OMNICHANNEL AND THE EFFECTS TOWARDS SMEs PERFORMANCE

PHOON SIEW TENG

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

PHOON SIEW TENG BTEC 2019 UTeM

APPROVAL

‘I / We, hereby declared that I / We had read through this thesis and in my / our opinion that this thesis is adequate in terms of scope and quality which fulfill the requirements for the award of Bachelor of Technopreneurship with Honors’

Signature : ………………………….

Name of Supervisor : MS. ATIKAH SAADAH BINTI SELAMAT

Date : ………………………….

Signature : ………………………….

Name of Panel : DR. HAZMILAH BINTI HASAN

Date : ………………………….

OMNICHANNEL AND THE EFFECTS TOWARDS SMEs PERFORMANCE

PHOON SIEW TENG

This Thesis is submitted in partial fulfilment of the requirements for the award of
Bachelor of Technopreneurship with Honours (4BTEC)

Faculty of Technology Management and Technopreneurship

Universiti Teknikal Malaysia Melaka

20th December 2019

DECLARATION

“I admit that this report is the result of my own, except certain explanations and passages where every of it is cited with sources clearly.”

SIGNATURE : …………………………

NAME : PHOON SIEW TENG

DATE : …………………………

ABSTRACT

In this rapid growth of Information Technology (IT), omnichannel strategy is a new strategy that essential to provide an innovative and seamlessly customer experience. Most businesses have started to implement the omnichannel strategy to facilitate in the improvement of the firm performance. Omnichannel strategy will benefits the firms by create the competitive advantages so they will be able to compete globally. In this study, the scope is confined to study about the omnichannel and the effects towards the SMEs performance. This research used quantitative method to distribute 256 questionnaires to SMEs in Malacca state for primary data collection. The data collected is analysed by SPSS software involve Cronbach Alpha, Pearson correlation coefficient and multiple linear regression. The results obtained show that all the hypotheses are accepted. The findings of this research may provide the SMEs a greater understanding about how omnichannel strategy can contribute to the firm's performance.

TABLE OF CONTENTS

CHAPTER **TITLE** **PAGES**

APPROVAL ii

TITLE iii

DECLARATION iv

ABSTRACT v

TABLE OF CONTENT vi

LIST OF TABLES xi

LIST OF FIGURES xii

LIST OF ABBREVIATIONS AND SYMBOLS xiii

LIST OF APPENDICES xiv

CHAPTER 1 INTRODUCTION

1.1 Background of Study 1

1.2 Problem Statement 3

1.3 Research Questions 4

1.4 Research Objectives 4

1.5 Scope of Study 4

1.6 Limitation of Study 5

1.7 Significant of Study 5

1.8 Summary 5

CHAPTER 2 LITERATURE REVIEW

2.0 Introduction 6

2.1 Omnichannel Retailing 6

2.2 Omnichannel Fulfilments 13

2.3 Omnichannel Marketing 17

2.4 SMEs Performance – Profitability 20

2.5 Theoretical Framework 23

2.6 Conceptual Framework 24

2.7 Research Hypotheses 24

2.8 Summary 24

CHAPTER 3 RESEARCH METHODOLOGY

3.0 Introduction 25

3.1 Research Design and Population 25

3.1.1 Population and Sample 26

3.1.2 Sampling Method 26

3.1.3 Unit of Analysis 26

3.2 Data Collection Method 27

3.3 Questionnaire Design 27

3.4 Time Horizon 28

3.5 Data Analysis 29

3.5.1 Descriptive Analysis 29

3.5.2 Pilot Study 29

3.5.3 Pearson Correlation Analysis 30

3.5.4 Multiple Linear Regressions 31

3.6 Summary 31

CHAPTER 4 DATA ANALYSIS AND RESULTS

4.0 Introduction 32

4.1 Pilot Test 32

4.1.1 Reliability 33

4.1.1.2 Reliability of Total Variables For Pilot Test 33

4.2 Descriptive Statistic On Company Profile 34

4.2.1 Branches 34

4.2.2 Number of Employees 35

4.2.3 Industry 36

4.2.4 Implementation of Omnichannel Strategy 37

4.3 Descriptive Statistic On Respondent Profile 38

4.3.1 Position 38

4.3.2 Age 39

4.3.3 Education Level 40

4.3.4 Awareness Of The Term And Meaning Of Omnichannel 41

4.4 Test Reliability 42

4.5 Descriptive Analysis On Collected Data 43

4.5.1 Independent Variable 1: Omnichannel Retailing 43

4.5.1.1 Type of Store 43

4.5.1.2 Type of retail channels 44

4.5.1.3 Mean & Standard Deviation 45

4.5.2 Independent Variable 2: Omnichannel Fulfillment 46

4.5.2.1 Fulfillment Channels 46

4.5.2.2 Mean & Standard Deviation 47

4.5.3 Independent Variable 3: Omnichannel Marketing 48

4.5.3.1 Marketing Channels 48

4.5.3.2Mean & Standard Deviation 50

4.5.4 Dependent Variable: SMEs Performance 51

4.6 Pearson Correlation Analysis 52

4.7 Multiple Linear Regressions Aanalysis 54

4.8 Summary 56

CHAPTER 5 CONCLUSION

5.0 Introduction 57

5.1 Research Objective Summary 57

5.1.1 Objective 1 58

5.1.2 Objective 2 59

5.1.3 Objective 3 60

5.2 Research Implication 61

5.3 Recommendation 62

5.4 Summary 63

REFERENCES 64-67

APPENDCES 68-74

LIST OF TABLES

NO	TITLE	PAGE
3.1	Five-point Likert Scale	28
3.2	Coefficient Value of Cronbach's Alpha	30
3.3	Strength of Pearson Correlation Coefficient	30
4.1	Cronbach's Alpha of All Variables	33
4.2	Frequency of Branches	34
4.3	Frequency of Employees	35
4.4	Frequency of Industry	36
4.5	Frequency of Omnichannel Implementation	37
4.6	Frequency of Respondent's Position	38
4.7	Frequency of Respondent's Age	39
4.8	Frequency of Respondent's Education Level	40
4.9	Frequency of Omnichannel Term and Meaning	41
4.10	Reliability Statistics	42
4.11	Frequency on Type of Store	43
4.12	Retail Channels Used	44
4.13	Fulfilment Channels Used	46
4.14	Marketing Channels Used	48
4.15	Strength of Pearson's Correlation Coefficient	52
4.16	Model Summary of Multiple Regression	54
4.17	ANOVA of Multiple Regression	55
4.18	Coefficient of Multiple Regression	55
5.1	Beta and Significant Values of Independent Variables	58

LIST OF FIGURES

NO	TITLE	PAGE
2.1	A.T. Kearney Omnichannel and Omni-integrated framework	23
4.1	Branches	34
4.2	Number of Employees	35
4.3	Industry	36
4.4	Omnichannel Implementation	37
4.5	Position	38
4.6	Age Group	39
4.7	Education Level	40
4.8	Term Meaning	41
4.9	Type of Store	43
4.10	Independent Variable: Omnichannel Retailing	45
4.11	Independent Variable: Omnichannel Fulfilment	47
4.12	Independent Variable: Omnichannel Marketing	50
4.13	Dependent Variable: SMEs Performance	51

LIST OF ABBREVIATIONS AND SYMBOLS

SME	Small and Medium Enterprise
CRM	Customer Relationship Management
IT	Information Technology
U.S.	United States
SFS	Ship-From-Store
BOPS	Buy-Online-Pickup-In-Store
3PLs	Third Party Logistics
IMC	Integrated Marketing Communication
SPSS	Statistical Package for the Social Sciences
R	Omnichannel Retailing
OF	Omnichannel Fulfilment
M	Omnichannel Marketing
p	SMEs Performance

LIST OF APPENDICES

APPENDICES	TITLE	PAGES
	Gantt Chart PSM 1 & 2	68-69
	Questionnaire	70-74

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

A new distribution strategy, omnichannel strategy is the mixture of all the physical and digital channels that provide an innovative and seamlessly customer experience. It is also said to be a cross-channel content strategy, the resources and information are designed to integrate. Omnichannel is defined as seamless and effortless, high-quality user experiences that take place within and between contact channels (Butte, 2015). The strategy has been used in many industries, including financial services, healthcare, government, retail and telecommunications industries. However, implementing this strategy is a lengthy and tiring process, which needed to be well-planned and detailed.

Multichannel, cross-channel, and omnichannel are usually applicable interchangeably and have unclear distinction (Norbert Beck, 2015). In the other hand, Verhoef (2015) claims that theory from journals and publications recently tend to talk about seamless omnichannel retailing. There are three fundamental elements need to be considered to make this strategy successful: one must offer the clients the services they expect, one must manage the flow of the products, information and finances and the last is one must have real time updated information regardless of the distribution channel. Services both in physical store and website or m-commerce provided must be the same. The product process is coherent and there is no difference between the prices displayed on every single distribution channels.

According to the internal studies, the omnichannel strategy adopted by Metro Cash & Carry Romania was successful; customers purchase 80% more goods than single channel and 30% more from offline stores. Metro was the first online stores, in term of the category of cash and carry stores, implementing an omnichannel strategy that begins with the consumer. Adoption of the omnichannel strategy as a result it able to attract new customers and the online shop generated new customers for the offline stores as well (Mihaela Gabriela Belu, 2014).

The blooming in the e-commerce sector is cause by the rapid development of Information Technology (IT). There are numerous ways of reaching potential customers have resulted in a fast growth in online sales. E-commerce is taking off in Malaysia. From the statistics department of Malaysia, the e-commerce growth rate is expected to grow from the 10.6% in 2016 to 20.8% by 2020. The highest internet penetrations of 85.7% are in Southeast Asia, and almost 140% of mobile penetration. This clearly shows that Malaysia has become one of the fastest growing emerging e-commerce markets.

According to the Star, Kuala Lumpur, December 3, 2018 - The National eCommerce Council (NeCC) achieved in the forming and growing of the e-commerce ecosystems economical contained official listing of 120,000 online businesses. The initiative of the Digital Free Trade Zone (DFTZ) has speed up the expansion of electronic commerce practices by developing an action plan for national SMEs to undergo business. Exceeding 5,000 Malaysian SMEs have enrolled and begun exporting via the Alibaba.com website.

There are 907,065 of SMEs in Malaysia while 98.5% of business establishments in Malaysia are SMEs, and 36.6% of Malaysia’s GDP is contributed by SMEs in 2016. Malaysian SMEs is the largest business establishment and vital part of the national financial development in addition as the backbone of the industrial development. SMEs can be categorized into manufacturing, agriculture, mining, construction and services. However, only 28% out of 90% of SMEs businesses have an online presence. Ganesh Kumar Bangah claims that it is essential for businesses embark on an omnichannel strategy because they are losing out on a huge market of online buyers by not having any online presence (Kandasivam, 2018).

1.2 PROBLEM STATEMENT

Due to rapid changes in information technology, there is a trend where more and more SMEs engage in the online business or e-commerce. Hence, supply chain management and logistics management play a vital role in helping those SMEs. Exposure of omnichannel strategy is still less and most SMEs are lacking of experience and knowledge towards this strategy. Based on SMEBIZ (2018), Maxis head of business development Senthil Danapalan says consumers are spending most of the money shopping online as it is easier, more convenient, and save time; with the quick growth of e-commerce there is huge potential for traditional SMEs to leverage the use of technology and digital solution to transform the retail experience into one that is more extensive and relevant for the customers.

Previously when customer wanted to purchase, for example a television, he had to go either to a physical store or warehouse to see what price was offered and browse through the functions and parameters of the brands. January 22, 2015 Multichannel Retail report cited: Only roughly 55% of companies have a cross-channel inventory visibility that can transfer across channels. Remaining of roughly 45% of all companies are not taking this approach, an opportunity presents themselves for those who do invest. Visibility is an element to make omnichannel strategy works effectively. The complexity of omnichannel may cause these SME not to take risk as it may fail. More channels mean more complexity.

Today’s consumers are educated, connected and digitally savvy that cause drastic alteration in the retail phenomenon. Their increasing needs and wants are easy access, quickness and a seamless experience, whether they are purchasing from physical retail stores, online or alternative channels. Retailers compete to stay connected with customers on how they are interrelating with their brand; however, many retailers are still currently using the old systems that were originally created for an isolated channel. Thus, data for every single channel is either stored in a different database or even a different server. Retailers cannot afford to have siloes information for each point of business as consumers demand greater and greater. The lack of awareness about the effects of omnichannel towards SME performances therefore, the research was carried out to find out the answers.

1.3 RESEARCH QUESTION

1. What factors of the omnichannel strategy would be the greatest impact on SMEs performances?
2. What are the relationships between omnichannel strategy factors towards SMEs performance?
3. What solutions can be recommended for SMEs to effectively utilized omnichannel strategy to improve business performance?

1.4 RESEARCH OBJECTIVE

This research is to examine the effects of omnichannel strategy towards SMEs performance. Following is the research objectives:

1. To study which factors of omnichannel strategy that has the greatest impact on SMEs performance.
2. To study the relationships between the omnichannel strategy factors towards SMEs performance.
3. To recommend solutions for SMEs in order to effectively utilized omnichannel strategy to improve business performance.

1.5 SCOPE OF STUDY

The research is mainly about discussing the omnichannel strategy that consists of omnichannel retailing, omnichannel fulfilments, and omnichannel marketing and the effects of it towards SMEs performance especially in firm’s profitability. The research will be held in Malacca state which mainly focuses on small and medium entrepreneurs who operate their business both the in the physical and online stores. Those businesses are registered under Companies Commissions of Malaysia (SSM) which categorized into sole proprietorship, partnership, and corporation.

1.6 LIMITATION OF STUDY

There will be a few limitations when carry out the research. Firstly, researcher assumed that all respondents can fully understand what omnichannel is hence will make the right choice when answering the questionnaires. Next, researcher assumed that all respondents will sincerely and with no bias when providing the information. Lastly, researcher assumed that all respondents can truly participate and give the relevant opinion when doing the questionnaire.

1.7 SIGNIFICANT OF STUDY

Entrepreneur has to be energetic and adaptable to the transformations that are happening in the current retail landscape. Consumers are now the ones who are governing and leading the route. Continue with the pace to prevent inhibition of business that with greater mistakes and inefficient production; spoiled and disappointed customers, causing a huge loss of profits and incapable to expand and innovate. Recent years, "omnichannel" has become retail's favourite buzz phrase, alluring the interest of both businesses and marketers. Omnichannel strategy is a business strategy that organizations apply to provide a consistent and unified customer experience. Therefore, through this research we are able to study about the contribution of omnichannel especially in the areas of retailing, process fulfilment and marketing towards SMEs business performance.

1.8 SUMMARY

As a conclusion, the study background and the problem statement regarding the topic of my research have been discussed; then followed by the definition and explanation on omnichannel strategy. The effects of omnichannel towards SMEs performance has been reviewed in this part. The research questions and research objectives also have been discussed. The scope and limitation of this study that specifically further explain were stated above. The last element is the significance of study has been mentioned in this chapter.

CHAPTER II

LITERATURE REVIEW

2.0 INTRODUCTION

This literature review consists of the previous studies on omnichannel strategy, the element of it and it impact toward business performances. It includes literature review on the concept and definition of omnichannel retailing, omnichannel fulfilment and omnichannel marketing and also the model and theories related to omnichannel strategy and business performance of small and medium enterprises (SME). We can develop the conceptual framework referring to the information from the literature review.

2.1 OMNICHANNEL RETAILING

The Latin word "*Omni*" is defined as "all" or "universal" which business professionals propose and signify 'omnichannel' as an advancement of the multichannel where channels are used simultaneously rather than in parallel (C. Lazaris, 2014). In academia, Rigby (2011) invented the term 'omnichannel' and is meant as an interconnected sales experience that blends the benefits of physical store with the data-rich of online commerce. This meaning is then extended by embracing the concurrent usage of channels and the knowledge that obtained from their integrated merging. After all, these definitions of the word omnichannel have one similarity; service or purchasing experience must be interconnected while using the entire medium.

Omnichannel retail describes as a seamless integration of an e-commerce channel and a network of physical shops. Recently, it is widely used by companies across the retailing industry (Bell, 2014). Yet the previous multichannel and electronic commerce findings debated about such interconnection and seamless experience across the channels, the companies' self-governing the evolution and controlling of these channels is still limited. Omnichannel retailing expands the theory of multichannel retailing with a wider distribution channel emphasis and area, also the arising digital channels. It is a interdependent supervision of the various possible available channels and customer touch-points, ensuring that the customer experience and the performance in all channels is optimized (Verhoef, 2015).

A complicated adaptive system in omnichannel retailing consists of several factors that are correlated to one another (Saghiri, 2017). These factors are used for determining and specifying the omnichannel foundation strategy. Omnichannel retailing is usually linked and directed by technology because high technology provides greater opportunity of incorporation of the retail channels. Piotrowicz and Cuthbertson (2014) specify several disputes in channel integration, the effect of mobile technologies and social media, and the different role of classic old stores, diverse customers group, agreement between secrecy and customisation, and the urgency to recreate, or even establish from scratch, the whole supply chain. Key objective in omnichannel retailing is to promise in delivering a seamless customer experience.

Firstly, we need to understand and develop a preliminary omnichannel strategy. According to Picot-Coupey et al. (2016), transition period is needed to look through, include the undergoing of changes in organisation, culture, management, marketing, and resources usage when implementing a new omnichannel strategy. They also recommend that such strategy should be followed by adjusting the marketing mix strategy, information systems, and Customer Relationship Management (CRM). The differences between physical stores and online stores will vanish when retailing develops towards a seamless omnichannel shopping experience (Brynjolfsson et al. 2013).

There are various roles played by the retailers in business activities, in such, delivery services, logistics management, sales tools, and marketing activities that are closely related to omnichannel integration (Avensia, 2015). Shipment and logistics integration include click-and-collect, in-store returns and in-store packaging, while omnichannel sales tools are applying the technology like pads and in-store screens (Herhausen, 2015). Besides, omnichannel promotion is about delivering consistent information to smooth and enhance integrated channel use. Retailers who decided to implement omnichannel retailing aim to provide better respond to demands of the customers and hence increase their level of satisfaction.

A higher service level provided by retailers would be able to obtain a higher chance of customer loyalty, which is the critical when considering retail activities. A satisfied customer will be more likely to stick o the same brand and the retailer that offering multiple shopping channels as there are more opportunities for the firm to offer good customer service and stick to customer demands. Offering the customers more alternatives in regard to the act of purchase and return policy increases the opportunity and approachability therefore obstacles between channels can be reduced. As a result, directly it can also increase the trade (Capgemini Consulting, 2014; Lewis, Whysall & Foster, 2014).

Omnichannel strategy execution required a global affiliate of the brand, enhanced electronic commerce assist for business partners, and trimming the store experience with instore digital creations, such as mobile applications and electronic commerce platforms (Rina Hansen, 2015). Hubner et al. (2016) say that to recreate the final mile delivery and fulfilment in grocery retailing many aspects have to be considered, such as the existing system of shops and warehouses, nation’s policy, customer behaviour, the degree of automation, law requirements, and etc. (Alexandar Hubner, 2016) At the same instant, such new logistics networks have to be flexible and incorporated across all channels (Satu Peltola, 2015).

The portion of retail online sales is expanding internationally all over the world (Chris Biggs, 2013). This is due to an increase in sales in existing online channels, as well as the continuously market entry of bricks-and-mortar retailers into e-commerce. The distribution concepts of retailers who operate both physical retail stores and online channel, these retailers refer to as “omnichannel” retailers. Customer can purchase a product in a website and choose either prefer shipment to house or pickup at store, and may have identical channels for product returns (Banker and Cooke 2013). Forward looking retailers need to understand the changing nature of demand and carefully managed to deliver a consistent experience across all channels.

An omnichannel retailer’s distribution system bounds not only the shipment of goods to stores and consumers, but also backward distribution concepts, since products purchased online require options for customers to return products, if they do not want to keep them (Hubner, Holzapfel and Kuhn 2016).

1) Forward distribution system is normally categorized by its origins (=send-off locations), destinations (=points of reception) and associated links. In order to fully utilized the distribution systems within omnichannel retailing, we need to examine the various types of origins and destinations in the physical distribution structure, probable consignment processes and modes (Fernie and Sparks 2009; Hubner et al. 2013a).
2) Backward distribution system includes the movement of items returns from the buyer to the seller, and the destinations where returns are carried out (Agatz et al., 2008). It also manages the shipments from the customers and stores. Another term for this distribution system can be called as “returns” or “reverse logistics” (Fleischmann Et al. 1997; Brito and Dekker 2004).