that lead to this point, and what is hindering further advancement.

On the other hand, our findings from panel discussion among several retailers has yielded following three reflections on respective firm’s current strategies and efforts for adapting to changing environment.

OVS’s e-commerce director – stated that they introduced e-commerce with a very clear desire to create synergy between online and offline channels. Their customers are doing more web-rooming (online search and comparison of goods – a pre-purchase stage) than before. What happens furthermore is that *people often leave the shop because he or she has not found the desired size, which leads to a lost sale*. Interactive kiosks in-store can through online channels make it possible to recover the sale. And additional feature could be the possibility to book a product in another store at the time the customer asks about it. In addition to the magic fitting room for adults, i.e. interactive dressing room that can suggest the products that best fit what is currently tried on, there is a space with interactive content for children, which creates new experience for them during the visit to the store. It was also said that Wi-Fi access and Click & Collect are basic features, nothing extraordinary; that OVS allows returns across channels; and that customers could become bloggers and contributors to the retailer’s social world. The real future is to enable the technology for one-to-one interaction with each client based on marketing at various levels and custom-made production. Sale agents must accept that online channels are not competition. Finally, they acknowledge that online channel is just an add-on, and the mobile app is an advantage (better than loyalty), which they can use, but the final goal is always to satisfy the customer.

Luxottica – renowned glass manufacturer was represented by one of their business-to-consumer brands – Ray-Ban. Their global e-commerce operations director had comments that related to the supply chain side of the firm. One challenge was how to choose supply chain for a good integration between channels. This retailer was in in the process of evolution of their channel strategy and needed to seek consolidation so as to increase the capability and improve the experience of consumers. They were proud of the custom-made product that they could

deliver anywhere in the world within 4-5 days thanks to their supply chain. To succeed in building a system for fast deliveries, they have to work on customers' mobile experience.

ePrice, former Banzai, a major e-commerce company, without physical stores, but with physical delivery points was represented by its Chief Operations Officer. He stated that they had not built an omni-channel, but instead a multi-channel approach where they, for instance, offered pick & pay. This is a solution where the customer chooses a product online, but collects and pays it in a physical point of sales. The retailer is locally oriented by investing and using different distribution channels – “the last mile”. But logistics is their B2B business. To improve their concept, the retailer studies the customer journey to spot different behavior in relation to the type of product purchased. They are doing extensive research in order to fulfil desires coming from the client's side. In their report, it is stated that “customers prefer more choice and direct services” and thus they believe that with data analytics, companies like Amazon (or them) will take over market share and be next-generation leaders instead of multi-channel players like UnieEuro or MediaWorld.

As seen, OVS is all about in-store technology, especially in the first two stages; Luxottica puts emphasis on a supply chain, with an emphasis on delivery; and ePrice (former Banzai) focuses on analysis of customer data, while they have all also stated importance to address customers' needs and purchase behavior.

Bases on this input we have put together Table 3, that stresses importance of each of these pillars in each of the stages of the customer journey. We argue that these nine elements are critical success factors of dynamic capabilities of retailers in relation to omni-channel. By following and working on these elements, especially in stages that are relevant, retailers will foster development of their omni-channel strategy through creative integration, leveraging and especially reconfiguration dynamic capabilities.

Table 3: Importance of each of these pillars in each of the stages of the customer journey

9 Pillars	Pre-purchase Stage	Purchase Stage	Post-purchase Stage
In-store Technology	✓	✓	
Social Customer Engagement	✓	✓	✓
Reverse Logistics			✓
Single Customer View	✓		
Data Analysis		✓	
Key Performance Indicators (KPI) and Incentives		✓	
Organizational Model	✓	✓	✓
Demand Fulfillment and Delivery			✓
Product Mix and Pricing Policy	✓	✓	

Finally, we during data analysis we ended up with three milestones, shown in Table 4 along with mapping of nine pillars with business model elements inspired by Canvas model. While second column is more self-evident, knowing that it came through bottom-up approach, milestones need more explanation. These are three ways to express bundles of three pillars. Based on previous literature pillars connectedness was observed during data analysis, so we coined three milestones that can help retailers focus their efforts in transition to omni-channel.

Table 4: Mapping table

9 Pillars	Business Model elements	Milestones
In-store Technology	<ul style="list-style-type: none"> • Customer Experience • Value Proposition 	Successful Customer Experience
Social Customer Engagement	<ul style="list-style-type: none"> • Customer Experience • Key Resources 	
Product Mix and Pricing Policy	<ul style="list-style-type: none"> • Customer Experience • Finance 	
Single Customer View	<ul style="list-style-type: none"> • Customer Experience • Key Activates 	Integrated Analytics System
Data Analysis	<ul style="list-style-type: none"> • Key Activities 	
Key Performance Indicators (KPI) and Incentives	<ul style="list-style-type: none"> • Key Activities 	
Organizational Model	<ul style="list-style-type: none"> • Key Resources • Key Partners 	Effective Supply Chain & Logistics
Demand Fulfillment and Delivery	<ul style="list-style-type: none"> • Key Resources • Key Activities 	
Reverse Logistics	<ul style="list-style-type: none"> • Customer Experience • Value Proposition 	

6. Summary of directions for future research

When it comes to the consumers and their use of mobile devices, retailers should comply and adapt to the changing behavior of the end consumers. Strategy that have many acknowledged is the path towards the omni-channel. In this paper we have explored the state of the current retailing industry by looking into several specific examples. Their idea was acknowledging omni-channel strategy and adapting in their own way. In that regard, we identify the importance of integration of existing channels by the retailers. Moreover, by using dynamic capabilities thinking we highlighted the relevance of developing dynamic capabilities in these efforts of achieving full integration of multiple channels.

Finally, after presenting current state of mobile channel of some Italian retailers and describing activates in other cases we have ended up with Tables 3 and 4. These contain assumptions that have brought us to our propositions for future directions of research.

- Which pillars play crucial role in each of the stages of customer journey?
- How do different types of retailers in different industries tackle transition process for successful achievement of three milestones?
- Are specific dynamic capabilities critical for a successful transition to omni-channel?

Moreover, identifying *shift pattern* in the building blocks of Canvas Business Model outlined in (Osterwalder et al., 2005; Osterwalder and Pigneur, 2010) and BM adaptation (Pousttchi et al., 2009) is another step to take. We believe that many of these blocks is expected to go under major change and redesign in order to achieve omni-channel approach. Therefore, we propose following guiding question:

- How does the need to integrate mobile channel and mobile commerce interplay with the retailers' need for a business model innovation?
- Can some building blocks be more relevant to specific milestones than others?

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