

PUBLIC NOTE

The Omnichannel Trap

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I've been reading hundreds of retailer earnings transcripts over the last year, and I'm noticing some recurring feedback loops and circular logic in their current business strategies.

Here's a simple and relatively benign example, not specific to retailers, that you may recognize:

1. You promote your loyalty program (or app, or store card) with benefits that make it a no brainer for frequent or high volume customers to sign up
2. Now you say "we need to focus even more resources on our Elite loyalty members because they drive 60% of our sales / spend 30% more on average than non-Elites / visit 40% more often..."

Of course they do, but which way does that causation run? Is it that your loyalty members are your most valuable customers, or that you forced your most valuable customers to become loyalty members? If the goal was just to get more data on them, how are you using that data to drive your bottom line? Are they spending more than they already did (not just more than other members) or are you retaining them at higher rates, or what?

I always assume there's a lot more of that number-crunching going on behind the scenes, but after a while you do start to wonder. If they have meaningful stats, why are they giving out these meaningless ones instead? Loyalty programs have been around for centuries, but as they get more complex, data driven and expensive, does anyone really know how well they're still working?

In any case, here's another feedback loop that's a little more complicated:

1. You redirect capital away from your stores to build out your digital storefront, leading to
2. rapid online sales growth on a low base, while the stores stagnate;
3. the online channel is now your main growth driver, so you push it even more and start closing more underperforming stores...
4. but then that online growth slows down sooner than expected, at a point where it's still only 10-30% of your total sales and still a drag on margins...
5. so you turn back to your leaner, omnichannel-enabled store fleet, where you've finally cleared out inventory and become "less promotional" ...
6. but traffic is still dropping there too, and there's nothing in your "omnichannel" toolkit to actually get more people in the door without siphoning them from your already-slowing online business.

You've launched this whole new channel and cleaned up the old one, you've done everything you're supposed to, but your total sales are still falling. What happened?

The answer may not be so different from the loyalty program example above: you've been pushing your existing customers around without acquiring enough new ones. That early online growth was mostly from them, and even the first cohort of new customers that you "acquired" online were probably those who already knew something about your brand and were positively disposed to it. It only gets harder from there.

Meanwhile, your relationship with all these customers has gotten a lot more intrusive. Rather than just mailing catalogs and sale fliers, you're flooding them with emails and nagging them at every opportunity to do more than just buy — you need them to download your app, follow you on social media, review what they bought, rate someone else's review...

And for what? None of this is cheap for you either. What is it you actually want them to do? First it was to switch from the store to the website, then the app, then maybe you closed their store, now you're raising their free shipping minimum to nudge them to pick up their online order in a store that's further away... you're "optimizing" their behavior to fit your shifting cost structure, but it's probably driving some of them away, and in any case it's not really growing your overall business.

Where did you go wrong? Your landlords might say: "well, you can't make money online-only after shipping and returns, and customers also want a nice 'experiential' store where they can touch and feel the merchandise." They've got a few of their own "omnichannel" stats that also make you wonder about the direction of causality: "Did you know that online sales drop 20% in every zip

code where you close a store? That the average customer who returns an online purchase in store spends another 30%?”

And your digital marketing agency might answer “look, your stores are in dying malls anyway, your competitors are all online, they’re all doing this stuff. It may not be easy but you have to go where your customers are, there’s no turning back the clock. We just need to find the right Instagram influencer this time.”

They could both be right! For example, you may have conflated a format problem with a channel problem, and you’d have been better off moving those mall stores to more urban and open-air settings rather than closing them outright.

But let’s set that debate aside. You’ve heard it all before anyway, and what’s done is done. What do you do now?

This is where it gets interesting for landlords and creditors, and for landlords especially. Because a retailer in this position can start to look at their remaining leases and even their namesake brand as a wasting asset, where they can harvest customer data and dwindling traffic to build *new* brands — either online only, or with an entirely new store base.

In some cases it’s still better to give them a rent cut to stay open and avoid more vacancy even when you know they’re closing at the end of the lease — but where landlords have a choice, it’s increasingly important to distinguish between tenants in this “trap” and those who can really still turn around their core business.

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