

Looking Ahead: The Future of the Offline Channel for Digital-born Retailers

A qualitative study of digital-born fashion brands in Sweden

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Bachelor Thesis
Stockholm School of Economics
Center for Retailing
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May 16, 2023

Acknowledges

We would like to start by thanking all the company representatives and consumers who chose to participate in this study to provide us with valuable and interesting insights during our interviews. We also want to express our greatest gratitude to our supervisor Karina Liljedal, researcher at the Center for Consumer Marketing (CMM) and Center for Retailing (CFR) at the Stockholm School of Economics, for giving us valuable guidance and tutoring during the progression of our work.

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Abstract

During recent years, there has been a significant increase in e-commerce and the demand for it among customers. It has become imperative for new fashion retailers to have a digital presence, and the outbreak of Covid-19 has further accelerated this trend, amplifying the importance of having a presence online. Some believed that this was the beginning of the so-called retail death, but is that really the case?

In this study, the aim is to highlight the evolving role of offline channels for digital-born fashion retailers in Sweden and the importance of an offline channel. We contribute to the existing literature by combining the views of prominent professionals from the retailer sector with consumer insight regarding digital-born fashion retailers and further explore the role of the offline channel today, and what role it will play in the future. The findings of this study suggest that the retail death is not here. There is still great value in extending offerings offline. Today, the offline channel does not necessarily have to be a place for transactions to be made, but rather an opportunity for retailers to market themselves and grow their brands. The offline channel will serve as a place for inspiration, service, and experience.

Potential threats to offline channels were also investigated, and different factors that might affect the importance of it such as the price image of the retailer as well as the evolving technology regarding virtual shopping. The study concludes that virtual shopping will not serve as a threat to offline channels, but rather function as a complement. The price image of the retailer does not affect the importance of offline presence either, it still provides value regardless of price image. It rather depends on the customer in question and their individual preferences. Additionally, the rising customer acquisition costs for online retailers are investigated, and it is concluded that the offline channel will play an increasingly vital role in the future as a more cost-effective marketing tool. The overall research findings underscore the continued relevance of physical presence for digital-born fashion retailers and emphasize the importance of a multi-channel approach to meet customer expectations and drive a successful business.

Keywords: Fashion retailing, E-commerce, Offline channels, Virtual shopping, Price image, Customer acquisition costs, Billboard effect, Retail death

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1. Introduction

1.1 Background

One of the most significant trends during the last couple of years in the retail space has been the rise of E-commerce. Digitalization has been growing since years before the pandemic, but the outbreak of Covid-19 accelerated the shift towards more shopping being made through digital channels. According to Statistiska centralbyrån, shopping through e-commerce grew in the category of fashion from 14% 2019, to 22% 2020. It continued to increase in 2021 to 26%, but interestingly, this trend has not continued. Recent numbers from 2022 showed that the number had decreased to 24% (SCB, 2022)

The traditional brick and mortar store has struggled a lot due to this during the last couple of years, and a lot of them have been forced to shut down. The Swedish fashion retailer H&M decided to shut down a total of 250 stores during 2021 due to the increased interest in online shopping (Nilsson, 2021). There are however some viable trends that contradict these previous events. Even though e-commerce has threatened the role of traditional retail channels such as brick and mortar, some fashion retailers have now started to realize that being present offline can contribute to further engagement with customers as well as building brand awareness. Two examples include the Swedish brands CDLP and Totême which have built their brands online and expanded offline, opening up stores in central Stockholm. According to one CEO interviewed, the CDLP store resulted in an average impression rate of 15 000 people per day who walked past their store which contributed to the brand receiving a lot more exposure. It also provided them the ability to attract new customers than they would have been able to, if they were solely existing online. Totême views their opening of their first store as a key moment for them and mentions that it was “*an incredibly important milestone for us*”. Totême’s physical presence for their brand, in one way or another, is necessary to provide a counterbalance to the digital experience and to tell the complete story (Marfil, 2020).

This is an interesting turn of events, but not something entirely new if one looks at already prominent players in the retail field. The Spanish multinational clothing company Inditex did

during 2022 see record results in their sales, and the results are due to the opening of new physical stores across 24 markets. They have though seen an increase in online sales as well and believe that online sales will account for at least 30% of total sales by 2024 (Skeldon, 2022). According to the one Brand Manager who was interviewed, who has knowledge in the area and regarding a specific fashion retailer in the Inditex group, the marketing strategy for these types of retailers are the stores. They see the opening of stores in the right location as a way to increase exposure and gain customer attention and hardly spend money on advertising elsewhere. Their stores main function is not necessarily to be the place where a transaction takes place, but rather a type of marketing where they are able to showcase their products as well as being exposed to people who simply pass by the shopping windows.

Retailers today need to understand that although e-commerce has been growing at a fast pace during the recent couple of years, the retail death is still not here, yet. Offline channels still seem to play an important role in the success of a fashion brand and therefore a topic that deserves attention in the literature, as a counterbalance to the large focus of digitalization itself.

1.2 Research Gap

During recent years, people have talked about the so-called retail death, where people saw the end of an era with regard to offline channels, and how digitalization steadily would distinguish the new way of retailing. The growth of online retailing is a fact, and retailers that started out physically are currently and continuously working on how to integrate the digital offering with their physical one, to cater to new customer needs. Moreover, other newly started retailers have chosen to focus on online commerce solely, to reap the opportunities that exist with existing online. When the Covid-19 pandemic hit the world, consumers were also required to completely change how to purchase items. Online shopping became more frequent compared to before and many retailers' offline channels became less relevant.

There is research on the role of the physical store within omnichannel retailing and specifically how it can be used to optimize the customer experience (Alexander & Cano, 2020, p.1), but less research on the future of the offline channel for specifically digital-born retailers and whether the

offline channel provides additional value in other aspects for the business. Previous research has been done from the retailer's view, but less research has combined the retailer's view with the consumer perspective regarding this topic.

Moreover, there exists research on the billboard effect and how opening an offline channel generally spurs online sales, but less research on how adding an offline channel may affect a digital-born retailer's long-term brand equity and how it is viewed in terms of profitability. Is the physical channel profitable and seen as a sales channel, or is it seen as a marketing cost where the majority of the sales happen online?

Post-pandemic, we see a trend where physical stores carry more importance again, and many newer brands are choosing to invest in physical space when they can, to complement their online channel. Because of the changing retail landscape and for retailers to navigate correctly, more knowledge is needed on the topic of offline channels and what purpose they will serve in the future for digital-born players. Customer expectations have changed, digital marketing costs have risen, and phenomena such as virtual shopping have gained a larger foothold. These aspects may or may not have consequences for the traditional role of offline channels, so this paper, therefore, seeks to contribute to academia by looking ahead at the future of the offline channel post-pandemic and in the digital world.

1.3 Purpose

The objective of this thesis is to investigate the future of the offline channel for fashion brands that were originally born in the digital realm. Specifically, the study will explore whether these retailers can leverage physical stores as a valuable complement to their online channels, or if the traditional brick and mortar model is becoming obsolete in the modern era. The research seeks to understand what values the offline channel can bring to online brands, combining the retailer's perspective and the consumer's perspective to achieve a complete understanding of the topic. Although e-commerce is growing, the study aims to take a step back to understand the challenges that digital-born brands face, and how a potential physical presence can be used to fill the gaps or not for these brands, and

in what format it can be done. The study aims to focus on the Swedish market. The following research questions are to be answered:

1.4 Research Questions

RQ¹: Will the offline channel be perceived as a competitive advantage for driving customer acquisition and retention for digital-born fashion retailers?

RQ²: How will the price image of a fashion retailer affect the importance of an offline channel?

RQ³: How will virtual shopping be a threat or complement to offline channels, for fashion retailers?

1.5 Focus and Delimitations

This study focuses on examining digital-born fashion retailers and the future of the offline channel in the context of the Swedish market. The study seeks to explore if there is a likelihood that we will see more focus on expansion towards offline channels again - after the pandemic and for digital-born retailers who have created their brands online. The study illustrates the retail landscape from a digital-born retailer's perspective, with e-commerce as the main initial sales channel. For retailers who are long-time established in the Swedish market through a traditional retailing business model, the situation may differ. Furthermore, the study combines a retailer perspective and a consumer perspective through qualitative data collection, in order to facilitate more depth and understanding of consumer attitudes as well as how retailers resonate regarding if and what value an expansion offline could bring. Because of the limitation to the Swedish market and the limited sample of twelve retailer interviews and focus groups consisting of Swedish participants, conclusions regarding other geographical markets may subsequently differ from the views emerging in this study.

Fashion retailing was chosen as the scope of the study due to the characteristics of clothing products that differ somewhat from other consumer goods, and due to the increased discussions overall regarding the topic. In general, the customer journey behind purchasing fashion items is in general more hedonic in nature compared to other consumer goods. The fit of an item can only

be exactly determined by individuals physically, and shopping relating to fashion is often seen as a social activity and an activity that individuals are emotionally invested in (Lee & Jung, p.618). Moreover, it is a retail industry in constant change, where some actors seem to effectively appeal to consumers solely digitally, while other players are opening up more stores to cater to customer needs as brought up by one senior Marketing manager interviewed. Therefore, it was determined that it would be of particularly high relevance to explore the role of the physical store with regard to fashion retailing.

1.6 Disposition

The following report is divided into six chapters. Firstly, a background of the current retail landscape and omnichannel retailing is outlined, focusing on previously conducted research. The following chapter includes a literature review, where relevant previous research is highlighted. Then follows a methodology section where the research method and design are described, the data collection, followed by the interview designs and chosen data analysis method. This section is followed by the empirical findings of the interviews conducted and an analysis of them, and lastly followed by a discussion including managerial implications of the findings and potential avenues for further research.

2. Literature review

This area of the paper works to contribute with a relevant subject background in connection to the paper's research questions, in order to give the reader knowledge to bridge current research with the new insights concluded in this study.

2.1 Online vs offline retailing

The retail landscape has been under extensive change during the last decade, with e-commerce rapidly growing and outcompeting retailers that only operate offline, due to its ability to overcome geographic barriers and facilitate shopping for many people (Gauri et al, 2022, 152). Globally, e-commerce retail is expected to grow 10.4% in 2023, showing that the growth trend is consistently

positive (Baluch, 2023). The growth of online retailing has been driven by digitalization and technology as well as the competitive advantage some online retailers have with regard to offering lower costs compared to offline competitors. The cost-advantage online retailers can have is due to lower inventory holding and lower distribution costs, which offline actors are unable to compete with to the same extent. Lower distribution costs are associated with online retailing since they can focus on stocking products in warehouse spaces with lower real-estate costs, whereas a physical store has shelf and storage limitations as well as the need to exist at attractive locations that are associated with higher costs. Customers are also able to digitally search for the retailer that offers the lowest possible costs, hence rising online sales and consequently putting small offline actors out of business (Gauri et al, 2022, p. 156). However, the offline channel has a relative competitive advantage in providing additional information about products that are sensory-dependent, due to physical inspection prior to purchase (R.R Betancourt et al, 2016, p. 8). Because of this, offline retailers who offer products that are sensory-dependent, e.g., fresh food and clothes, may face less competition from online retailers offering the same products. The shares of online sales are therefore higher in product categories that does not require a physical examination before purchase, and lower for product categories that do require it. Online retailers are consequently trying to cope with this relative advantage of offline channels, by for example offering free shipping/returns, and detailed product information such as high-quality images and videos so that consumers can feel more certain before purchasing the product online (Gauri et al, 2022, p. 156). This also to actively strive for minimizing returns. Despite this, the return rate for online channels is higher than for offline channels, which results in higher non-ignorable return costs for online retailers (K. Cao et al., 2021, p. 2). Although smooth returns may provide customers with satisfaction, the costs associated with the handling of returns may for some retailers be a reason for exploring an offline channel for minimizing these costs.

Regarding the different stages of the customer journey with regards to channel formats, the research stage (pre-purchase) has been analyzed to a greater extent, specifically with regards to how multichannel customer behavior results in a showrooming (research in-store, purchase online) and webrooming (research online, purchase in-store) behavior. The offline- and online channel provides distinct benefits along the customer journey, however, these specific benefits and thereby differences between the channels can be seen to be shrinking due to technological developments

and the diffusion of new channels (Lemon & Verhoef, p. 80). Additionally, further research has been made regarding online-offline channel integration (OI) and the impact this has on a retail business. One study found that OI results in a competitive advantage for retailers rather than it resulting in channel cannibalization. Retailers with a physical presence have argued to have an advantage over pure online players, by integrating the two channels (D. Herhausen et al, 2015, p. 309). The same study found evidence that customers are more likely to turn to retailers with integrated online channels over retailers with non-integrated online channels (D. Herhausen et al, 2015, p. 320).

The respective advantages and disadvantages between the two formats have resulted in more emphasis on multichannel offerings being the key to catering to varying customer needs. The level of services that can be provided through the online and offline channels differs, which has spurred the need for managers to develop multichannel strategies, to take advantage of synergies between them. For example, browsing in an offline channel can lead to subsequent online shopping by the same customer (R.R. Betancourt et al, 2016 p. 9-10).

Therefore, retailers will have to work on adapting their business models to take advantage of the strengths in both channels and create a hybrid business model, or an “omnichannel offer” to cater to customer needs and stay competitive (Gauri et al, 2022, p. 157).

2.2 The role of the offline channel in an omnichannel context

Although the growth of online retailing initially gave rise to the belief that it would mean the end of traditional retailing, a later belief is that the offline channel is still of high importance, but that its role will have to be reconsidered in the context of the new retail landscape. 85% of retail sales globally are still occurring in the physical store, and many digital-born retailers are choosing to extend their offerings offline that eventually succeed, showing that this extension is of relevance for consumers today. Omnichannel retailing means that retailers are integrating their digital, mobile and/or physical channels into one coherent brand offering, that serves customers on a seamless purchasing journey (Alexander & Cano, 2020, p. 2). For example, in omnichannel retailing, a

customer can purchase a product online, view it physically in a store, and return the online purchase in-store if necessary.

Although some other researchers highlight that there has been a dramatic change in retailing during recent decades due to ongoing digitalization and the interest among customers for online channels has increased. This has led to an increase among retailers who have initiated a so-called multi-channel strategy to cater to all types of customer needs and wishes. Both traditional brick-and-mortar retailers as well as new online players have started to consider a new channel mix where for example online players consider whether or not an offline presence could be beneficial. It has therefore been an increased focus on how to consider issues such as the management of customers across channels and how a retailer should integrate the retail mix across channels. This evolvement suggests that the retail landscape is moving from a multichannel to an omnichannel retail model where all the different channels that a retailer offers will be seamlessly integrated to cater to customer needs and wishes (Verhoef et al, 2015, p. 174). This view, that the retail landscape is moving from multi-channel towards a more omnichannel model is shared by others as well. This transfer is made in order to gain a competitive advantage by optimizing and integrating different channels to be able to provide the customer with a unique experience since different customers wish for different channels to conduct their purchases through (Andrés-Martínez et al, 2020, p. 1-2). Previous research also highlights that many brick-and-mortar retailers have started to implement online business models as well alongside their already existing offline business models to ensure their future competitiveness. Although, research shows that this might be difficult. There are benefits that can be attained from this but it also requires higher complexity of running both offline and online business models in parallel (Wiener et al, 2018, p. 15-16).

One other study that qualitatively explored the specific future function of the offline channel, came to the conclusion that the offline channel will serve a more community-focused aspect, being a place for social, cultural, and educational interaction, and less of a transactional purpose - in an omnichannel context. The physical store's importance was highlighted as increasingly important in retail within this aspect (Alexander & Cano, 2020, p.8). Moreover, with this purpose in mind, the offline channel has many ways to reinvent itself, including shop-sharing, media-based stores, co-collaborations, and community centers (Alexander & Cano, 2020, p.6). Researchers agreed that

the physical channel plays a continuous crucial role in delivering a brand story (Alexander & Cano, 2020, p.5).

2.3 The Billboard Effect

The billboard effect in a retail setting is what occurs when introducing a physical store to an otherwise online retailer, and online sales increase as a result of this extension. The billboard effect has been analyzed in several studies. One study found that online sales rose when introducing an offline channel locally, particularly where brand presence was previously low. Where the brand presence was high, the opening of an offline channel to an existing online retailer did not lead to higher sales to the same extent (Goldfarb & Wang, 2017, p.717). This effect comes from the fact that the offline channel acts as a marketing communications tool, leading to an overall higher brand awareness and brand exposure, compared to only existing online stores. The same study suggests that when online and offline channels are viewed as retail channels, they are regarded as substitutes (the customer buys either from the online- or offline channel) but when regarding it in terms of marketing communication, the channels can be seen as complements to each other (Goldfarb & Wang, 2017, p.717). One second study results are in line with these, where the newly introduced offline channel improves consumer loyalty and trust for the brand and boosts online purchase volume (Gangwar et al, 2022, p.147).

Furthermore, the offline channel extension in multichannel retailing also results in the “availability effect”, where purchase frequency was found to increase when adding the offline channel to a previously online retailer. This availability effect is when the two channels are regarded as retail and transaction-based channels, and when the total number of interfaces/stores (digital or physical) increases, so do total sales (Pauwels & Neslin, 2015, p. 187). The billboard effect is a studied phenomenon that can help guide multichannel retailers in when (and where) a physical presence can be of strategic importance to the brand, and when the retailer may be better off not investing in a physical channel. This can be especially valuable for firms that are digital-born and haven’t had a traditional brick and mortar store but are investigating expanding their offerings here, hence why this concept is relevant for the studied retailers that follow.

2.4 Virtual shopping/VR/AR

E-commerce shopping has grown rapidly during the latest years, and in 2023 online purchases are forecasted to stand for 20.8% of all retail purchases globally (Baluch, 2020). With digitalization, retailers are experiencing rapid change, where among other things, mobile phones are becoming the new retail showrooms and consumers are expecting a personalized and intriguing purchase experience even when not having a physical shopping experience. This puts emphasis on technology adoption and development by retailers, to create the opportunity for consumers to be able to view items virtually (Demirkan & Spohrer, 2014, p.860) (trying clothes on themselves or an avatar, or viewing decor in a home environment, to name a few examples) without being in the physical atmosphere themselves. Several large companies have adopted the technology in order to cater to the digital consumer's needs, and IKEA and Volvo are two companies that have invested in virtual reality (VR) solutions, as well as Sephora and Topshop have invested in augmented reality (AR) solutions to help consumers virtually, try on their products. Virtual reality is defined as *"the environment created by a computer or other media, an environment in which the user feels present"*, whereas augmented reality is defined as *"a technology that superimposes virtual objects onto a live view of physical environments, helping users visualize how these objects would fit into their physical world"*. Combining the two results in product experiences being more engaging and sensory-rich, compared to virtual shopping without complementing the augmented reality extension (Jung-Hwan et al, 2023, p.3).

The global AR and VR market was valued at \$14.84 billion in 2020 and is expected to be valued at \$454.73 billion by 2030, an increase of 30 times during the decade. This development was further exacerbated by the Covid-19 pandemic, where consumers shifted to online shopping, but still demanded the same level of experience and service as a physical one. Although experts highlight the importance of retail adoption of these technologies, the actual implementation levels are low, due to the advanced technology, unfamiliar territory and the high-risk investment it brings (Jung-Hwan et al, 2023, p.1). Moreover, for the technology to gain its full potential, consumers have to be willing to use it in their shopping routine. In general, the consumer has the need to feel and touch products when exploring new products, which is not an option when shopping through an online website. One study found that a virtual retail environment vs an online website, positively

catered to this consumer need, and in particular consumer's with a hedonic shopping orientation (Alzayat & Hwan, 2021, p. 348). Regarding its role in shaping the customer experience, research has shown how VR and AR can play a key role in adding value to the customer journey. For example, the technology enables consumers to more effectively compare and customize products to make better purchasing decisions. Moreover, it can contribute to more memorable and innovative customer experiences, which can lead to higher feelings of enjoyment and therefore customer satisfaction. This value added to the customer journey may lead to higher feelings of loyalty to the retailer/brand/product and a higher likelihood of repurchases (Flavian et al, 2019, p.556). Research has also shown that the implementation of virtual try-ons (VTOs) can contribute to reducing fit uncertainty among customers and this in turn does have an effect on sales and returns. The usage of VTO tends to increase sales, and more, in particular, the order value, and it also contributes to reduced returns (Thomas, 2023, p.113-114).

2.5 Importance of physical stores for high-end retailers

People who tend to shop luxury goods online and in-store are influenced by different motivational factors. Individuals who buy luxury goods in physical stores are typically more cautious when it comes to online shopping and more resistant to the associated risks. This is because they hold the belief that online displays cannot adequately convey the aesthetic and functional features of luxury products. They also value the entire shopping experience and more specifically the aesthetic appeal when shopping in-store. By the aesthetic appeal, the authors refer to the ability to see, touch and feel the products in person since a personal interaction with luxury products tends to lead to a more satisfying experience, provide even better sensory effects and gives the opportunity to evaluate the product quality in person as well as the human interaction that comes when visiting a store physically.

The online luxury shoppers on the other hand tend to be more price-conscious, doing more research online before conducting a purchase to be able to find the best deal. They also value convenience highly. Today, a customer can order a product online whenever they want, and thereby does not have to transport themselves to the physical store or wait in line to check out. The fact that product

availability online tends to be a lot higher as well contributes to some customers choosing the online channel (Burns et al. 2013, p. 885-890).

2.6 Summary

In this section, we have delved into several pivotal topics pertaining to the realm of retail, including a comparative analysis of online and offline retailing, the significance of the offline channel within an omnichannel framework, the implications of the billboard effect, the emergence and potential of virtual shopping through technologies such as virtual reality (VR) and augmented reality (AR), as well as the inherent importance of physical stores for high-end retailers.

These topics were selected based on their intrinsic relevance to our research questions, as they offer a coherent and logical connection that underpins our investigation. By exploring these subjects, we have acquired vital contextual knowledge, which has subsequently facilitated a more intuitive and profound analysis of the research topic at hand.

3. Methodology

The underlying section covers the methodology used when conducting the research in order to answer the intended research questions and analyze the data, as well as for describing the data collection process and format of how it was conducted.

3.1 Research Method

The research conducted for the study is a qualitative method through semi-structured interviews with retail professionals. The research method was chosen due to its limited structure, in order to increase flexibility and for revealing genuine perspectives of the topic. It opens up for perspectives that are not predetermined, in order to avoid limiting the scope of the topic before the research has taken place. Since the research examines retail channels and their changing relevance, a qualitative method allows for a greater in-depth understanding of individuals' interpretations of the social world (Bell et al, 2019, p. 35). Quantitative research, on the other hand, demands a tighter structure.

The set of concerns is determined and carried out from the investigator's point of view and the investigation can rarely be adjusted along the way. Moreover, a quantitative approach would not provide data on *why* the participants reason the way they do, which is a central focus for the purpose of the study (Bell et al, 2019, p. 376). In this regard, a qualitative approach would be a more appropriate option for the relevance of the study's findings. Semi-structured interviews were also deemed suitable as an interview method since this invites different perspectives to be brought up and therefore guides the direction of the conversation (Bell et al, 2019, p. 369). As our study aims to provide a greater understanding of the future of offline channels, the semi-structured interviews would allow retailers' points of view to be considered in great depth without limitations on themes or specific topics beforehand.

Alongside the one-on-one interviews with retail professionals, a focus group was conducted to provide data from the consumer perspective. A focus group was the preferred research method, due to it enabling exploration in depth of consumer attitudes. The technique allows a greater understanding of why consumers reason in a particular way through the interactive nature of the interview session (Bell et al, 2019, p. 464). A quantitative research method in the form of a survey is deemed less of interest, due to the limited ability to understand the reasoning behind consumers' views in such a data gathering. A focus group method was chosen as it allows for people to discuss with each other on why someone holds a certain view, as opposed to only doing 1-1 interviews between an interviewer and an interview object, where the question-followed-by-answer approach is used. The focus group may therefore encourage nuanced views of an issue. In the focus group, open-ended questions are asked and the interviewer plays a smaller role. The goal is for the discussion to play itself out without much interference from the interviewer, in order to reveal people's genuine opinions in relation to other brought up perspectives on the topic (Bell et al, 2019, p. 464).

3.2 Research Design

In line with the reasoning of Atkinson et al (2003) and Schwartz-Shea and Yanow (2012), the study is formed around an abductive research design to allow for an iterative process between gathering

empirical data and existing previous literature on the topic. For this study, it was deemed as an appropriate design, since the data is centered around understanding how different elements shape the role of offline channels in Sweden. This research design combines inductive and deductive research design but removes their respective limitations for the topic, where deductive reasoning is reliant on a strict logic of theory-testing and inductive reasoning introduces difficulties with regards to claiming theory-building from a limited amount of empirical data (Bell et al, 2019, p.24).

3.3 Data collection

The research process was divided into two separate parts, the first part including an initial literature review of related topics, and the second part consisting of empirical data through one-on-one interviews (Exhibit 1) with retail professionals and a focus group (Exhibit 2) session targeting the consumer perspective of the topic. The retail professionals represented fashion retailers as well as researchers within retailing, and a real estate expert, having experience in the world of e-commerce and traditional retailing. Because of the study's intention to understand the role of the offline channel for fashion retailers, we viewed the retailer perspective and consumer perspective as equally relevant for many questions and thereby acting as the main source of data.

3.3.1 Samples

In order to gain insights on the role of the offline channel for digital-born fashion retailers, it was deemed suitable to approach individuals with knowledge and experience in this field. Due to the broadness of the topic, the individuals approached were not limited to a specific professional role, but any individual with a senior role from a company operating within the marketing and retailing field was deemed relevant. Talking to people with experience from working with digital-born retailers, but also to individuals with experience from omnichannel retailing and its associated challenges and opportunities, was participants of interest for the field of study. The age of the companies as well as their size and turnover are varying, in order to limit skewed results and avoid a one-sided perspective not applicable to the market in Sweden on a broader level. The company names and individuals associated with them are anonymous, but the majority of firms selected are

retailers and a minority are firms with other specialties, but with a direct connection to the retail field. This also with the purpose of delivering a nuanced and diversified perspective on the topic. All interviewees work within the Swedish market, although some of the associated companies are large established actors operating in additional geographical markets.

Exhibit 1: Table of Interviews with retail professionals

Title	Company	Company Description	Interview format	Date	Length of interview
Marketing Manager	Company A	Company that focuses on acquiring and scaling e-commerce brands	Digital	2023-04-11	1:05:00
PPC Manager	Company A	Company that focuses on acquiring and scaling e-commerce brands	Digital	2023-05-5	00:40:00
E-commerce Manager	Company B	Swedish fashion brand who operates both online and offline	In-person	2023-04-14	00:55:00
Brand Manager	Company C	Global fashion retailer operating both online and offline	In-person	2023-04-20	00:40:00
Retail Marketing Manager	Company D	Global fashion retailer operating both online and offline	Digital	2023-04-19	1:00:00
Retail Marketing Manager (second interview)	Company D	Global fashion retailer operating both online and offline	Digital	2023-05-05	00:20:00
Retail Lead	Company D	Global fashion retailer operating both online and offline	Digital	2023-04-19	1:00:00
Retail Lead (second interview)	Company D	Global fashion retailer operating both online and offline	Digital	2023-05-05	00:20:00
Head of Strategy & Insights	Company E	Agency specializing in helping retailers develop their marketplace	Digital	2023-04-21	45:00:00
B2B business developer	Company F	Brand selling consumer-goods online and through B2B resellers	In-person	2023-04-19	1:00:05
Co-founder	Company G	Swedish fashion retailer operating online and offline	In-person	2023-04-13	50:00:00
Founder/Chief executive officer	Company H	Europe-based platform agency of short-time leasing retail space	In-person	2023-04-12	1:00:10

In parallel to one-on-one interviews with professionals within the field, a focus group with consumers was conducted in order to gain insights from the consumer perspective regarding the topic. The focus group was planned in advance, where several Swedish individuals from varying ages and genders were asked to answer questions and engage in the emerging discussions, anonymously. The focus group was held digitally, and the discussion followed a semi-structure

similar to the one-on-one interviews, where open-ended questions were asked to gain a genuine view of the participants' habits and attitudes with regards to fashion retailing and shopping habits.

Exhibit 2: Focus group

Age	Gender	Interview format	Date	Length of interview
23	Women	Digital	2023-04-25	1:30:00
23	Women	Digital	2023-04-25	1:30:00
23	Women	Digital	2023-04-25	1:30:00
16	Women	Digital	2023-04-25	1:30:00
49	Man	Digital	2023-04-25	1:30:00
24	Women	Digital	2023-04-25	1:30:00
55	Woman	Digital	2023-04-25	1:30:00
63	Man	Digital	2023-04-25	1:30:00
24	Man	Digital	2023-04-25	1:30:00
22	Man	Digital	2023-04-25	1:30:00
22	Woman	Digital	2023-04-25	1:30:00
22	Woman	Digital	2023-04-25	1:30:00

3.5 Interview design

The interviews with the experts within the field were conducted until new insights stopped emerging, and where a well-diversified information gathering had been reached. A total of 12 interviews were conducted, but as two of them were follow-up interviews, a total of 10 different interview objects were included. The length of the interviews varied between 00:20:00 hours to 1:05:00, but the main part of the interviews held was around 00:40:00-1:05:00. The time was not strictly limited in either of the cases, with the exception of one interview. This allowed us to freely explore where the interview was going and allowed for shorter or lengthier answers and what direction the interviewees took the conversation. Interviews were conducted from the 12th of April to the 5th of May as outlined in *Exhibit 1*. The interviews were held in-person and digitally via Google Meet, Teams, and Zoom.

3.6 Focus group design

The focus group with consumers was conducted at a one-time scheduled session, in order to be able to contrast the consumer perspective from the retailer perspective in the analysis. The focus group session lasted for 1:30:00 and a total of twelve consumers were involved in the session. The focus group participants were picked randomly between varying ages and genders in order to limit skewed results. However, a majority of the participants were under the age of thirty. The focus group session evolved around a set of questions that was predetermined, relating to the research questions and some questions being similar to the questions asked during the one-on-one interviews with retail professionals. The questions were asked in an open way, and certain follow-up questions were stated when the conversation headed a certain way, to minimize it going off in a totally tangent way. The level of moderator involvement was however limited in order to let the consumers' own attitudes be revealed, without structuring and constraining the participants in a certain direction, in line with the thoughts of Bell et al (2019, p.468).

3.7 Method of Analysis

The interviews and focus group was recorded and transcribed during and directly after the data collection was gathered, to accurately capture the thoughts that emerged. The materials were collected in Swedish with the exception of two interviews, as a result, the material was transcribed and translated into English. The authors were striving for accurate translations that represented the participants' own words and formulations, where no fill-in words were added that could risk changing the originality of the material.

The analysis of the empirical data was conducted through a thematic analysis method, which includes identifying emerging themes from repeated ideas that are relevant to answering the research questions. Searching for themes can be done by observing recurring topics, the transition of ideas, and identifying similarities and differences in the interviewee's responses to a particular topic. The themes outlined will be related to the research focus and be built on codes identified from the transcripts with the purpose of providing a theoretical understanding of the data that can

make a contribution to existing literature (Bell et al, 2019, p.519). The codes are extracted from the interviews based on the thoughts that emerged from the empirical data, in order to get a representative foundation for the subsequent themes.

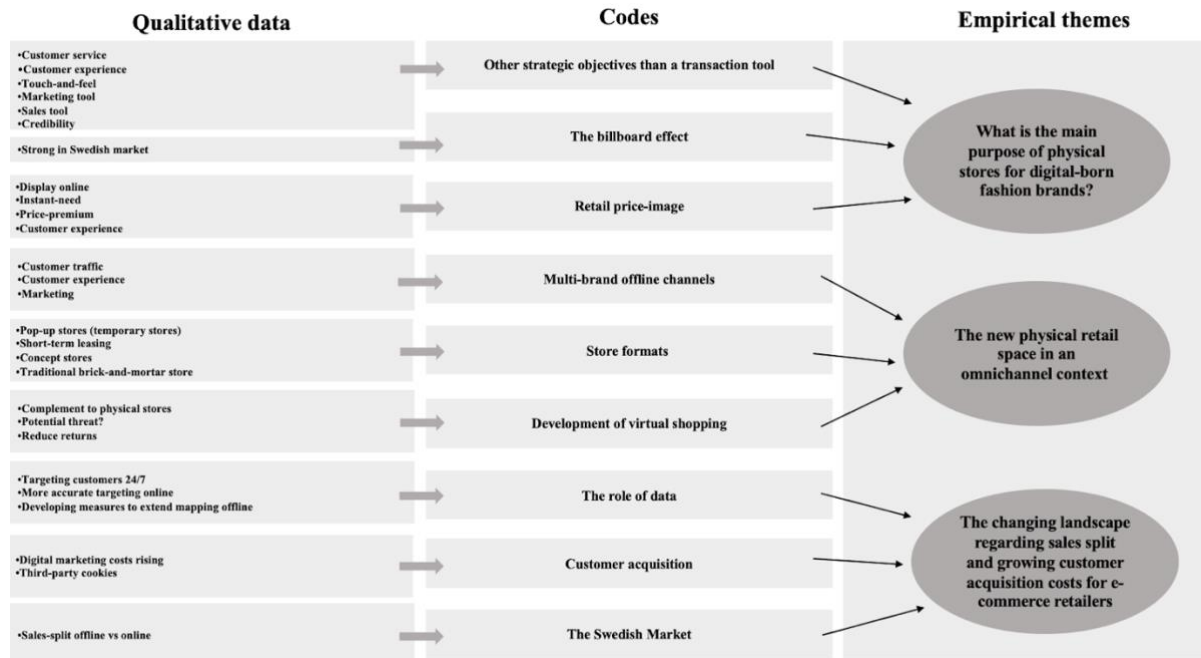


Figure 1: Thematic analysis map and visualization of how empirical data was structured

3. 8 Method discussion

Outlined by Lincoln and Guba (1994), to assess the quality of the qualitative study, two main criteria are being evaluated; the authenticity of the study and its trustworthiness, as opposed to reliability and validity (Bell et al, 2019 p.363). In evaluating the trustworthiness of the research, four main criteria are observed: credibility, transferability, dependability and confirmability. Credibility has been adhered to due to the research being conducted by two researchers and all data collection and transcription has been vetted by two individuals, to increase that the interpretation of the material was done correctly. To increase correct interpretation, follow-up questions were asked during the 1-1 interviews and clarifying questions when deemed necessary to avoid misunderstandings. The transferability of the research can be considered lower, which can be stated to be overall lower in qualitative research due to the relatively smaller sample sizes used. Transferability can be argued to be additionally low in the study due to the geographical

delimitations made for the Swedish market. Dependability could be considered higher due to adhering to good practice regarding the selection of participants, transcription of interviews and focus groups conducted and analysis of data. Lastly, confirmability is deemed high in the way that the researchers investigated the participant's views without interfering, although the interviewee's opinions are subjective by nature (Bell et al, 2019, p. 365).

The data collected from the focus group conducted was of high quality in relation to credibility and dependability due to careful transcription and adherence to general good practice, as mentioned above. However, the data quality can be considered lower due to the limitation of only one focus group used in this study (Bell et al, 2019, p. 465). In general, several focus group sessions is important in order to claim high reliability and transferability of the data collected. The size of the focus group included twelve participants of varying ages. In general, it is recommended to include six to ten participants for a fruitful discussion. Larger groups are recommended when involvement in a topic is likely to be lower, whereas smaller groups are recommended with participants who have a high involvement (Bell et al, 2019, p.468). In our case, since the topic did not feel too controversial, we did not expect participants to be as emotionally invested in it, although they would have opinions on the matter. Hence, a larger group of twelve was deemed appropriate. However, a larger group can affect the participation level of some individuals who do not make their voices heard as much. This was seen to some extent in the focus group, where some individuals participated more than others. To overcome this, the authors who were in charge of the focus group sometimes intervene and asked for opinions from those who were not sharing their views on certain matters.

However, the balance as a whole was quite even, and everyone said something on the majority of the questions raised. The participants' varying ages also helped spur a discussion, in-between participants. In general, the participants who were chosen were all talkative and knew that a contribution from their side was expected and appreciated, which made the conversation dynamic and valuable for the research questions investigated.

With regard to ethical practice, we made sure to inform all participants in advance of how their data will be used in the study. Further, we informed participants about the treatment of their

confidentiality and that in alignment with GDPR, the names of the interviewees and their associated company names will be left out from the report and only be known to the authors. Professional work titles for the retail professionals were included, as well as the age and gender of the focus group participants, as also informed prior to the data collection. This information is deemed relevant for the reader of the report and to give transparency of the selected retail professional's competence in the field, thereby validating the insights analyzed.

4. Empirical results

The following section will be highlighting the findings from the qualitative interviews conducted, as well as insights collected from the focus group study. The insights collected will be ordered under emerging themes but separated based on the method of data collection in this section, to be later merged in the analysis. The empirical themes below have emerged from a thematic analysis method, and the following themes have been outlined: *“What is the main purpose of physical stores for digital-born retailers?”*, *“The new physical retail space in an omnichannel context”*, and *“The changing landscape regarding sales split and growing customer acquisition costs for e-commerce retailers”*. The themes showcase areas of interest for fashion retailers who wish to gain an understanding of the potential contributions of offline channels in a digital world, and what future role it has in catering to customer needs and growing an online-born business.

4.1 What is the main purpose of physical stores for digital-born retailers?

4.1.1 The offline channel has shifted from a transactional tool to a marketing tool

The Head of Strategy and Insights at Company E shared his thoughts on the offline channel's evolving purpose in the digital world and noted that *“the offline channel serves as a validation for the brand, and retailers who invest in physical space are viewed as more serious and established in the consumer's eyes. It also signals a higher level of profitability. The store functions as a constant billboard and is especially valuable when at a good location. Historically, the transaction happened offline. Now, this can be done digitally in a very convenient way. Technical development has not made the offline channel obsolete, but it has definitely changed its role. The purpose of it*

now is to create a little extra for the customer, be an experience hub, and increase the brand's sense of establishment. A physical space or store can also help create content that can later be used on the retailer's own online channel to increase attention and also drive traffic. E-commerce players need to think about these aspects and how they can drive traffic in the future. Investing in a physical space at the right place and at the right time can be a good approach for this." The Co-founder of Company G explains that *"before the pandemic, all the talk was focused around E-commerce and how consumers weren't interested in physical stores anymore. Although this varies between customer demographics and what type of business you are operating in, I would say that for fashion brands that I see, post-pandemic, this has proven not to be the case. Instead, having a place where you brand yourself physically is important for increasing brand awareness and for expanding to different customer groups. Simply put, it's a great marketing tool if you can afford it."*

The Marketing Manager at Company A stated in contrast that *"physical space is not the tool to use for marketing firsthand for digital-born retailers, not when the digital tools have become the new norm to use. A brand must exist digitally primarily today, or at least to begin with. An offline channel is a bonus extension. However, the pop-up store can be a great tool for marketing purposes, although it depends on the product that is being offered."*

Furthermore, with regard to how retailers view the physical store today, the CEO at Company H continues and brings up how *"the physical store can either be included in a business retail budget or in its marketing budget, depending on what role you see it fulfills mainly. For example, for some stores that are at prime locations with very high rent costs, the sales at this specific store may not offset the rent, and the retailer allocates this "loss" as a marketing expense. For example the Gap store at Times Square in Manhattan. Not all stores have the purpose to be profitable, although this is of course positive. Some stores break even and that's enough. Sales happen online instead."*

The billboard effect was also a phenomenon that was raised in interviews with the managers, and the majority of them could confirm how sales increased online when an offline channel was presented in a geographical area. The Retail Lead at Company D confirmed that *"we have indeed seen this effect when opening up a pop-up store. Online sales increased after this temporary*

physical location, so it turned out to be good marketing.” The Brand Manager at Company C shared that *“we have seen signs of the billboard effect, but that this is very hard to measure. It depends on the geographical markets that we operate in, I would say. But in general, yes, the marketing strategy for our business is our stores. The brand barely spends money on advertising, but sees that opening the right stores is the way to increase exposure and gain customer attention.”* The CEO at Company H who works closely with brands and retailers by adopting a temporary physical retail space confirms that the billboard effect *“is true almost every single time.”* Online sales almost always increase as a result of an introduction with a physical space, and these effects are especially apparent for clients who work with short-term physical locations, where we can evaluate these effects more prominently.”

The same topics were also discussed in the focus group with consumers, who expressed their views on the physical store and its purpose as a marketing tool for online-born fashion retailers today. Several consumers brought up how they viewed a showroom, a pop-up or a traditional brick and mortar store as very important for marketing an e-commerce brand today and that this makes a brand differentiate itself in the crowded digital retail space. Consumer 5 noted that *“the physical space gives a brand a more established feeling. If it does not exist physically, and only online, it generally feels less tangible and real. I feel more inclined to buy a new brand if I can see it physically somewhere, and it also sends signals of it being successful in a way.”* Consumer 1 further shared that *“the personalized customer service that’s being offered also reflects a brand’s image I think. Customer service for me is very important and if a retailer has its own store where great service is provided, my positive associations with it increase and I am more inclined to come back. Customer service online is not really the same thing.”* Consumer 5 agreed and further stated that *“a store gives you a feeling of the brand. What music is playing? What service is provided? What scents? How are products presented? All of these things are ways for a brand to express itself and give you a greater image of what the brand is all about. For example, the CHIMI store in Stockholm. The store barely contains products, but you really get a sense of what the brand is about by only walking past it or seeing its logo there.”*

4.1.2 The offline channel's role in retaining customers

Regarding the offline channel's role in customer retention, the Marketing Manager at Company A brings up how in general, *"retaining customers is a challenging task that both online and offline retailers face in today's world with new brands emerging at a fast rate. How retailers are differentiating themselves today is crucial for acquiring customers and breaking through the noise"*. The manager expresses that e-commerce still has an advantage here and that *"it's easier to retain customers online than offline since you can reach the customers online at all times, whereas offline, the customer has to come to you"*. However, the same manager emphasizes how *"fashion retailers need to adopt creative methods online to attract customers, and in a way simulate an offline experience, for example through live shopping and video imagery that in detail visualize the brand and its products"*. The Head of Strategy and Insights at Company E concurs with the latter and states how e-commerce players today are struggling to create additional value for the customer and stand out from competitors. *"Creating additional value today requires that brands appeal to consumer's emotional senses, inspire them and invite them to a social community. These things attract customers in a competitive e-commerce environment, and physical channels can be valuable in delivering these aspects."* They continue and share that *"the research has shown us that retailers that operate in multiple channels (not only online or offline) and thereby contribute to customers shopping in multiple channels, also contribute to higher profitability. An extension offline for digital-born fashion retailers can lead to higher profitability and for gaining a larger share of (customer) wallets."*

The E-commerce Manager at Company B highlights the importance of the offline channel in catering to customer needs and mentions that *"most established fashion brands that today succeed in retaining customers with different needs, operate offline in combination with their online channel and the physical space is an important part in delivering a complete customer experience"*. The Retail Marketing Manager at Company D further states how they see a trend that online-born retailers today are expanding offline and that *"digital players is known for appealing more to a young audience, who are used to digitalization and this way of shopping. Although this is true, we see that many e-commerce players who do not have a complementary offline channel also have a significant challenge when catering to the younger audience, since this generation is more self-*

aware and has the need to get a sense of a product physically and be convinced of its value.” The manager also outlines that the physical channel has a competitive advantage in providing customer service, facing customers personally and through these ways increasing the likelihood of a customer becoming loyal to the retailer. Moreover, they state how “our customers today want a convenient shopping experience - they browse on the online website and if they find something they like, they often migrate to the offline channel to inspect the product more carefully before completing a purchase. Some customers like to shop everything online and then return a high percentage, while many actually find this inefficient and time-consuming. The offline channel serves an important purpose here, and without it being available to customers, we would most likely lose some of them to competitors.”

The Brand Manager at Company C also mentions that *“adding a physical channel to an e-commerce channel is a competitive advantage if a retailer can invest in this. It widens the customer base and reaches those who aren’t frequent online shoppers, which we see today more for the older generation, but also somewhat for the younger consumers”*. However, when discussing the challenges in delivering a cohesive customer journey offline, the manager emphasizes how *“the physical channel can be risky and sometimes a weakness because of the human factor. Offline, it is more difficult to control the customer experience in a way, it varies a lot depending on the employees. Online, you can always ensure that the customer experience stays cohesive and constant, which is crucial for customer retention and loyalty long-term”*.

The B2B business developer at Company F sees the offline channel as serving an important purpose in combination with e-commerce, stating that *“the offline channel captures the customers in important moments when they have an instant need, and the physical store works in driving customers to the online store and becoming loyal to a specific brand.”*

The physical store’s purpose in retaining customers was also discussed in the focus group. Consumer insights revealed a high demand for seeing clothing items physically and that this is something that has become increasingly more important since time has passed and increasing digitalization. For example, Consumer 6 shared that *“for transactional purposes, digital works great. But I never shop online anymore right away, I want to try and see the products physically*

first in order to know if it's the right item." Consumer 2 elaborated on the topic with regard to challenges for online players and stated that *"e-commerce brands tend to be less tangible, and if it's not a person you trust behind it or another verification factor, it sometimes feels uncertain to purchase from its website. I usually wish to investigate the product physically, especially if it's a new brand"*. Consumer 4 further continued and stated that *"online imagery can sometimes be misleading and therefore result in many returns, which is time-consuming. A fashion item that is available physically not too far away, I will go there before purchasing"*. The majority of participants expressed a positive attitude towards the brand's having an offline channel and that it brings value to their customer journey. Some however stated that they mostly only shop clothing online and simply return the items if they do not like it, and believe this to be the most convenient way of purchasing clothing today. Consumer 3 noted that *"the online shopping experience gives you time to browse as long as you wish, and you can also buy the items and pay later with the usage of Klarna, so I do not have to pay for the items before trying them out"*.

Moreover, the sensory experience of being in a physical store was stated as an important factor in completing a purchase with a specific brand over a competitor. Consumer 2 stated that *"a physical channel is an extension of the brand and I see it as a way for brands to create memorable impressions on us consumers"*.

4.1.3 Does the price image of the retailer impact the importance of the offline channel?

The view on whether price image affects the importance of an offline channel presence for a digital-born retailer differs. The Marketing Manager at Company A says the following *"Yes, I do believe that price image affects the choice of the channel a lot. When buying from more exclusive brands, the customer has higher demands during the purchase and overall customer journey and how they should be treated as a customer. When shopping at Chanel for example, you want to visit the store and be a part of the entire experience"*. The E-commerce Manager at Company B shares a similar view; *"When shopping for more high-end products, I do believe that it is more important for the customer in general to receive the experience. It is often fun to shop for more expensive products in-store, and the customer does also prefer to feel the products before making a decision since it takes more effort for the customer to buy something more expensive compared to a less expensive"*

product. At H&M for example, this is not as important since the purchases made there are not often very expensive. The customer meeting does not affect the customer that much and the expectations are often rather low.” The Brand Manager at Company C stated the following *“For a more premium retailer, it is more important to have a physical presence since the purchase often requires a larger investment from the customer, and they want to use their senses i.e., touch and feel the product. For low-end retailers on the other hand, it is probably easier to create a more appealing concept on an online platform, take Zara for example. Their stores are often not very appealing, but their website is amazing. Although one has to bear in mind that the instant need for consumable products (which tend to be more low-end) is often important, and retailers have to meet the customers here though offline channels as well.”*

According to the Head of Strategy & Insights at Company E, *“delivering a price-premium and branding are more important for high-end brands since that is more difficult to communicate digitally today.”* They also note that for high-end brands, it is *“important to create a sense of luxury, which is more challenging to do digitally. Competition, status, and prestige are all factors that come into play, making physical stores a crucial component of a brand's image.”* They further bring up that *“there are different types of platforms that are perceived differently by individuals. For one retailer, it is important to be located on a fancy street, for some it is key to be at Mall of Scandinavia, but for some, it could be as prestigious to be at the high-end fashion online retailer Farfetch as being in Mall of Scandinavia.”*

On the other hand, the B2B Business Developer at Company F, suggests that *“It is more important to have a physical store if you are a low-end retailer”*. According to them, this is because customers may need to feel and see the products before making a purchase. They add that, *“if you are a high-end brand, you usually have a stronger loyalty among your customers and a high reputation. Therefore, customers would more easily order products online since they know that they will be satisfied with the product and trust the retailer”*. The Co-Founder of Company G argues that having a physical store is important for high-end brands as part of the brand experience, but it also depends on the customer. *“High-end brands tend to need a physical store as part of creating their brand experience, but they tend to have limited selection and size in-store. It is therefore important to be online for them as-well. Low-end brands on the other hand are usually easier to order from*

online since less effort from the customer when making the purchase decision is needed. But it all comes down to who the customer is, and what s/he prefers.”

Regarding the price image of the retailer/brand in question and whether it affects the need for an offline channel was also discussed among consumers. The responses revealed that the opinions and preferences among them differed slightly. Consumer 7 stated that *“If I’m shopping for luxury goods, I prefer to visit high-end retailers in person so I can see and feel the product before making a purchase. However, for everyday items, I’m more likely to shop online”* Consumer 8 seemed to share this view and stated that s/he generally tends to visit high-end retailers in person if s/he is looking for a special or expensive item. By expensive, s/he mentions that *“When the salesperson puts some more extra effort into you and your purchase, and when you, for example, receive a nice bag and a luxury wrapping”*. For low-end retailers on the other hand, *“I am more likely to shop online because the experience in-store is usually nothing special, and some low-end retailers are simply annoying due to the low feeling of organization and bad customer service”*. Consumer 10 did instead highlight that s/he often felt pressure from salespeople when visiting more premium retailers, and therefore felt more comfortable conducting high-end purchases online. The person in question also mentioned that it is not always possible to purchase certain goods in Sweden from some specific high-end retailers, one has to order them. Another view on the matter was received from Consumer 9 who stated that *“the price-image of the retailer did not matter. It is always good with the touch-and-feel aspect of clothing.”*

4.2 The new physical retail space in an omnichannel context

4.2.1 Different retail spaces

About the development of the physical store and where physical retail is heading, The Head of Strategy and Insights at Company E reasons that *“it’s expensive to start offline, because of the high initial investment costs. There is less risk associated with opening up a website and can be done rather quickly. A new brand can therefore start online and build the brand before extending offerings offline. I do see that concept stores and pop-up stores will increase and be more common for e-commerce brands. There’s a clear advantage to having temporary physical locations since*

it's not only less of a financial risk, but they can also be more flexible in targeting the right customer demographics and changing their strategy depending on what they see as beneficial for profitability. There's also this idea with seasonality, that some brands may only want to be up and running physically when there is a high demand for it. This could be very cost-effective." The CEO at Company H shares a similar view, *"We see a high demand for temporary physical retail space today and our clients see benefits with this. Short-term leasing is becoming a thing where retailers mitigate risk. Opening up showrooms simplifies both inventory handling, and staffing, and the concept of retail-as-a-service is something that some brands have engaged in and seen positive effects of"*. One example of a retailer that has managed to operate pop-up stores in a successful way is the fast-fashion company Shein. *"SHEIN has done several pop-ups across Europe as a part of its omnichannel strategy. They start off by opening a temporary physical space to mitigate risk, and this helps in lowering customer acquisition costs and creating brand awareness and customer loyalty. Then it works in attracting customers to their digital channel after interacting with the brand physically or walking past its physical space"*. The Co-founder at Company G stated that one simply cannot exclude the other when it comes to deciding which channels to operate through, but the benefits of implementing a pop-up store are also highlighted. *"The luxury brand Chanel managed to surprise the customer. They usually have this quite serious brand image, but chose to create something that was opposite to that and made a pop-up. Through this incentive, they managed to reach a different customer segment"*. The Marketing Manager at Company A states that *"digital channels are still the most important for brands to focus on currently. Most of the things can be adapted online, to give customers the value it seeks. It's important with delivering a personalized customer experience for example, but digital players work with innovative ways to deliver this online. However, the pop-up store is great for marketing purposes"*.

Based on insights collected from the focus group with consumers, some consumers do still to a large extent want to see clothes physically before conducting a purchase. Consumer 6 shared that *"Perhaps the typical store where you buy the item directly, is not as important currently, as this can be done online. But having showrooms with great service that displays the product, where you can later buy the product digitally, is a smooth way of shopping fashion today I believe."* Consumer 4 in contrast stated that *"most of my clothing purchasing happens online, since it's easier to browse. It goes faster and is less time-consuming than trying to find the product in a store, at least*

if it's a store with a really crowded inventory. However, it's easier to browse in a store with less inventory. Showrooms are therefore valuable to visit if they are available nearby. It gives a lot, and you spare the time and energy of having to deal with returns."

4.2.2 Multibrand store versus operating an own offline channel

According to the Retail Lead and Retail Marketing Manager at Company D, the main advantage of being present at an offline multi-brand store is the customer flow. *"Being able to reach all the customers who visit a department store, regardless of what their intentions are implies greater traffic and exposure for your brand"*. They also highlight that it leads to a more convenient shopping situation for customers. *"If a customer knows that they can find sports stores, for example, located on a certain street, they will go there straight away and try on clothes. If the stores instead are scattered, and the customer is uncertain regarding what they want, they are more likely to turn towards shopping online instead"*. The possibility to exist in a department store will lead to a wider audience being exposed to the brand that would perhaps not visit the brand's own store. They do, however, emphasize that it depends a lot on which phase the company is in, and what budget they have. It is easier to start to sell through other retailers, and potentially attract customers from more well-known brands (given that you are surrounded by the right brands for you) and position yourself in the market, as well as validate the brand. *"A good idea for start-ups is to exist online and create their brand identity there, but then also be present at a retailer to increase exposure"*.

The B2B business developer at Company F is on the same track here. It was highlighted that there are many advantages to having a store that carries your products. *"Customers already visit these stores, both the target group that actually visit the department store, but also the more general public which will lead to the possibility of reaching other customer segments"*. Another positive aspect that is highlighted is that these department stores vouch for the legitimacy of the brands that they decide to sell since the majority of them would never stock an untrustworthy brand. *"This is especially important if you are a new or unknown brand on the market. It is also a fairly easy way to reach the physical presence in a quicker way compared to opening up your own stores. You simply have to send your products to a warehouse, and then they are put on the shelves in different*

stores by others. It is often very expensive and tends to demand more complicated logistic solutions to operate a store of your own. You also have to invest in several stores to be able to reach many people.”. One potentially negative aspect that is highlighted is that “it could be a disadvantage if the brand could be seen as more mainstream when found at stores such as Åhléns instead of through DTC (direct-to-consumers)”. Another disadvantage is that the retailer cannot control the customer experience and the narrative surrounding the brand as closely as with DTC. “How the products look on the shelf, how the sales associate interacts with customers etc. is no longer within our control, which might prove to be a problem if you are for example trying to build a brand based on excellent tailored customer service or through providing the customer with experiences”. Retail Lead and Retail Marketing Manager at Company D, further emphasize that one cannot directly control the staff in a department store. “If you operate through your own stores, one can train the staff to develop specialized skills with a focus on the products that they sell”. which is a drawback. Another highlighted benefit of having an own store is that it might serve as a marketing tool in a more efficient way compared to existing at another retailer. “In your own stores, you can add elements that strengthen the brand, such as activities, trademarks etc”. The B2B business developer at Company F has similar thoughts and mentions that it is difficult to achieve as much marketing as having your own store compared to existing at another retailer. It is also mentioned that “there are great opportunities for a brand to build up a branded space in a department store. At Åhléns, for example, there are small pop-up sections in the department stores that you can book, and you can provide branded visual merchandise in the form of racks. Of course, it is better for you to have a dedicated store with only your brand since then no other brands would “disturb”, but when considering the resources that are required for that, I believe that department stores provide great opportunities as well. As a last add-on, the same manager states that “if one only considers the customer experience, it might be more advantageous to have your own physical stores, but I do not believe that is how customers shop today. As a customer, you do not want to visit 20 different stores, you instead want to find your 20 different favorite brands in a maximum of 3 different stores. Due to this, I believe that there is a big advantage for a brand to be in a department store as long as you stand behind the department store’s branding profile and do not see it as damaging for your own brand”. The Head of Strategy & Insights at Company E does however highlight some drawbacks to existing at a multi-brand store where the main one being that the margins tend to decrease a lot when working with B2B.

Based on insights from customers, the general perception was that there were many benefits of existing in both multi-brand stores as well as having their own store. Consumer 1 highlighted some advantages of being present at a multi-brand store. *“I like the fact that I can find multiple different brands under the same roof. It is very convenient and more time-efficient. I also like that it provides inspiration for me as a customer to see different brands and clothes, and to be able to compare them which increases the comparability between brands in order for me to make an informed choice regarding what I should purchase.”* Consumer 7 agreed with many of these aspects. *“I really enjoy shopping at multi-brand stores, it is less time-consuming (I do not have to run between 20 different stores, the best from everyone is all gathered in one place) compared to shopping at all the retailer’s own stores. It is fun since you tend to get inspiration, and you can easily compare two different similar garments from a different retailer in the store which I enjoy”.* Consumer 7 continues and highlight the drawbacks of the multi-brand physical store. *“It is usually a limited selection of clothes from a brand that the retailers decide to sell. You can therefore not always find the entire collection at a multi-brand store. There is also a chance that one loses the connection to the brand, one simply focuses on the function of the clothing garment or the product itself”.*

4.2.3 How will virtual shopping affect the role of physical stores?

A topic that came up during the interviews held was the aspect of virtual shopping and how that will affect the new retail space. The general beliefs that came up during the interviews held were that virtual shopping will potentially compete to some extent with physical stores, but there are a lot of different aspects that need to be taken into consideration. The E-commerce manager at Company B mentions that it could be a threat to some types of products, and that *“it does also depend on which city or location we are talking about. Perhaps we will see an increase in the use of virtual shopping in smaller cities with limited access to physical stores. One does also have to bear in mind that it depends on what the specific customer in question values, some customers do not want to visit stores or receive an experience.”* Some other people who were interviewed seemed to share this view. The Brand Manager at Company C mentions that *“I do not believe that it would outcompete completely, but it depends on what type of products that we are looking at, and it also depends on where we are in the world. In Sweden, we are somewhat behind”.*

The Head of Strategy at Company E stated that *“Yes, perhaps a threat to some extent, but it will not outcompete completely and at least not when it comes to practical use. To use your senses is still very important, and by only ordering and trying out products online, the customer will miss out on different community events which are highly valued by some. One potential outcome that the increase in virtual shopping might have is that returns might be avoided. If you are able to inform the customers more regarding the product that they are buying, as well as providing a tool for them to try them on virtually, the customer might be able to make a more informed choice pre-purchase, and instead of ordering a pair of pants in three different sizes, this number could be limited to one. That is one of the main perks of this.”* Overall, the response showed that most people interviewed believed that it would serve as a complement. The B2B Business Developer at Company F stated that *“It will serve as a complement, and there needs to be a lot of research made in the field before it becomes a direct threat. It will probably grow and capture some customers since it could be seen as adding value and simplifying the digital shopping experience, but it can never replace the physical touch and feel experience.”* The B2B Business Developer at Company F and CEO at Company H shared similar views as The Head of Strategy at Company E, it could be a way for retailers to reduce returns since it will enable retailers to provide customers with more knowledge before conducting a purchase. CEO at Company H continues and adds that *“it can be an enabler, but not outcompete offline completely. It depends on the market and product. Retailers cannot compete by only using appealing prices. It is not a long-term solution. Today, retailers need to create something fun and exciting for the customer, a unique experience to be able to compete successfully with other retailers. This is something that virtual shopping can neither provide nor compete with at the moment.”*

Based on the consumer insights, the general beliefs are that virtual shopping overall is still quite unexplored, although some had tried it. Consumer 8 mentions that s/he has tried the virtual shopping tool once when shopping for jeans online. *“I was in the market for a new pair of jeans, and the website I was browsing had a feature where I could type in all my measurements and see what different sizes on the jeans would look like on me (length and such). While this was helpful in making a preliminary decision, I ultimately decided to visit the store to see it in person before making a purchase since I wanted to see the wash and feel the material in real life. However, the*

virtual try-on experience was a useful complement as it gave me confidence that the size and fit would most probably match my preferences." Consumer 10 stated that s/he once bought a pair of sunglasses after trying them "online". It was though stated that s/he had seen others wear them before, and were confident that s/he enjoyed the material and look of them, and were therefore comfortable to make a purchase after simply trying them on virtually. Other than these two customers, the use of virtual shopping overall was quite low and the knowledge regarding the existence of it was low as well. Although most of them were curious about it and believe that it sounded like an excellent complement to the overall shopping experience.

4.3 The changing landscape regarding sales split and growing customer acquisition costs for e-commerce retailers

4.3.1 Growing customer acquisition costs digitally

The CEO of Company H emphasizes the importance of the offline channel and how the future of retail is not dead, but it's evolving. The CEO states that *"physical retail locations will be part of an omnichannel strategy, which will be able to capture customers at a cheaper cost, while also enabling these customers to go online and purchase these items digitally. This can enable a higher lifetime value for that customer, given the fact that you are capturing them at both physical and digital places."*

A theme that rose to attention during the interviews was the aspect of growing digital customer acquisition costs today and what implications this has for e-commerce players. The CEO of Company H noted that *"the physical channel can serve as an offline marketing tool that is cheaper than digital marketing tools today. Customer acquisition costs (in a digital environment) will increase over time, as digital ad spending is one of the main ways forward for e-com players to increase exposure. Since every company focuses on it, the bidding strategy will increase."* The B2B business developer at Company F agrees that *"operating only online today and spending money on ads will lead to a bidding war, and the costs may be too high for smaller actors to adhere to"*. The Head of Strategy and Insights at Company E further states that *"...it is becoming increasingly expensive to purchase traffic and more difficult to find the right traffic that will be*

valuable to your brand, due to privacy issues and that third-party cookies will disappear.” The manager continues and shares that the offline channel will be more valuable here due to the high digital marketing costs but that “it’s difficult to say what will be more cost-efficient in this regard since a physical store or a showroom on the right location incurs high costs as well”. This view is shared by the PPC Manager at Company A who mentions that there is a significant increase in cost per click year over year across all Retail Media and Social Platforms such as Amazon, Google, Facebook, Tiktok, LinkedIn, Snapchat etc. The manager believes that a contributing factor to this is the increased online shopping in recent years. “More retailers are switching to e-commerce platforms, and more ad placements are popping up. Advertisers to experience an increase in cost-per-click and cost per acquisition year on year”. The manager also provides these statements with numbers from own experiences. “Google for example has seen an increase in cost per lead in 91% of their categories. I believe that this had to do with higher competition in retail media due to more retailers switching to e-commerce, there was also a higher customer demand during the pandemic which spurred this on. There are also newly implemented privacy policy rules that make it more difficult for retailers to reach relevant customers”. The manager had also experienced an increase in so-called “bidding wars” that among others the B2B business developer at Company F mentioned. “On for example Google, most of the clicks and purchases happen on the first page which generates a bidding war among competitors since everyone wants to “win” the first ad placement. The higher the bid, the higher the chance is to “win” the first ad placement”. The Marketing Manager at Company A notes that it is a difficult question to answer and that “a cost-analysis has to be done where costs are allocated correctly, in order to see what channel is more profitable in this sense. If the E-commerce channel has low customer retention and the company has to constantly seek new ones, then the offline channel may result in relatively lower acquisition costs. However, a physical store has many fixed costs that an online store does not have, such as rent and personnel costs.” The Manager continued by saying that “the value of data plays its role here. Online, you can track customers and optimize how you can reach them, so marketing can be done more accurately. Stores are blind here. So it’s not only about what is cheaper, but retailers need to ask themselves what is most effective in the end”. The B2B business developer at Company F has a similar view where “you can find a lot more information regarding the customer online, compared to in-store. Stores are a more long-term solution for marketing, but digitally you can target the customer based on demographics on a detailed level”.

The CEO at Company H further brings up the example of CDLP (a Swedish-based fashion brand) and how *“they opened a store in Stockholm, and this resulted in an average impression rate of 15000 people per day who walked by the store. This is taking it to a whole new level and giving the brand much more exposure and ability to acquire new customers than what they are able to do solely existing online.”* About the development and challenge of measuring customer acquisition costs physically, they continued and said *“measuring customer acquisition costs (physically) is indeed difficult, but there are different methods in place. One potential avenue here is to measure your cost per engagement in a store. For example, if you have an item on display, you can look at how much people interact with it (through use of cameras) and compare this with the cost of displaying it there. If people interact with it, they tend to buy it. This is one way of doing it.”*

4.3.2 Characteristics of Swedish customers regarding sales split between the offline and online channel

Regarding the sales split between online and the offline channel, different views on the matter emerged. The E-commerce Manager at Company B stated that *“Today, I would say that around 90% of our sales take place through our online channels. This has though not always been the case. Previously when we also operated through a physical store, I would say that the sales split was around 50/50 which is very interesting”*. The Head of Strategy and Insights at Company E on the other hand mentioned that *“It is very difficult to state which type of channel that “usually/generally” is the most common one for conducting sales since it depends on many different factors. One thing that is for sure is that the Swedish market and the customers are somewhat behind here compared to other countries and markets. UK for example are much further down the road regarding the development of shopping online and do it to a greater extent compared to Sweden”*. One global company that was interviewed seemed to have similar thoughts regarding the matter. The Brand Manager at Company C stated the following: *“In Sweden, I would say that our offline channels are performing stronger than our online channels. I would say that around 60% of all purchases that are made are through physical or offline channels, and the rest (40%) of the sales come from online channels. It was indeed very interesting to see how the pandemic affected this. Before the pandemic, online channels rose and continued to increase during the*

pandemic (although our overall sales drastically decreased). Once the pandemic was over and we entered the post-pandemic stage, the online sales drastically decreased by around 10-15%.”. The Retail Marketing Manager at Company D stated that “We have recently closed a lot of stores, this is though not because we believe in online more, but one has to bear in mind that it is important to streamline offline channels in a more efficient way which will contribute to a more pleasant shopping experience for the customer. We currently have a sales split of around 50/50 when looking at online and offline, and we believe that the physical stores will play an important role in the near term future as well. We focus on closing inefficient stores and opening up new ones that are strategically advantageous for the business as a whole”. The B2B Business Developer at Company F stated that “Currently, 90% of sales are conducted online. We are very new when it comes to presence in different stores and we have recently started to collaborate with B2B. I believe that B2B will move past online channels when it comes to where the sales take place in the upcoming year, but not yet for us”.

When looking at insights from the interviews with consumers, the views regarding the matter were split. The majority of the interviewees were positive towards the offline channels, but some highlighted that the online channels serve as an important time-efficient tool for viewing products first and browsing the assortment before conducting a purchase, regardless of whether it was made online or offline. Consumer 2 stated that *“I do my majority of purchases offline. I would say that there is a 70/30 split. I usually prefer to browse online, and later on purchase offline. It does depend. When I shop for new things, I prefer to shop offline always, If I am on the other hand doing a habit purchase, I do the purchase online if it is convenient and cheaper”*. Consumer 3 on the other hand did not share the same thoughts *“I do mostly shop online, perhaps 80/20 online contra offline. I do, though often visit stores before the purchase is made, showrooming, so that I can try the product on if it is a garment or such, and then I order online. I usually do impulse purchases offline, and more planned ones online. One of the main perks that I see with shopping online is that it requires less time and effort”*.

5. Analysis

The objective of the following analysis section is to compare the similarities and differences observed in the empirics collected. Commonalities and divergences will be examined and when relevant, contrasted with existing previous literature.

5.1 The offline channel's historic role has changed.

An emerging view of the offline channel that arose from the interviews is that it has gone from a transactional tool to function as a complementary tool for marketing-, customer retention- and price-premium- purposes, in the context of a digital-born fashion retailer. Due to digitalization, e-commerce has taken over as primary sales tool and in doing so, the brand can overcome geographic barriers and reach larger customer demographics (Gauri et al., 2022 p. 152). Despite the increase in e-commerce sales, Swedish customers still find offline channels relevant in their customer journeys, and many digital-born fashion brands are looking to expand their offerings offline in one way or another. A theme that emerged in the empirics was that the physical space for digital-born brands has lower requirements today in delivering profitability. The physical space that the brand invests in, may be a part of the brand's retail budget or marketing budget. This view was pinpointed by the CEO at Company H, *"the physical space can and often should be viewed as a marketing cost today by some digital brands. Of course it is beneficial if the physical store is profitable or breaks-even, but if not, it may not be a terrible thing if the investment results in higher brand awareness and increases online sales"*. Previous research have recognized these contrasts between the sale and marketing objective for the physical space and outlines that *"for many brands the objective of temporary retail activations is to instigate a long-term relationship or strengthen existing relationships with consumers and indeed, their effectiveness cannot always be measure by traditional metrics, such as store sales"* (Lowe et al, 2018, p. 79).

5.2 Building brands online and growing them offline.

In an article by Hagberg et al (2017, p.266), it is outlined that *"many online retailers are establishing new physical store concepts as a complement to their online business, and physical*

stores are often considered a key component in the omnichannel concept”(Brynjolfsson et al., 2013; Verhoef et al., 2015; Blom et al.,; Hure et al). The same theme emerged in the empirics, where digital-born brands view the extension to a physical channel as providing additional value to the business, after creating the brand online initially. As brought up by the Head of Strategy and Insights at Company E, *“Investing in a physical space increases the brand’s credibility. E-commerce brands may have a Shopify interface that works really well, but once the brand expands offline, the brand is perceived more as real and tangible and as a serious actor in the market, standing out from other e-commerce brands.”* A study named “Nyckeln till lönsam E-Handel” brings up how e-commerce retailers need to either 1) differentiate themselves to build a price-premium or 2) have lower costs than competitors, in order to become profitable. To build a price-premium, added value connected to inspiration and relationships is of high importance (Bondesson & Karsberg, NoA Ignite p.9-12). The empirics revealed how an offline channel can be a tool to provide inspiration, experience and build relationships with customers, thereby also a tool in building a price-premium for e-commerce brands.

A common view from the empirics was that when establishing a new brand, it can initially be done easier online due to fewer resources needed. As pointed out by the E-commerce Manager at Company B *“All you really need is a web page and you can start selling at a small scale. But there will come a point in time when you want to scale the brand and target a broader customer group. When financially possible, an offline channel in some format is of high importance”*.

Furthermore, the empirics revealed that an offline channel serves as an important complementary tool to online brands in retaining customers. An offline channel brings additional value because they are able to provide customers with a compelling experience that is more limited in an online setting. Literature supports this notion and states how *“fewer visits to physical stores and less personal interaction might in the long run lead to weaker bonds and decreased satisfaction with and loyalty towards the retailer, which further underscores the importance of considering what the physical stores actually offer and what kind of values they provide”* (Hagberg et al, 2017, p. 266).

Further, it was revealed that the offline channel can help increase total sales. The offline channel serves as an important marketing tool and can help drive customers to the brand’s own online

channel after seeing the brand offline. The phenomenon of a physical store introduction leading to higher online sales has been confirmed by previous research done, referring to the billboard effect. The billboard effect is especially apparent for retailers with a low brand presence earlier (A. Goldfarb and K. Wang, 2017, p.717). Digital-born brands that are established online can thereby use the offline channel to grow and increase their overall sales. As outlined by the Head of Strategy and Insights at Company E, *“operating multiple channels, in general, captures customers with different needs and increases overall profitability and leads to higher sales”*. Consistent with the literature, it was found that the customer group who purchased on both channels, purchased more and that *“it is essential for retailers to persuade online customers to also shop offline”* in this regard (Hagberg et al, 2017, p. 266). Further literature highlights that *“adding channels is a form of increasing distribution, which lowers search costs and increases sales”* and that *“providing increased availability could increase sales for the retailer through higher share-of-wallet among existing customers...”* (Hernant & Rosengren, 2017, p. 306). The same study outlines that *“Converting online customers into customers at a physical store seems to provide more opportunities for additional sales than converting physical customers into online shoppers.”*(Hernant & Rosengren, 2017, p. 311).

From the empirics, however, the e-commerce channel still presented some advantages for customer retention purposes. One advantage was that the online channel can reach customers whenever through communication digitally via e-mail or text messages if the customers has agreed to receive these. This is more difficult offline if the retailer does not require the customer to register their purchase in-store also. Moreover, the online customer experience can be more easily controlled and delivered in a cohesive way, without the risk of factors such as employee behavior affecting the customer’s experience negatively.

The interviews conducted also revealed how consumers, especially the young audience, are self-aware and demand the touch-and-feel aspect of clothing items, especially for newer and unknown brands. To increase convenience, some consumers prefer to browse online and if possible shop it offline if the channel is available. Supporting customers in their purchasing journey and retaining them requires the retailer to understand what is necessary for achieving high customer satisfaction and confidence along their purchasing process. Findings have shown that facilitating a webrooming

behavior, where the customer can browse online and then purchase the product offline, leads to higher customer confidence and thereby customer satisfaction. The literature outlines that *“at the physical store, consumers should be allowed to touch and feel the products; this diagnostic information cannot be obtained elsewhere and increases choice confidence.”* (Flavian et al, 2019 p. 12).

Pop-up stores, short-term leasing of physical space, and showrooms were highlighted as relevant options for an e-commerce brand to expand offline and increase brand awareness, while also mitigating financial risk. This type of offline retail space was considered the most relevant for digital-born brands since the primary objective of the offline channel was established as existing for marketing purposes and catering to consumer needs since the online channel functions as the direct sales tool. It was outlined how temporary locations and short-term leasing can 1) facilitate flexibility for targeting the right customer demographics, 2) be used to test new markets, as well as 3) take seasonality into consideration and only be up and running when there is a high season for the brand to exist physically. The empirics had a similar view to temporary stores as previously conducted literature where it is stated how *“brand emphasis is generally a main focus of pop-up stores, with the intention of strengthening customer loyalty”* and how *“Because of their “nature” to close after a short period of time, pop-up stores are flexible and may for example also be opened to test new markets”* (Olk et al, 2019, p. 111).

Additionally, a showroom format simplifies for the retailer in terms of inventory handling and staffing purposes and can function as a lower-cost way of acquiring new customers and attracting them to the brand's online channel, compared to a traditional brick-and-mortar store. Previous literature has outlined that offline information delivery of products is the main reason for opening a showroom (Gang et al, 2020, p.679), but less focus on how it can serve as a channel for acquiring new customers.

Regarding an e-commerce retailer expanding into a physical space through a multi-brand retailer versus opening up a brand store, different views were collected. The Retail Marketing Manager at Company D highlighted that customer traffic is the main reason for using a multi-brand retailer to display your e-commerce brand. It was also noted how it can work in initially validating the brand,

when existing among other brands. The Retail Lead at Company D continues, stating that *“as an e-commerce brand that has not existed physically, it is strategically advantageous to place your brand among other similar brands. The traffic is most likely higher to this store than to the brand’s own store, especially if it’s a new e-commerce brand”*.

Spokespersons of a brand operating its own offline channel however brought up how it is more beneficial for a brand to operate its own offline channel for marketing purposes, for increasing customer loyalty as well as for controlling the customer experience. Previous literature on multi-brand stores vs single brands has arrived at the same advantages as operating single-brand stores. It is highlighted how *“multi-brand outlets fail to create a purchase experience that is based on the adoration of a specific brand, because they need to promote multiple brands at the same time”* and that *“Brands also have less control over the experience offered to customers in multi-brand (vs. single-brand) settings”* (Desmichel & Kocher, 2020, p.205).

5.3 Challenges for E-commerce Players

According to previous literature, paid placements in search engines have turned out to be one of the most successful and rapidly growing sectors in the online advertising industry. (Juan & Zhang, 2005, p. 769-770). A couple of years ago, digital advertising was cheap and the cost per thousand impressions (CPM) was insignificant for most retailers. Due to this, it seems to have been a successful solution for retailers to acquire customers online. Although, this is not what the market looks like today. Today, CPM is increasing at an enormous speed, and a lot of retailers do not have enough marketing budgets to tackle the increasing costs. (Rosenfeld, 2022) To overcome this, new ways of acquiring customers are required and were discovered based on interviews and literature. The CEO of Company H mentioned that today, physical channels (for the purpose of marketing) can be cheaper than digital marketing. The general customer acquisition costs in digital environments have and will continue to increase over time since digital ad spending is one of the main ways forward for e-commerce players to increase exposure. Due to this, a lot of companies strive to acquire customers in this way which nowadays leads to more and higher bidding situations. The B2B business developer at Company F confirms this and highlighted that operating online

today (and acquiring customers through online ads) tends to lead to a bidding war that is very difficult to win, especially for smaller actors.

The Head of Strategy and Insights at Company E states that it is becoming increasingly expensive to purchase traffic online, and more difficult to find the right traffic that will be valuable to your brand. One reason for this is due to the fact that third-party cookies will disappear due to privacy issues. The manager continues and shares that the offline channel will be more valuable here due to the high digital marketing costs but that *“it’s difficult to say what will be more cost-efficient in this regard since a physical store or a showroom on the right location incurs high costs as well”*. The PPC Manager at company A has seen an increase in cost per click year over year across all Retail Media and Social platforms and believes that it is due to the increased online shopping in recent years. Overall, the general belief that many of the people who were interviewed shared was that it is becoming more and more expensive to only exist online, and a potential solution to this problem could be to advertise through physical channels such as opening up a store. Here, a discrepancy was found compared to previous literature which stated that having online displays and, in particular, search advertising is more effective than traditional advertising (Dinner et al, 2014, p. 527-528).

The CEO at Company H highlights an example that puts light on how traditional advertising (physical) can be more effective than online displays. One example brought up regards the Swedish-based fashion brand CDLP who opened up a store in the middle of central Stockholm. This decision resulted in an average impression rate of 15 000 people per day who passed by the store. By doing this, the brand managed to get much more exposure and the ability to acquire new customers than they were able to do solely existing online. Although some interviewees pointed out that operating a physical store is costlier due to expenses like rent and personnel costs. However, they also acknowledged that running an online business offers unique advantages, such as access to valuable customer information through the collection of data. With the ability to track customer behavior and preferences, retailers can optimize their marketing strategies to reach their target audience more accurately and offer personalized experiences. These advantages are not as easily attainable in a brick and mortar business model. This view where one stated that it was more expensive to run a store compared to operating online and retaining customers was though not

shared by all due to the previously highlighted rising costs that come with collecting customer data which many interviewees mentioned.

5.4 Does the price-image of the retailer impact the importance of the offline channel?

Based on information collected from both preeminent individuals within the retail industry as well as from customers, the views regarding this question were somewhat split. The Marketing Manager at Company A and the E-commerce Manager at Company B shared a similar view regarding the question of whether or not the price image for a digital-born retailer affects the importance of the offline channel. Both believed that the customer experience was more important when shopping from a high-end retailer. Customers expect higher service and want to be able to see and feel the products before deciding to conduct a purchase due to them often having to put more effort into the purchase decision. Evidence for this was found in previous literature that highlighted that customers who shop more luxury goods prefer to shop in-store to be able to feel, and see the products. They value aesthetic appeal and this in turn leads to a more satisfying experience (Burns et al, 2013, p. 885-890). However, some interviewees highlighted that it could be more important to have a physical store for low-end retailers. This is due to them believing that the customers need to touch, feel and see the products before conducting a purchase and that the experience that the customer receives in-store may play a crucial role in converting the customer. For high-end brands, it was stated that customers already have trust towards the brand and therefore feel more confident to order the products online since they already have a strong sense of loyalty to the brand, and the overall brand reputation tends to be high.

The general perception among some of the customers that were interviewed was that they wanted to see and feel the products as well as be part of the experience once visiting more high-end stores. By “experience,” they referred to situations such as receiving a luxury bag and gift wrapping after making a purchase or being attended to by a salesperson who is attentive and dedicated to making the customer feel appreciated and important. Although not all customers who were interviewed shared this view. Some tended to feel a bit intimidated by salespeople and often experienced them as pushy. They experienced them putting a lot of pressure on the customer and that the entire store atmosphere was very “serious” in an unpleasant manner. Due to this, they preferred to order high-

end products online instead. This is something that has not been highlighted in previous literature (Burns et al, 2013, p. 885-890). Some customers also highlighted that they often felt confused by the in-store experience while visiting low-end fashion brand stores due to the low level of organization and the inadequate customer service. It can therefore be concluded that the importance of offline channels for customers depends on what type of fashion product is being purchased with regard to price point as well as the individual in question's shopping habits.

In general, the question of whether or not price-point matters for the fashion retailer when deciding to operate a physical store or not differs a lot. It depends on the overall previous brand reputation and the preferences that individual customers have. The fashion retailer therefore needs to consider the question carefully and make sure to be aware of their target audience and their preferences, as well as their brand reputation to satisfy as many customers as possible.

5.5 Virtual shopping today will not challenge the traditional offline channel.

Based on insights from the interviews held, the general perception is that virtual shopping will not be a direct threat to offline channels, but rather an enabler to increase value for the customer. Although this does depend on what the customer in question is searching for. The E-commerce manager at Company B mentions that it could be a threat to some types of products, but that it also depends on which city or location that the customer lives in. The manager believes that there will be an increase of the usage of virtual tools in smaller cities where there is limited access to physical stores. This view, that it seems to depend on where the customers are located (geographics) as well as what type of product the customer is searching for, is shared by a few interviewees. This is though not something that previous literature has outlined. Another insight received from the interviews was that the use of virtual shopping, AR and VTO could potentially function as a complement to the overall shopping experience, but not outcompete it completely. The B2B Business Developer at Company F believed that it will serve as a complement. It could be seen as added value to customers since it contributes to simplifying the digital shopping experience, but it can never replace the physical touch and feel experience. This view of the matter was shared by previous literature on the subject where it was stated that it played a role in shaping the customer experience and that it has been proven to add value to the customer journey (Flavián et al, 2019, p.

10). One other insight that was shared by some of the people who were interviewed was that it could serve as a tool to reduce returns. Previous research has shown that VTOs can in some cases contribute to reducing fit uncertainty (Thomas, 2023, p. 113-114), and this view is shared by The Head of Strategy at Company E stated that the increase in virtual tools might lead to avoided returns. If the company is able to inform the customers more regarding the products and provide them with tools to try them on physically, the customer will be able to make more informed purchase decisions and instead of ordering three pairs of pants in different sizes, this number could be limited to one.” The research continues and confirms what was anticipated by The Head of Strategy at Company E as well as The Head of Strategy at Company E (who shared the belief that it could be a way for retailers to reduce returns) that the use of virtual shopping and more specifically VTO tend to contribute to reduced returns (Thomas, 2023, p. 113-114). Although, previous literature also mentioned that it also tends to increase sales. None of the individuals who were interviewed mentioned that it would have a direct link to increased sales, rather a decrease in sales since the Head of Strategy at Company E stated that it could lead to customers ordering fewer products due to the decreased uncertainty regarding sizes.

6. Discussion

6.1 Revisiting research questions

6.1.2 Will the offline channel be perceived as a competitive advantage for driving customer acquisition and retention for digital-born fashion retailers?

In today’s digitalized world and with the growth of e-commerce, digital-born retailers will need to consider how the use of an offline channel can complement their current digital offerings. The findings of this study can conclude that the role of the offline channel has changed and become less relevant as a transactional tool, but more relevant for creating differentiation, spurring brand awareness and driving customer retention and acquisition in a highly competitive digitized environment. The offline channel also serves as an important tool to drive online sales in the same geographical area through the billboard effect. Regarding the future of physical retail space, the CEO of Company H said “*We have seen an increase in the demand for retail space for more*

modern brands who wish to have a larger foothold in the market and establish themselves as a real actor post-pandemic". The Head of Strategy and Insights at Company E recognizes that e-commerce will continue to grow and that *"starting digitally is easier and many times more relevant than starting offline, but that the offline presence plays an important part in eventually growing the brand."* The offline channel, in the form of a showroom/concept store, temporary store or traditional store will cater to consumer needs who wish to receive an experience, connect with the brand and physically inspect the products before purchase. The majority of interviewees also highlighted that due to rising digital marketing costs, the offline channel may serve as a more relevant marketing tool for e-commerce brands in the future, to cut costs. Due to the highly competitive digital environment, bidding wars will be increasingly common, resulting in higher ad costs that become unrealistic to adhere to long-term. Therefore, an offline presence can serve as a cheaper marketing tool long-term, especially through temporary stores and showrooms that incur fewer costs due to the flexibility in opening time as well as less inventory handling and staffing. This physical presence will work to acquire new customers, as well as retain current ones by strengthening the relationship with customers and your brand. Existing physically at a multi-brand retailer deemed as a relevant choice to begin with if not financially possible to open an own brand-store. This would work in increasing overall brand awareness and cater to the touch-and-feel aspect, while also increasing validation for the brand through existing among other similar brands. However, for marketing purposes, the majority of findings could conclude how a single-brand store is of greater value for connecting customers to a specific brand than only existing at a multi-brand store.

6.1.3 How will the price image of a fashion retailer affect the importance of an offline channel?

Based on empirical findings and previous literature, it can be stated that the price image of a physical fashion retailer may affect customers' demand regarding having an offline channel, but perhaps not in the way that was previously expected. It is concluded that people who are shopping from high-end retailers tend to value the aesthetic appeal and prefer to shop in-store due to them wanting to be able to touch and feel the products as well as receive an in-store experience. However, some customers who shop from high-end fashion retailers highlight that

they have a strong loyalty towards the brand and therefore order products online since they trust the fashion retailer. This is not always the case when shopping from low-end fashion retailers. Some consumers highlighted that they wanted to visit the store to feel and touch the products since they did not trust the brand to the same extent. It is therefore clear that whether or not an offline channel is important for retailers depending on price point cannot be determined based on the data collected here, since the perception among the different sources differed quite a lot. What can be stated here is that further research on the subject is needed, but that the need for an offline channel is of high importance for both high-end and low-end retailers.

6.1.4 Will virtual shopping be a threat or complement to physical stores?

Based on insights collected from the interviews made, it can be stated that for now, virtual shopping solutions will not pose a direct threat to offline channels. The general view is that it instead will serve as a complement and enable retailers to increase value for their customers. It should be seen as adding value to both the customers and the retailer since it can contribute to simplifying the digital shopping experience. It can though not replace the physical feel and touch experience, which has proven to still be an important aspect for customers in their shopping journey. From the retailer's perspective, it could also serve as a tool to reduce returns since the customer will be able to make more informed purchase decisions due to for example VTOs. Although one has to bear in mind that the development of virtual shopping and its use of it may be affected by where the customer in question is located. In areas where there is limited access to physical stores, there might be a higher demand for these types of solutions. This is though something that needs to be further researched.

6.2 Managerial implications

E-commerce today is still growing in the Swedish market and views that emerged from the study agree that offering your brand digitally is a necessity today in order to build your brand, adhere to consumer expectations and compete with competitors. However, e-commerce fashion retailers today are facing a number of challenges that are connected to the online retail format and as several

themes have outlined, the offline channel can be used as a tool to provide additional value to increase customer- retention, -acquisition and lowering customer acquisition costs. By understanding how and when a physical presence can provide additional value to a brand, fashion brands can navigate the changing retail landscape and sort out what strategy to put in place to grow the brand. Our research highlights emerging issues for e-commerce players, of growing digital marketing costs and third-party cookies disappearing, and how the physical channel in this regard may become of higher importance to cost-effectively market a brand. Moreover, different physical formats are discussed, where temporary stores and short-term leasing of retail space are deemed as most optimal options to reap the benefits with a physical channel without incurring unnecessary costs. The empirics also showed how an offline channel is important for both high-end and low-end fashion brands but in different aspects. Insights received also showed that virtual shopping does not currently pose a direct threat to the offline channel, although some views could conclude it is beneficial for retailers to invest in it, to cater to those consumers who can not visit a store offline. The research gives insights into how digital brands can leverage an offline presence to spur brand awareness and differentiate themselves from other e-commerce brands, and how writing this aspect off may provide a greater risk than the costs associated with investing in it.

6.3 Limitations and further research

The study included a combination of the retailer's perspective and consumer's perspective in order to view similarities and differences between the two stakeholders and put theory into practice, compared to previous research that had been done on one of the two perspectives alone. However, the study has been limited to the Swedish market. Although reasonable inferences can be done with regard to the insights from the retailers existing globally, the findings are limited to this market and have not been empirically tested in other geographical markets. The consumer insights are limited to a focus group of twelve people of varying ages, so to further establish the reliability of consumer views, quantitative research is needed to support this. The scope of this research was limited to fashion retailers, in order to increase the depth and relevance of the empirical findings.

Due to the constantly changing omnichannel context and shift in consumer behavior, we hope the empirical findings will contribute to retail practices and in determining the future offline channel for e-commerce brands, building on previous research done on the topic.

The findings of the study included that a physical channel can potentially function as a cheaper marketing tool for e-commerce fashion brands long-term, due to growing customer acquisition costs digitally and third-party cookies disappearing. Targeting customers digitally will be more of a challenge for e-commerce players, more focus may be needed on establishing a physical presence in the future and targeting the right customer demographics physically. However, a cost-analysis would need to be done to accurately determine what marketing will be most cost-effective in the future. As this study was limited to qualitative research and retail expert perceptions on this topic, no quantitative data was analyzed to determine this conclusion quantitatively. It would therefore be interesting for further research to study digital marketing costs through the collection of data and analyzing marketing expenditures through a case-study research method. Due to limitations in getting access to this type of data, the study has relied on perceptions of this recent phenomenon.

Furthermore, our findings could conclude that virtual shopping currently does not threaten the traditional role of the offline channel, with regard to viewing products physically. Consumer readiness to use virtual shopping as a replacement tool proved to be limited, which highlighted the offline channel's relevance for this aspect. It would be interesting to research the topic further quantitatively and qualitatively, when technological development and virtual shopping have gained a larger foothold, in seeing if it poses a threat to the relevance of an offline channel.

We also see potential for further research to be conducted to determine whether the price image of retailers affects the importance of the adoption of an offline approach. Due to the limited size of samples, and not effectively comparing retailers with different price points, the insights received in this study are limited in their reliability. Researching this relationship in more depth could provide useful information for retailers navigating the omnichannel context and choosing what strategy to adhere to.

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8. Appendix

Exhibit 3: Key questions explored during the interviews with retail professionals.

What role do offline channels play in driving customer acquisition, loyalty, and retention compared to online channels?

What role does the physical touchpoint play in the marketing mix of the brand/retailer?

Does the importance of the offline channel change depending on the exclusivity (the price image) of the retailer in question?

How does the customer acquisition cost differ between digital and offline marketing? Does this affect the future of marketing strategies?

Do you view that physical stores are affected by the development of virtual shopping?

What are the pros and cons of a brand operating its own offline store compared to existing at a offline multi-brand store/marketplace?

Have you noticed a rise in the cost of online advertising recently?

What factors do you think have contributed to the increase in online advertising costs?

Exhibit 4: Key questions explored in the focus group.

What do you think is the main function of the physical store for online-born retailers today?

How much do you purchase online versus offline with regards to fashion brands, and have this changed over time?

Do you believe that physical stores create additional value for you? If yes, what?


What will the offline role be in the future do you believe? Will you continue to shop there?

Does the price of the retailer affect the choice of channel that you use?

Does a physical channel affect a retailer's sense of establishment?

What pros and cons exist with a multi-brand physical store versus a brand's own physical store, if there are any? Which type of physical store do you shop with more? Why?

Exhibit 5: Consent form.



Consent to participation in student's survey / interview

The student's project. As an integral part of the educational program at the Stockholm School of Economics, enrolled students complete an individual thesis. This work is sometimes based upon surveys and interviews connected to the subject. Participation is naturally entirely voluntary, and this text is intended to provide you with necessary information about that may concern your participation in the study or interview. You can at any time withdraw your consent and your data will thereafter be permanently erased.

Confidentiality. Anything you say or state in the survey or to the interviewers will be held strictly confidential and will only be made available to supervisors, tutors and the course management team.

Secured storage of data. All data will be stored and processed safely by the SSE and will be permanently deleted when the project is completed.

No personal data will be published. The thesis written by the students will not contain any information that may identify you as participant to the survey or interview subject.

Your rights under GDPR. You are welcome to visit <https://www.hhs.se/en/about-us/data-protection/> in order read more and obtain information on your rights related to personal data.

<small>Project title</small> The future of the offline channel for digital born retailers	<small>Year and semester</small> 2023 VT6
<small>Aim of the study</small> What will the market look like in the future for digital-born retailers	
<small>Students responsible for the study or interview</small> Anna Källebo, 50714 & Michelle Malmström, 50751	
<small>Supervisor and department at SSE</small> Karina T. Liljedal, Department of Marketing and Strategy	<small>Supervisor e-mail address</small> karina.liljedal@hhs.se
<small>Type of personal data about you to be processed</small> Current role and company name, no names will be stated.	

I have taken part of the information provided above and consent to take part in this study:

<small>Signature</small> <small>Name</small>	<small>Place and date</small>
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