

## **A COMPREHENSIVE REVIEW ON PHYGITAL TRANSFORMATION: A NEW WAY TO ENGAGE CUSTOMERS**

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**Manish Kasbekar**

Registrar Sinhgad Institute of Management and Computer Application, Narhe, Pune.

**Dr. Rajesh Gawali**

Associate Professor, Sinhgad Institute of Management and Computer Application, Narhe, Pune.

### **Abstract**

Phygital transformation, the seamless integration of physical and digital experiences, has emerged as a crucial strategy for businesses to enhance customer engagement. This paper explores the evolution, benefits, challenges, and future potential of phygital transformation in various industries. Through a comprehensive review of existing literature, this study aims to highlight how companies can leverage phygital strategies to enhance customer experiences and build long-term relationships.

**Keywords:** Phygital transformation, customer engagement, digital integration, physical-digital convergence, marketing strategies

### **Objectives of the Study:**

1. To analyze the concept and evolution of phygital transformation
2. To evaluate the impact of phygital transformation on customer engagement and business performance
3. To identify the key benefits and challenges associated with implementing phygital strategies.
4. To explore future trends and innovations in phygital transformation

### **Research Methodology:**

This study adopts a **descriptive and exploratory research design** to systematically analyze existing literature, industry reports, and case studies on phygital transformation. The approach enables a structured review of how businesses integrate physical and digital experiences to enhance customer engagement. Case studies of companies implementing phygital strategies (e.g., Nike, Amazon) is mentioned.

**Scope:** This review focuses on industries where phygital strategies are significantly impacting customer engagement, such as retail, banking, healthcare, and entertainment.

**Limitations:** The study is based on secondary data and does not include primary data collection through surveys or interviews. Additionally, the rapid evolution of technology means some insights may become outdated over time.

## 1. Introduction

As businesses aim to deliver more personalized and immersive experiences, the fusion of physical spaces with digital interactions is becoming increasingly essential. By enhancing customer engagement and optimizing operations, this integration is driving digital transformation across various industries. Known as the "phygital" experience, this approach blends the tangible aspects of physical interactions with the seamless convenience of digital technology. The modern retail landscape is evolving rapidly, fueled by advancements in science and technology that directly impact the industry. At the same time, consumer behavior is shifting—shoppers navigate between online and offline channels, creating a dynamic phygital environment where businesses and consumers interact seamlessly. However, managing consumer engagement across both formats presents challenges for marketers, as it complicates the accurate assessment of each promotional channel's effectiveness, ultimately reducing the efficiency of strategic decision-making. Hence, in an era where digitalization is reshaping industries, the concept of phygital transformation has gained significant traction. Phygital, a blend of physical and digital elements, provides businesses with innovative ways to interact with customers. This paper examines the role of phygital transformation in creating engaging customer experiences and fostering brand loyalty.

## 2. Understanding Phygital: The Blend of Physical and Digital

(Lauren Horwitz ) The word *phygital* comes from combining *physical* and *digital* and represents a new way of thinking about creating smooth, connected experiences for customers. As the channels of customer interaction and communication increase, companies aim to make combining these channels frictionless and seamless, without the company losing the thread of the communication or a sense of the customer issues. More businesses are now using digital tools to handle tasks that once required in-person interactions. Simple examples include shopping for groceries online, checking a restaurant menu on a phone, or tracking health with a smartwatch. This mix of physical and digital experiences is becoming a key part of customer interactions—and it's here to stay.

(Belghiti et al., 2017; Moravcikova & Kliestikova, 2017; R., 2015) The concept of phygital, which states the integral wholeness of the digital and physical, refers to a marketing method that provides the most accurate and effective way to reach the consumer by combining the physical and digital world

### 2.1 Phygital Environment

Studies show that today's consumers are more careful when choosing products. This change in behavior pushes businesses to offer more personalized products that match customer interests. The internet has made it easier to understand how consumers shop, both individually and in groups. By studying digital footprints, businesses can learn about customer preferences without invading their privacy. This helps online stores connect better with customers and meet their needs more accurately. However, physical stores find it harder and more expensive to create personalized shopping experiences for each customer.

## **2.2 Phygital Strategy**

To create a phygital strategy, one should start by understanding the current customer experience. Identify the challenges customers face and the moments they enjoy the most. These insights will help him design a better phygital experience that meets their expectations. Think about how an individual can smoothly combine his physical and digital services. The goal is to make interactions so easy that customers don't even notice—they just work. When customers face no difficulties and keep coming back, it means his strategy is effective.

## **2.3 Phygital Transformation**

(Ho & Zhang, 2020), Definition and Concept Phygital transformation refers to the combination of physical and digital experiences to create a seamless customer journey. Businesses employ technologies such as augmented reality (AR), virtual reality (VR), artificial intelligence (AI), and the Internet of Things (IoT) to bridge the gap between offline and online interactions.

**2.4 Evolution of Phygital Experiences** The evolution of phygital experiences can be traced through various industries, including retail, banking, healthcare, and entertainment. This section reviews key milestones in phygital transformation and its impact on customer interactions.

## **3. Importance of Phygital Transformation in Customer Engagement**

**3.1 Enhancing Customer Experience** Phygital transformation enables personalized and interactive experiences, making customer interactions more engaging. Technologies such as AI-powered chatbots and interactive kiosks provide real-time assistance to customers, improving service efficiency. The Internet of Everything (IoE), chatbots, and customer relationship management (CRM) tools are some of the digital technologies helping drive this change. (Mele & Russo Spena, 2022).

**3.2 Strengthening Brand Loyalty** by integrating physical and digital touch points, brands can create a consistent customer journey, enhancing brand loyalty. Case studies of successful phygital strategies from Nike, Amazon fetches the following understandings

For instance, customers can interact with smart mirrors that suggest complementary products based on what they're trying on. These mirrors provide a digital twist to the traditional dressing room experience. **Nike's** mobile app plays a significant role in its phygital strategy.

### **Key Takeaways from Nike's Phygital Strategy**

- Nike integrates its app, stores, and online platform to create a smooth shopping journey produced seamless Omni channel experience
- AI and customer data help provide tailored recommendations and experiences, created personalization.
- Technologies like mobile checkout, AR, and custom shoe fitting make the shopping process easier and more interactive, which shaped convenience and customer engagement.

- Nike Live stores and exclusive app rewards strengthen customer loyalty fashioned community building.

By combining physical and digital elements, Nike has successfully enhanced customer experience, increased brand engagement, and boosted sales through its phygital approach.

**Amazon's successful phygital strategies include Amazon Go's "just walk out" technology, Amazon Fresh's app-based shopping experience, and the integration of digital tools like Alexa into physical spaces, all designed to seamlessly blend online and offline experiences.**

#### Key Takeaways from Amazon's Phygital Strategy

- **Frictionless Shopping:** Amazon eliminates checkout hassles with Just Walk Out technology experiences the frictionless shopping.
- AI and data analytics provide tailored recommendations in fashion and grocery shopping created personalization.
- Amazon connects digital platforms with physical stores for a smooth experience produced seamless online-offline integration.
- Innovations like voice commerce and smart carts enhance ease of shopping fashioned customer convenience.

By blending physical stores with digital technologies, Amazon has revolutionized retail, making shopping faster, smarter, and more personalized.

#### Literature Review:

(Alexey Aleksandrovich Mikheev, et.al, 2021) expresses that, the developed model (physical plus digital) allows a pop-up store to assess most of the specific performance indicators like conversion, traffic, number of new customers, and most importantly, the sales channel. Physital Environment will not only improve the company's analytics system, but will also allow the transition to the development of an automated decision-making system—including the formation of a personalized offer, which will increase consumer loyalty and maintain their interest in the company—and enable the company to take a leading position in the market.

(Crestina Mele, et.al, 2023) A detailed analysis helps identify four key aspects: (1) objects and applications, (2) location or space, (3) the customer journey, and (4) the shopping experience. Using a model that looks at causes, decisions, and results, the study provide a clearer understanding of this concept. The use of physical and digital tools (phygital resources) in different spaces influences the customer journey in a blended way, creating new types of phygital experiences.

(Baird & Raghu, 2017; Helm et al., 2018) describes that, an integrated structure has been studied across various fields and industries and has become a part of everyday life. This is also seen in consumer choices, as many electronic and digital media applications are now connected. One of the biggest results of the age of convergence is the "phygital" world, which combines the digital-virtual space with the real world. The main technologies in this

space include Virtual Reality (VR), Augmented Reality (AR), and Mixed Reality (MR). Digital games, which started these technologies, play a key role in phygital marketing..

(*Meradi Samir, Abdelhak Soumia, 2020*) articulates that a phygital customer's experience is shaped by how easy the site is to use, the new and innovative services provided, and social interaction. This experience strongly impacts their satisfaction, loyalty, and willingness to recommend the service to others.

#### **4. Key Technologies Driving Phygital Transformation**

4.1 Artificial Intelligence and Machine Learning AI-driven analytics help businesses understand customer behavior and provide personalized recommendations.

4.2 Augmented Reality and Virtual Reality AR and VR applications enhance the shopping experience by allowing customers to visualize products in real-time.

4.3 Internet of Things (IoT) IoT-enabled smart devices facilitate seamless interactions between physical and digital environments, improving convenience and efficiency.

#### **5. Challenges and Barriers in Implementing Phygital Strategies**

5.1 Technological Limitations While phygital transformation offers numerous benefits, challenges such as high implementation costs, data security concerns, and technological compatibility issues must be addressed.

5.2 Consumer Adaptation Adapting to new phygital experiences requires a learning curve for customers, posing challenges for businesses in ensuring seamless integration.

**6. Future Trends and Opportunities in Phygital Transformation** The future of phygital transformation lies in advancements in AI, blockchain, and immersive technologies. Businesses need to stay ahead of emerging trends to maintain a competitive edge in customer engagement strategies.

#### **7. Discussion**

Phygital transformation, the seamless integration of physical and digital experiences, has gained significant traction in modern business environments. Research underscores its potential to enhance customer engagement, operational efficiency, and competitive advantage. (Alexey Aleksandrovich Mikheev et al., 2021) highlight the role of phygital models in improving business performance through data analytics and automated decision-making. By tracking key performance indicators such as conversion rates, customer traffic, and sales channels, businesses can adopt a data-driven approach to optimize operations and personalize customer experiences, thereby fostering long-term loyalty. (Crestina Mele et al., 2023) identify four fundamental dimensions of phygital transformation: objects and applications, location or space, the customer journey, and the shopping experience. Their study underscores the interplay between physical and digital tools in shaping consumer interactions, emphasizing the importance of an integrated approach to create engaging and immersive phygital experiences. (Baird & Raghu, 2017; Helm et al., 2018) discuss the broader integration of digital and physical elements across industries, illustrating how consumer behavior is influenced by digital convergence. Technologies such as Virtual Reality (VR), Augmented Reality (AR), and Mixed Reality (MR) are pivotal in this transformation. Digital gaming, in particular, has contributed significantly to phygital

marketing strategies, showcasing the power of interactive and immersive experiences in engaging consumers. (Meradi Samir & Abdelhak Soumia, 2020) explore the impact of phygital experiences on customer satisfaction and loyalty. Their study highlights the significance of ease of use, service innovation, and social interaction in shaping positive consumer perceptions. A seamless phygital experience not only enhances customer satisfaction but also fosters brand advocacy and long-term loyalty.

## **2. Conclusion**

Phygital transformation has become a key strategy for businesses aiming to enhance customer engagement and operational efficiency. By merging digital advancements with physical interactions, companies can strengthen brand loyalty and improve customer satisfaction. The rapid evolution of consumer behavior, coupled with emerging technologies such as AI, AR, VR, and IoT, has fueled the growth of phygital experiences across industries including retail, banking, healthcare, and entertainment.

Despite its benefits, implementing phygital strategies presents challenges such as technological limitations, high costs, and consumer adaptation hurdles. Businesses must focus on developing intuitive, user-friendly experiences while ensuring data security and seamless platform integration. Case studies of industry leaders like Nike and Amazon demonstrate how phygital strategies are revolutionizing customer engagement and brand relationships.

Looking ahead, advancements in AI-driven personalization, blockchain for secure transactions, and immersive technologies will further blur the lines between physical and digital spaces. Companies that proactively embrace these changes will not only stay competitive but also redefine customer-brand interactions. Ultimately, phygital transformation is not merely a trend but a fundamental shift in how businesses connect with and serve their customers in the digital age.

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