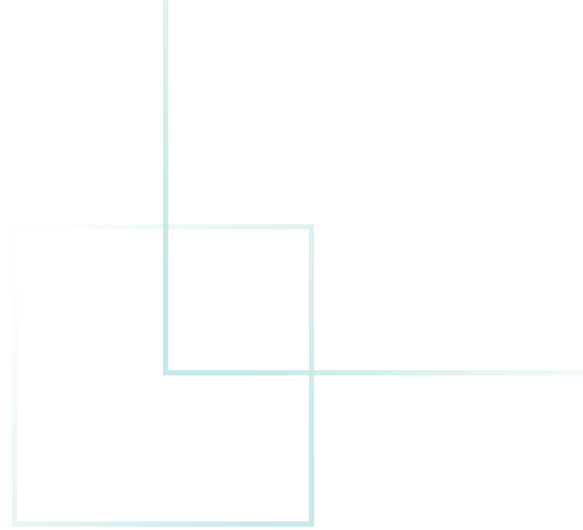


## The future of phygital shopping

How to combine digital and physical to offer an attractive shopping experience.





# A new word for two opposing trends

Concerns about what will happen to physical stores have increased as e-commerce, and especially giants like Amazon, have grown steadily.

This phenomenon was that accelerated in 2020 due to physical limitations and increasing social interaction in the digital world and, of course, some retail businesses have been hit hard in the “new normal”. The ones who were already behind digitally and in terms of digital innovation before 2020 have been hit the hardest. Those who were able to adapt quickly by using digital solutions for tasks previously handled physically have performed much better.

Yet it is already obvious that the combination of these two almost opposite trends creates exciting opportunities. Social restrictions during Covid changed our shopping habits and encouraged more people to shop online.

They also made people start to re-evaluate, appreciate and miss the physical shopping experience. So it is understandable why a term like phygital is increasingly used in retail.

Physical and digital have created a new word for a new reality. Who coined the term is unclear, but as a consequence of events in 2020-21, phygital shopping has become something that all retailers need to address.

In this brochure you will learn what it is and how you can benefit from it.

**“Excite the mind, and the hand will reach for the pocket.”**

Harry Gordon Selfridge





## How did we get here?

Let us start with a little retrospective. Barter trading and markets have been a part of human life for around 10,000 years.

The ancient Romans may have used shopping lists, but it was not until the 16th century that consumption began to resemble what became the norm until the advent of the internet.

Shopping in the Middle Ages meant a personalized shopping experience throughout the customer journey. Before the days of mass production and outsourced customer service, there were tailored goods and individualized service everywhere.

The first two industrial revolutions of the 17th and 18th centuries changed everything. Factories, conveyor belt production and automation made goods much cheaper to make and buy, but also much less personalized.

Distribution became a big issue, and products were taken from factories to small warehouses close to the market. Supply was limited and, at best, there might be two competing stores to choose from.

But modern retailing had been born. If we go back to 19th and 20th century Europe, we see a period in which more and more people could make purchases that were superfluous to their basic needs.

Big stores and even bigger malls started to become a popular destination in cities and elsewhere in the USA of the 1950s. Options available to customers multiplied, and shopping was more a pleasure than a necessity for the masses.

Then the internet came along and changed everything again. The range of options is now almost limitless, whilst the way people socialize, communicate and shop has been completely transformed. The new reality that followed the events of 2020-21 has accelerated digital changes and affected almost every aspect of our usual shopping behavior. Some examples of new and increasingly popular shopping channels are live video shopping, private video chats and online games.



Gone are the days when retail was only defined by what was inside the four walls of a building. What remains unchanged, however, is that even now, shopping is about more than items changing hands. Just as in antiquity, consumption still fulfills a social function between people in terms of interaction, relationship building and entertainment.

For today's retailers, it is important to deliver these authentic and personalized experiences, whether customers choose to shop in a digital or physical channel. The question is not whether it is best to invest in digital or physical shopping. The question is how you can best offer a phygital customer journey and get the best of two complementary worlds.

**The question is how you can best offer a digital-physical customer journey and get the best of two complementary worlds.**

## Milestone years in retail history

1784:	The first industrial revolution with mechanization, hydropower and steam
1796:	The world's first department store - Harding, Howell & Co - opens in London
1851:	Crystal Palace opens for the London World Expo - an early version of the modern shopping mall
1871:	The second industrial revolution with electricity and mass production
1883:	James Ritty invents the cash register
1909:	Selfridges redefines retail, shopping goes from necessity to activity for all senses
1913:	Henry Ford introduces conveyor belt production
1930:	The world's first supermarket - King Hill - opens in New York
1937:	Sylvan N. Goldman invents the shopping cart
1946:	7-Eleven opens in Texas and revolutionizes opening hours
1958:	Bank of America introduces credit cards
1959:	An industrial robot is put to work for the first time
1962:	Walmart opens its doors
1969:	The third industrial revolution with automation, electronics and IT systems
1971:	Intel develops the first microprocessor
1974:	The commodity barcode debuts with chewing gum brand Wrigley
1989:	Tim Berners-Lee invents the Internet
1994:	The world's first online order is placed at Pizza Hut, and online shopping is born
1995:	Amazon sees the light of day
1997:	Coca Cola introduces mobile payments in vending machines
2000:	The dotcom bubble bursts
2006:	Facebook is made available to the public
2007:	Apple launches the iPhone
2013:	Omnichannel is becoming a common term in retail
2020:	China surpasses the US as the world's largest retail market
2021:	Google opens its first physical store in New York
Today:	Unified Commerce and the fourth industrial revolution with cyber-physical systems



## What is a phygital customer journey?

Phygital is all about connecting the online and offline worlds.

Businesses that succeed in making the best of the digital and physical worlds can offer fully integrated customer experiences with cross-border shopping in the two environments. A blend of accurate and efficient data with personification and human authenticity. Phygital shopping consists of three equally important parts: Immediacy, Immersion and Interaction.

For a customer experience to be considered phygital, the immediacy and immersion of the digital sphere must be connected to interaction in physical reality.

An example that is as simple as it is ingenious (and over 10 years in the making) is the ordering stations of fast food chains. One of these smart machines is usually available and allows you to order directly instead of waiting for physical staff.

The choices and great product images - plus the scents in the room - are likely to make both your order and you a little bigger than you thought. Last but not least, you will get a smile from the employee delivering the food to you - with a bit of luck. As if by chance, this concept proved to work quite well even in times of restrictions and physical distancing.

**“A phygital customer journey means that the digital and physical worlds come together to create a stronger experience for the customer – a seamless experience between different channels.”**

Morten Toft Hansen  
Retail expert, Cepheo

# The phygital generation

Just over half of all purchases in Sweden start online, a number expected to increase every year\*.

A similar trend is expected in Denmark. That does not mean the actual purchase is completed online. Around one in two of that half say they prefer to shop in the real world. Not having to wait for delivery or being allowed to choose a suitable delivery alternative, being able to see the full range of products, interact with an in-store employee and try, test and feel the goods are some of the reasons. The latter is particularly interesting.

As long as we are not robots, what we see, hear and feel combined with personal interaction will be the great advantage of physical stores.

In other words, physical contact remains a sought-after element of the customer journey, despite (or thanks to) digital acceleration and the increasingly prominent role of the virtual in peoples' lives. Among the growing number of people who see fewer and fewer differences between the digital and the physical in their outlook on life, one group in particular stands out.

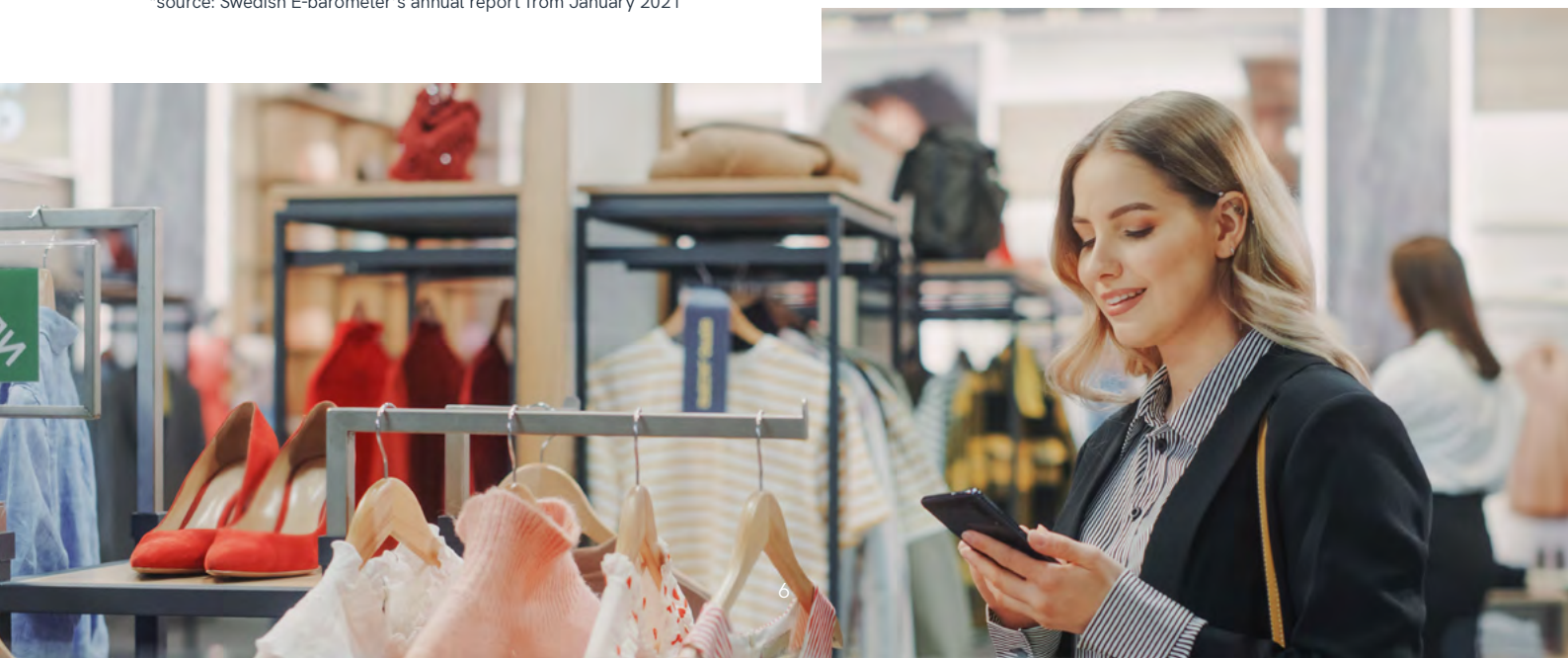
For Generation Z, the boundaries are almost non-existent. In their world, digital impressions are combined with physical experiences, whether they are communicating with their friends or interacting with their favorite brands. Because Generation Z, or iGeneration, consists of the first cohorts who grew up from a young age with the internet and access to portable, digital technology, they are called digital natives.

Being constantly connected and simultaneously moving freely in the two environments is increasingly becoming a natural and unconscious human condition. And considering that the pacifier may soon be replaced by smartphones, tablets, YouTube and TikTok for many of today's Generation Alpha newborns, it takes no stretch of the imagination to guess that the key to successfully appealing to future customers in both the digital and physical world lies in the mobile phone.

For retailers, much depends on creating ecosystems that allow customers to move seamlessly between brands and products in their digital and physical shopping experiences.

Generations of generations	Year of birth
Baby boomers	1946-1964
Generation X	1965-1980
Generation Y (Millenials)	1981-1995
Generation Z	1996-2011
Generation Alpha	2012-2026
Generation Beta	?

\*source: Swedish E-barometer's annual report from January 2021





## Create ecosystems with Unified Commerce and customer data

First came multichannel. Businesses started selling through multiple channels, but handling each of them differently.

The result was a fragmented customer journey and an inconsistent brand image. Then came omnichannel, which focused on creating cohesive branding and user experience across channel boundaries. The physical store, online store, social media presence and mobile apps began to be managed as one entity with the same look, feel and brand image.

The different backend systems used for each channel were linked through integration to facilitate communication. Unfortunately, this type of well-intentioned integration was often patched together, leading to data inconsistencies, problems accessing information, delays and rapidly increasing costs for retailers.

Creating a unified brand experience across all sales channels is not just about giving customers the same look and feel. Above all, it is important to offer shopping experiences that harmonize with the way people shop.

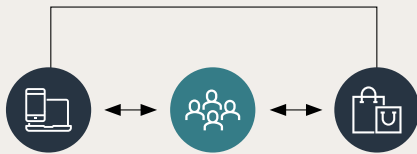
Consumers do not think in channels, but they want comprehensive access to information, offers that are relevant to them, personalized advice and service, and efficient and high-quality experiences every time, whether the customer journey is made online, in a physical store, over the phone or in a digital-physical mix.

## Multichannel



Online and offline channels are handled as two separate things. The available products, prices, discounts and promotions may be different on each channel. For the most part, there is little consistency in terms of branding and the overall shopping experience. Customers almost feel that the individual channels present a completely separate brand.

## Omnichannel



Retailers are trying to create a consistent customer experience across sales channels by integrating the separate software solutions used to run each channel. The customer experience is improving, but the use of separate solutions means that retailers still cannot build a unified view of their consumers across channels, they cannot keep track of what is going on across the business in real-time and they do not have a single version of the truth.

## Unified commerce



Customer experience is key. All sales channels and customer touchpoints are managed within a single retail software platform that covers all business activities. Because all data is stored in one database, retailers get the transparency they need - in real time and from the whole of their business - and they can even offer the same to consumers.

With unified commerce, the software that drives your business supports a consistent branding experience for customers. Unified commerce is a comprehensive strategy and solution that enables you to manage and keep track of all processes and aspects of your retail business in real-time with a single software system.

It covers your entire organization at all levels and customer touchpoints, no matter how many sales channels you use.

By centralizing key business data in a single solution, all phases across the entire business will always have reliable and up-to-date information.

From marketing, e-commerce, social shopping, POS and CRM to order fulfillment, inventory management, returns, accounting and reporting. If this data is used correctly, there is a great opportunity to become a customer-centric business with an ecosystem that seamlessly includes both the digital and physical world.



In addition, unified commerce enables the collection of invaluable knowledge about your customers and how your business should market itself and its products. By seamlessly integrating web- and app-based digital channels into the in-store experience, you can not only improve the customer buying journey but also power comprehensive, multi-channel data analysis.

Data-driven technology is now essential to respond to accelerated consumer needs and create a differentiated shopping experience that incorporates the entire experience online and in-store.

But simply investing in digitalization will not be immediately successful without first having a strategic vision.

Having a basic understanding of your brand, your customers and the experience you strive to deliver can ensure that the technology used in the in-store experience adds value and is executed with integrity. The key is to be able to optimize the use of data and technology without compromising on the customer experience.

**“The digitization of physical stores creates more seamless shopping experiences. You check in with your mobile, scan or pick up your items, leave the store, and bam – you have the receipt in your phone.”**

**Morten Toft Hansen**  
Retail expert, Cepheo

## The best of both worlds

A unified business platform where digital and analog work together rather than compete, delivering a seamless customer journey between physical stores and digital shopping.

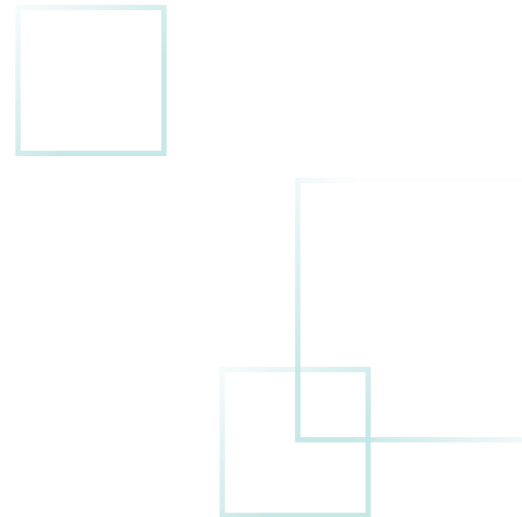
A journey that allows customers to choose the path that best suits their personal preferences and current locations. Trends show that the threat to physical consumption, namely digitization, is more of an opportunity to outperform competitors.

By being analog and digitally innovative and integrating shopping formats that meet the demands of today’s modern consumers and take them on a channel-independent customer journey, physical retail has every chance of remaining a relevant part of our future buying behavior.

That Adidas, with more than 1,300 stores worldwide, opened a new flagship store in mid-April 2021 in Dubai

Mall, one of the world’s largest shopping malls, says a lot. The footwear and sports brand’s first store in the Middle East is designed to surpass the traditional shopping experience and enhance consumer interaction with the brand.

The line between digital and physical is blurred by more than 60 digital customer touchpoints, innovative digital signage technology, digital roofs and forest walls, and smart fitting-room mirrors. All enhanced with the latest mobile and app technology. In addition to offering a transformed unique digital-physical shopping experience and events and customized store services, it will be the most sustainable Adidas store in the region.



"This new flagship store brings the best of our brand into an unrivaled shopping experience where you are met physically and digitally," announced the company's Managing Director for Emerging Markets, Dave Thomas, to the media.

The fact that data-driven giants like Amazon and Google are opening physical stores shows that even they see huge value in the offline world. Amazon has over 600 stores, including its 500 Whole Foods stores and the cashless Amazon Fresh, which opened in London in March 2021. In Google's case, their store number 1, which opened in summer 2021 in New York, is all about showcasing and selling mobile phones and smart home gadgets, offering click & collect, giving personal advice, helping with installations and organizing workshops.

If Adidas, Amazon and Google's physical investments are not convincing enough, we can add Apple and Lego's success story. Initially, Apple Macintosh and PowerBook computers were only sold in "regular" PC and electronics stores. In 1997, the company launched the Apple Store online, and in May 2001 they opened the doors to their first two physical stores. Steve Jobs and Tim Cook were determined that Apple would focus on better product presentations and stronger customer relationships.

**"We will continue to invest in innovation across all our channels to create captivating experiences online, in LEGO stores and in oration with our retail partners."**

Colette Burke  
Chief Commercial Officer, LEGO

Not many market analysts and experts believed in either the transformation of Apple's retail strategy or the concept of physical stores.

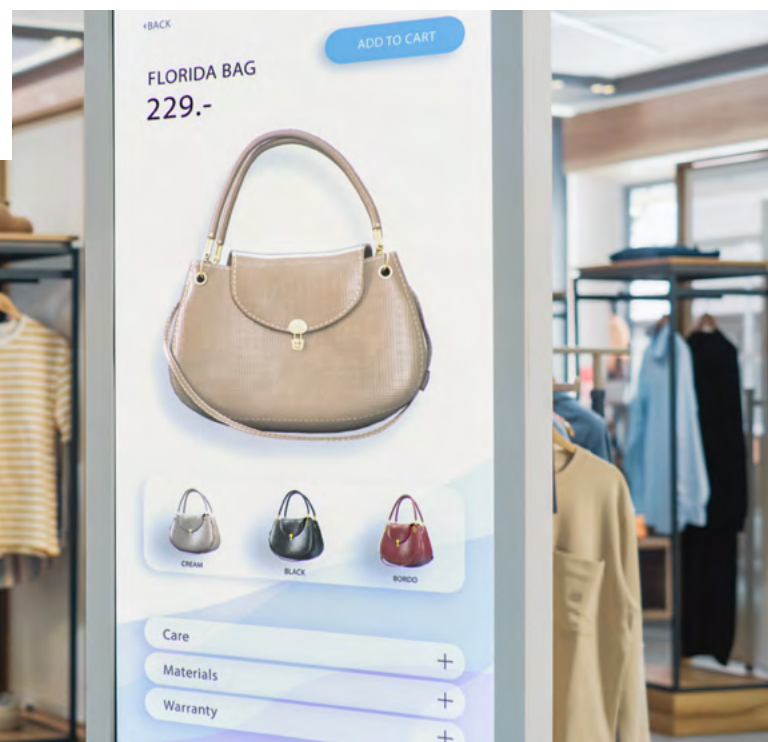
Yet there are now more than 500 Apple Stores around the world, and the company has a physical store presence on every continent except Africa.

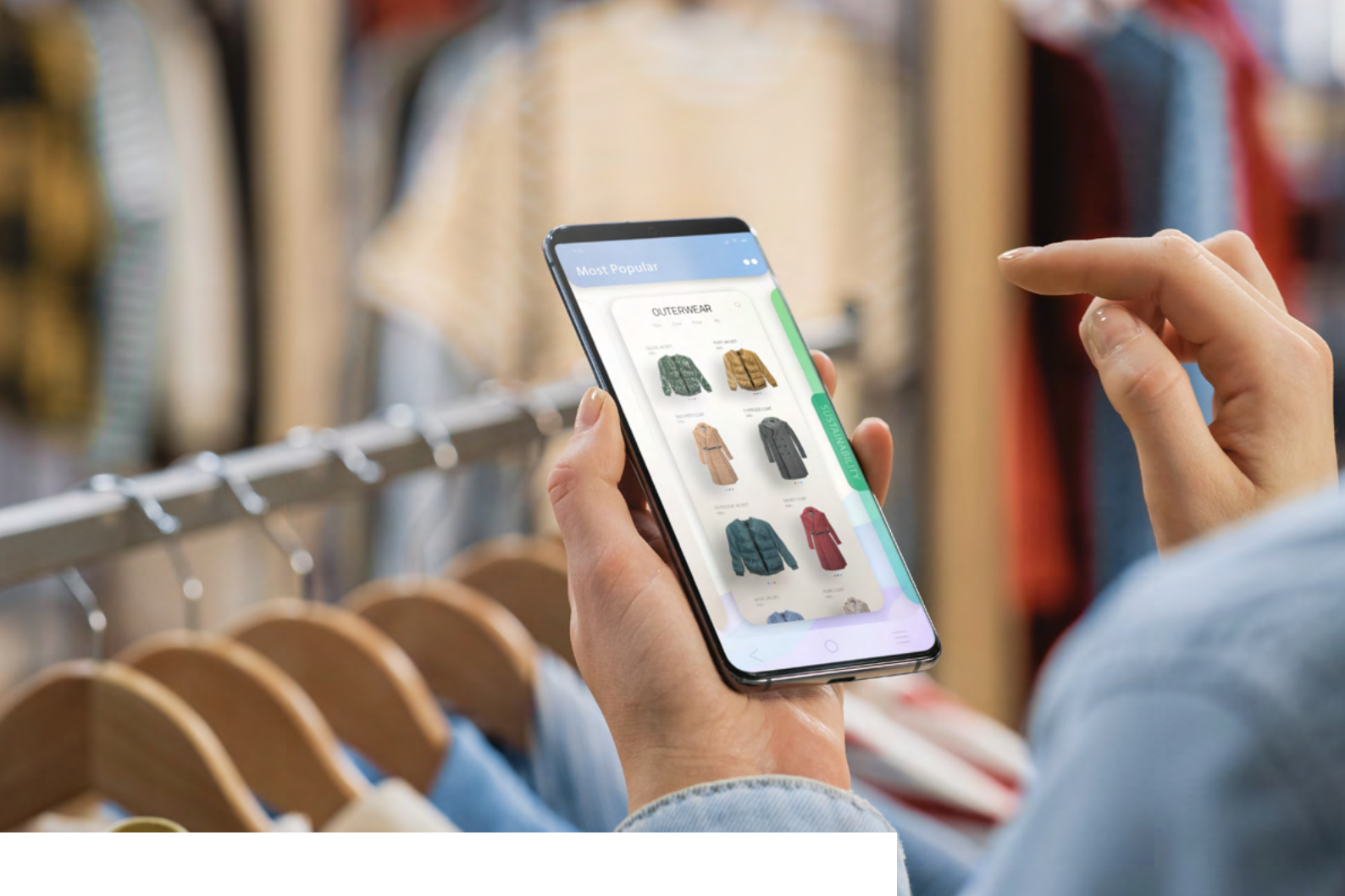
At the end of June 2021, Lego opened its new flagship store on Fifth Avenue in New York. The store consists of 7,175 square meters spread over two floors, allowing customers to experience a mix of the digital and physical world with the focus on entertainment and personalization. Colette Burke, Chief Commercial Officer at LEGO Group, gives her view on phygital retail:

"We are seeing significant growth across our e-commerce channels, but at the same time we realize the clear and important role that our physical retail plays in building the brand. We will continue to invest in innovation across all our channels to create captivating experiences online, in LEGO stores and in collaboration with our retail partners."

In total, the Danish toy giant now has more than 900 stores in 50 countries. The company plans to introduce the concept of digital and physical experiential retail (retainment) in more than 100 Lego stores worldwide over the next few years.

Now, you might think that the examples above are about some of the world's biggest companies and therefore have little to do with your business. But the advantage of delivering a phygital shopping experience is highly applicable even for medium and small retailers.





## Offer freedom of choice, personalization and transparency

While technological advances online enable an increasingly interactive and stimulating customer experience, consumers are clearly not willing to give up the benefits of physical shopping.

On the one hand, the strength of e-commerce is its broad scope and data volumes, but on the other hand, recommendations calculated by artificial intelligence can lead to a limited ability to explore and choose for yourself.

If Rory Sutherland of London advertising agency Ogilvy is to be believed, the fact that we can make our choices without AI-based restrictions makes us happier. And it is about choosing what to buy and whether to do it physically or online. Or in the words of the advertising man and behavioral scientist himself:

**“If you take away the ability to choose, you actually take away pleasure.”**

However, offering too many choices is not necessarily the best strategy. Research has shown that we spend longer choosing and may still not choose the more options there are. This is an important balancing act so that customers do not end up in what psychologists call the puppy paradox.

What perhaps most suggests that online does not have the answer to everything and that physical shopping is not going away is the need to be able to build relationships. Both between people and between people and brands.

Through artificial intelligence (read: customer data) our smartphones and other gadgets are becoming smarter, but it will take a lot for technology to fully replace the incomparable human element. Algorithms and chatbots are becoming more advanced and can do everything from suggesting products to answering questions.

But the events of 2020-21 have shown that physical and human interaction is important to us. And because we are herd animals, many will continue to prefer shopping through human interaction that can only occur in face-to-face encounters in physical stores. If the physical interface between customers and employees is computerized technology that delivers tailored and first-class service, much has already been achieved in the digital-physical sphere.

**“The future of retail will be more fun, more agile, more attractive and more sustainable – all driven by very rapid digitalization.”**

**Morten Toft Hansen**  
Retail expert, Cepheo

Consumers want choice, transparency and control over how they shop without compromising the level of personalized service they expect.

As their micro and macro needs change, they trust that the companies they prefer are able to adapt to their preferences and purchase channel choices. Phygital retail and unified commerce are the optimal solutions to meet these conflicting consumer needs and create a tailored, personalized and enjoyable customer journey.

“Phygital” may be a temporary trend concept that will fade away, but the blending of physical and digital in the customer experience is likely here to stay. Physical stores still have a reason to exist and many opportunities to thrive in an increasingly digital world. For adaptable businesses, digital is not a threat. It is an opportunity in a future full of phygital experiences.

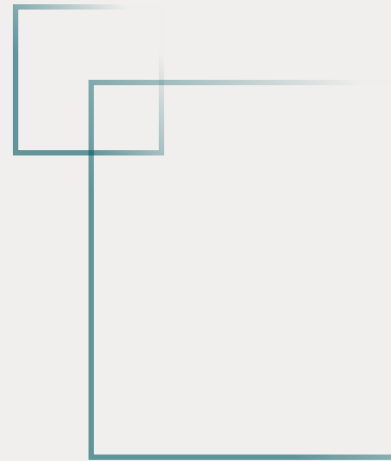


# Why Cepheo is a strategically wise choice

Cepheo has decades of experience to guide you through a journey of channel integrations, unified commerce and digital-physical shopping. Our industry expertise and end-to-end solutions allow you to offer your customers channel-independent and seamless shopping experiences.

We help you transform your business digitally through cost-effective, low-risk projects with shorter delivery times and optimization at all levels.

Prepare your business for the future of retail and meet customers' high expectations in a digital-physical world.



Read more on [cepheo.com](https://cepheo.com)

Cepheo A/S  
Paulas Passage 1, Carlsberg Byen  
DK 1799 Copenhagen V

[cepheo@cepheo.com](mailto:cepheo@cepheo.com)  
[cepheo.com](https://cepheo.com)

Cepheo empowers businesses to adapt and succeed in a changing world. With locations across the Nordics, and decades of experience in implementing and evolving industry-specific solutions powered by the Microsoft platform, we help our customers use technology and data to make more informed decisions, optimize daily operations and bring out the very best in their people. Learn more at [cepheo.com](https://cepheo.com).

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