Can Retailers Halt 'Showrooming'?

Stores Test New Services, Selection; It's About Price

By Ann Zimmerman

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Shoppers who scope out merchandise in stores but buy on rivals' websites, usually at a lower price, have become the *bête noire* of many big-box retailers.

The trend, known as "showrooming," hurts the bottom lines of traditional stores while benefiting online-only retailers such as [Amazon.com](http://quotes.wsj.com/AMZN) Inc., [AMZN -0.38%](http://quotes.wsj.com/AMZN) [**AMZN**](http://quotes.wsj.com/AMZN) **in** Your Value Your Change Short position which have the advantage of lower overhead costs and mostly can skirt the collection of sales tax.

To thwart showrooming, [Target](http://quotes.wsj.com/TGT) Corp. [TGT +0.49%](http://quotes.wsj.com/TGT) [**TGT**](http://quotes.wsj.com/TGT) **in** Your Value Your Change Short position earlier this year pushed its suppliers to offer it exclusive products that can't be found elsewhere. It also has quadrupled the number of items available online and is sending special coupons directly to customers' mobile phones. [Wal-Mart Stores](http://quotes.wsj.com/WMT) Inc., [WMT -0.33%](http://quotes.wsj.com/WMT) [**WMT**](http://quotes.wsj.com/WMT) **in** Your Value Your Change Short position meanwhile, is emphasizing in-store pickups for online orders—many available the same day they are purchased—allowing customers to avoid shipping fees.

The real hurdle, though, is pricing. Lower prices are one of the main reasons people pick Amazon and other Internet-only emporiums over traditional retailers. If brick-and-mortar stores can't compete on price, it is unclear how successful they can be with tweaks to merchandising and customer service.

Amazon's prices are 9% lower than Walmart.com's when sales taxes are excluded for Amazon, but shipping is calculated for both, according to a William Blair & Co. study. In the same matchup, Amazon beats Target.com by 14%. Even in states like New York, where Amazon does collect taxes, its prices on consumer electronics were 11% lower than Wal-Mart's in-store prices and 8% below those at [Best Buy](http://quotes.wsj.com/BBY) Co. [BBY +0.44%**BBY**](http://quotes.wsj.com/BBY) **in** Your Value Your Change Short position , according to a different study by KeyBanc Capital Markets.

Big retailers often have better prices online than in their stores; Target.com's are 2% cheaper than those in its stores and Wal-Mart's are 1% less, the William Blair study found.

Traditional retailers hesitate to emphasize the price differences between their websites and their stores because they don't want to compete against themselves.

That may be changing, analysts say, as stores realize that the competition isn't between stores and websites, but between their websites and those of other online emporiums. Best Buy, in addition to offering fast free shipping to its best customers, is matching online rivals' prices, which also helps build loyalty among its best customers.

Best Buy Tuesday announced the abrupt departure of its chief executive, Brian Dunn, amid a probe into his "personal conduct." The electronics retailer, which has been especially battered by showrooming and online competition, initially said the reason was that it needed new leadership for new challenges.

Online sales still represent only about 8% of total retail sales in the U.S.—but that is up from just 2% in 2000. Amazon's growth is particularly eye-popping; for 2011 it ranked as the 13th largest retailer in the U.S., up from 19th one year ago. If its growth rate continues, retail analysts expect Amazon to rank 10th as early as the end of this year, displacing Best Buy.

Today half of shoppers who buy products online first checked them out in a traditional store, according to a recent study of 900 shoppers by Minneapolis-based research firm ClickIQ Inc. While the majority of survey respondents favored Target and Wal-Mart stores for researching merchandise, half of the online consumers wound up making their purchases on Amazon.

One such shopper is Brandon McDonald, a paper-goods salesman from Nashville, Tenn. Mr. McDonald says he and his wife increasingly come home empty-handed from their neighborhood stores and buy what they need online—even diapers—where they say prices are cheaper and they can usually find what they want.

Wal-Mart, whose gigantic stores once revolutionized retailing, has struggled with its Internet efforts even as lower-income customers have started embracing online buying, experts say. Wal-Mart's online sales are estimated to be about $4.5 billion, or roughly 1% of its annual revenue, according to Kantar Retail, a marketing research firm.

So the company has adopted a new strategy that it calls "endless aisle." When a customer can't find what she wants at a particular location, rather than risk losing a sale, the company encourages clerks to refer her to Walmart.com. It credits each online purchase to the profit ledger of the store closest to the address of the customer who made the purchase, so store workers who get bonuses for meeting and exceeding store sales targets don't see Walmart.com as competition.

Half the people who buy products on Walmart.com pick up their purchases in the stores, according to a spokesman.

Customers retrieve the purchases from a designated Walmart.com pick-up desk, usually located at the back of the store, so customers still have to tramp through aisles of merchandise—and, the company hopes, make another purchase or two. On a recent Saturday morning at a North Dallas Wal-Mart, a large sign over one register in the customer service area designated it as the place to pick up Internet orders and directed shoppers to touch a computer screen to call a clerk for checkout. No shoppers were waiting.

Some experts wonder if Wal-Mart has the staff and the systems in place to assemble a lot of Internet orders in their stores. "They are not set up to manage on an individual level—picking and setting aside items—and until they do that in a big way they are not taking advantage of their best asset, the immediacy of their stores," said Sucharita Mulpuru, an analyst at technology consultant Forrester Research Inc.

Wal-Mart and Target are also trying apps to drive shoppers to both their stores and websites, allowing them to create shopping lists and, in Target's case, receive daily-deal alerts and exclusive discount coupons on their phones. Some experts think such targeted discounts, along with loyalty rewards programs, may make higher shelf prices less problematic for retailers.

"Offering people personalized prices through their mobile device may be the most effective way to beat showrooming," said Anne Zybowski, director of retail insights for Kantar.

http://online.wsj.com/news/articles/SB10001424052702304587704577334370670243032