



Omni-channel Retailing

Critical Components for Success

WWW.SPINNAKERMGMT.COM

Omni-channel retailing may be the evolution of multi-channel retailing, but the entire *organism is ripe for a revolution.*

In multi-channel retailing, companies sell through several channels, but each channel – brick & mortar, online, mobile, etc. – is independent of the other. In omni-channel retailing, a consumer can use more than one channel to purchase a good or service. The consumer has various options – purchase online and then pickup from the store, use mobile to research, or purchase in store and complete a return online. The shopping experience has shifted in favor of the consumer and the *consumer now has the power.*

“Retailers estimate they lose \$65M for every billion dollars in revenue due to a lack of Omni-Channel readiness.”

- Retail Info Systems, October 2013

According to the most recent data from the World Bank, household consumption expenditure accounts for 69% of GDP in the United States.¹ Consumer spending drives the U.S. economy; the way people shop has changed dramatically in the past decade. The connected consumer pushes traditional brick & mortar retailers to become engaged sellers of products, differentiate based on knowledge and services, and deliver a seamless shopping experience. The consumer of today wants customized offerings and promotions across all engagements – from store to online – and expects that retailers offer brick & mortar as an integrated part of their supply chain, not purely a selling location. The growth of omni-channel retailing has seen the rise of specialty supply chain software strategies and solutions. A typical shopper may peruse a product in store, look up prices online, and finally place an order using an app. Interaction by the retailer extends beyond loyalty programs to purchase patterns; social media interactions and affiliations; website engagement; and specialty data mining technologies.

“...Manufacturers are always looking for ways to improve their relationship with their retail partners. Some of the most visible benefits of collaboration will be in fulfillment execution, greater transparency in the supply chain, fewer stresses in global operations, and more successful product strategies.”

- International Data Corporation Retail Insights Report

Omni-channel retailers carry consumer-centric merchandise not specific to any channel (the theory of an ‘endless corridor’). The immersive requirements of omni-channel retailing requires a collaborative approach between manufacturer and retailer. Omni-channel requires investment; companies that don’t make the investment are missing a major business opportunity and risk obsolescence.

¹ “Household final consumption expenditure per capita growth (annual %).” World Bank Group. <http://data.worldbank.org/indicator/NE.CON.PRVT.PC.KD.ZG>. 13 Aug 2014.

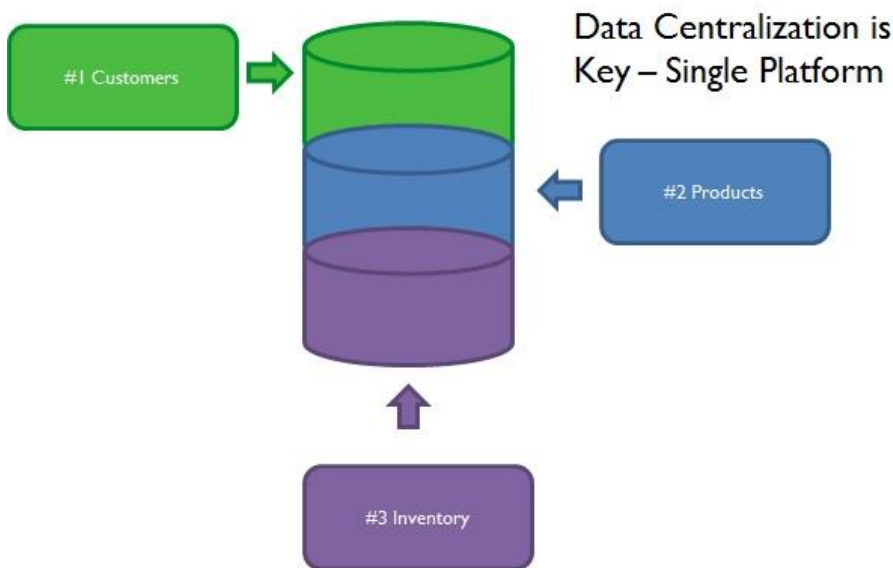
Key Component of an Omni-Channel Solution

When retailers consider the shift from multi-channel to omni-channel sales strategies, the emphasis must be on revamped business processes, policies, and technology infrastructure to support the engaged consumer. The advantages of an intimate relationship between retailer and consumer are increased spending, improved brand awareness, and reduced returns. For a retailer to gain these advantages, it is imperative that they consider the following areas to focus efforts:

- Inventory Visibility
- Network Speed and Agility
- Distribution Channels (Macro and Micro)
- Allocation Policy Definition
- Warehouse Management and Order Management Decision Support

Supply chain visibility is key to enable omni-channel sales.

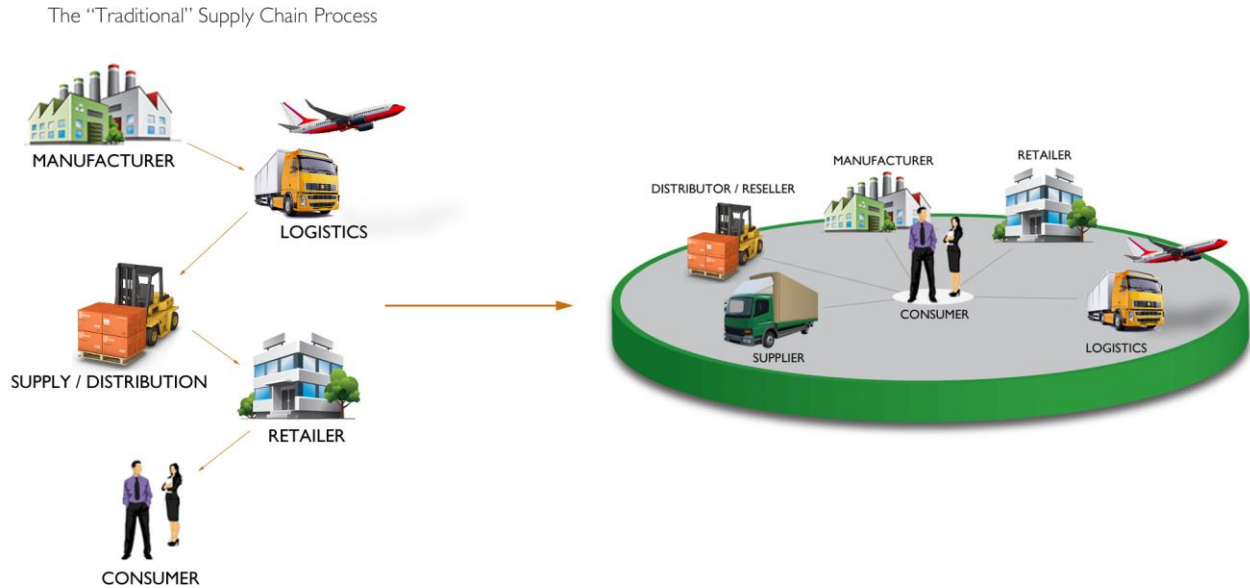
To move from multi-channel to omni-channel, a retailer must be committed to invest both time and money. The retailer will depend on real-time data to manage digitally connected consumers whose experience shifts between online and brick & mortar, expecting to purchase or return product anywhere. The result of a successful omni-channel program is consistent exposure to a brand that creates awareness with consumers. The changes require IT, Marketing, Sales, and Operations to develop and manage a thorough understanding of the consumer to make appropriate decisions about channel integration and usability.



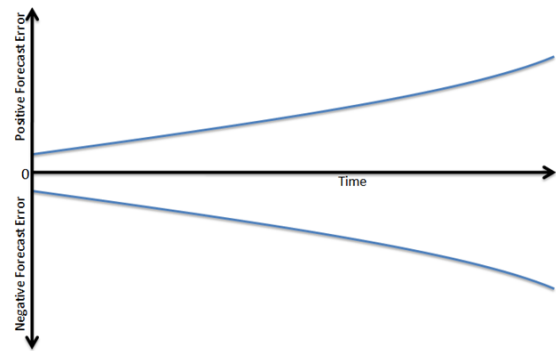
Supply Chain Design, Fulfillment, and Postponement in an Omni-Channel Environment

Today companies are moving from a traditional fulfillment model to a leaner and more strategic fulfillment process. On the forward side of the supply chain, having the ability to drive distribution through multiple channels is critical: direct

from manufacturer to consumer, from distribution centers, or even micro distribution through stores. The graphic below depicts the shift from traditional fulfillment to omni-channel; a consumer interacts with all aspects of the supply chain.



For non-traditional fulfillment processes to be successful, it is critical to have a complete and accurate view of available inventory across channels. If this is successful, it is possible to employ postponement as a leading model. *Postponement is a deliberate action to delay final manufacturing or distribution of a product until receipt of a customer order.*² This reduces the incidence of incorrect manufacturing or inventory deployment. Postponement strategies and practices serve to reduce the anticipatory risk in a supply chain. Production can be fine-tuned or staged so that only the generic parts shared by a firm's various end products are warehoused. Retailers can purchase and fulfill at a SKU level, as opposed to a category level. The firm reduces inventory pressures because goods are produced upon order receipt, reflecting only what is being



demand by the consumer. With a successful omni-channel strategy in place, postponement can shorten the window for order fulfillment, thus decreasing the rate of inaccuracy. Forecasting is more effective with a shorter order window, as illustrated by the graphic. By postponing, companies can leverage made-to-order capabilities to decrease the amount of necessary inventory. In some cases, it can be cost effective to ship a demanded good from a nearby distribution center or store.

Postponement as a strategy bridges the forward and reverse supply chain. An effective postponement strategy can limit the need for raw materials, reduce the amount of product sold into secondary channels (liquidation), and improve a company's green footprint.

² Cheng, T.C.E., Li, J., Wan, C.L.J., Wang, S. Postponement Strategies in Supply Chain Management. International Series in Operations Research & Management Science, Vol. 143. 2010

Aligning Business Policies and Technologies to Support Omni-Channel

In addition to supply chain design and inventory visibility considerations, retailers must develop and deploy clear business policies and effective tools to support the increased inventory and order processing demands.

From a business policy perspective, the emergence of omni-channel presents a variety of opportunities to serve customers better, but these policies can also negatively impact the bottom line. Retailers must determine how to align allocation decisions and merchandising supply chain policies so that a clear set of rules for cross-channel product and promotional offers is presented to customers. These policies inform what fulfillment options should be considered to maximize the cost benefit trade-offs of omni-channel. Without clear policy guidance, cross-channel priorities will come into conflict and logistics & order fulfillment costs can skyrocket yielding no return on the investment in omni-channel solutions.

From a practical perspective, the implementation of omni-channel policies requires technology solutions that can make real-time decisions on what product and pricing offers to present and what fulfillment options to consider. Two key technology capabilities that must evolve are 1) Warehouse Management Systems (WMS) and 2) Order Management Decision Support (OMDS) systems. The integration of scalable, enterprise-level WMS and OMDS allows retailers to identify inventory across all micro and macro fulfillment points, execute orders from all points of origin, and direct returns based on the needs of the enterprise. A well-selected and properly engineered suite of applications will provide the network speed and agility necessary to meet the demands of omni-channel consumers.

The Role of Omni-Channel in the Reverse Supply Chain

The growth of omni-channel is seen as both a threat and opportunity to manage the return of products. The ease of return is now a competitive weapon utilized by both leading and reaching retailers. The rise of connected consumers enjoying 'risk-free' purchasing necessitates the development of comprehensive and robust returns processes. The creation of seamless shopping channels provides leverage to the consumer – no matter the purchase channel, a consumer now expects to return using the most convenient method. The challenges of implementing omni-channel for the forward supply chain are equally daunting from the perspective of returned goods.

This seamless shopping experience is a boon to retailers. There is considerable opportunity to upsell consumers through multiple channels on the forward supply chain. Data mining and advanced algorithms allow retailers to increase revenue by suggesting complimentary products and accessories. For example, Amazon recommends complimentary purchases to customers. If a customer buys a Canon EOS Rebel, Amazon suggests additional items – memory card, extended life battery, carrying case, and telephoto lens. These products are delivered to the consumer's door seamlessly, but what happens when the consumer is dissatisfied and wants to return each item? The camera may have come from Canon's distribution center in the Midwest, the battery shipped straight from the manufacturer on the west coast, and finally the lens is from a secondary retailer's warehouse. The logistics of where to return each item and financial implications for the profit and loss centers of the retailer are incredibly complex. Layer in geography, culture, and industry variables and the complexity of returns increases. Reducing consumer confusion creates strong bonds between consumer and merchant.

Minimizing the cost of returns boils down to two primary focus areas:

- 1) Taking the steps to prevent returns early in the buying cycle.
- 2) Making the returns process simple and streamlined.

The good news for merchants is that they have an opportunity to reduce returns through a comprehensive omni-channel strategy. According to the Consumer Electronics Association, 50% of consumers will use a mobile device to help shop for electronics. Successful omni-channel retailers assist consumers with access to information and expertise that reduces the risk of purchase. The retailers have multiple avenues to provide a high-level of intimacy to consumers, including subject matter experts in store, online chat, or social media forums. Highly engaged omni-channel retailers use the data collected to build extended rapport with consumers post-purchase. A retailer can reduce potential returns by including support with set-up, trouble-shooting, and do-it-yourself repair and upgrades.

The challenge to manufacturers and retailers is finding ways to support new returns and secondary channel disposition outflow. Many omni-channel retailers create systematic workarounds to manage returns; they face the challenges of centralizing siloed back-end systems and processes into a system-wide IT environment. The benefit to the manufacturers and retailers for developing a comprehensive reverse supply chain to support omni-channel is the creation of a valuable secondary market (outlets, salvage centers, auctions, etc.) currently valued in excess of \$400 billion annually.³

The Benefits of Omni-Channel Retailing

When retailers deploy a comprehensive plan, utilize the proper tools and applications, and focus on staff development and consumer engagement, they can recognize huge gains in revenue and margin through omni-channel retail.

“Among retailers, customer experience accounts for 47% of loyalty, while price and value contribute only slightly to capturing consumer loyalty.”

- Forrester Research

In order for retailers to leverage the trends in omni-channel retailing in brick and mortar and online, the retailers must adapt, stretch, and engage.

Success in retailing, whether brick and mortar or online, is marked by fierce competitiveness and brand recognition. Success now has a third requirement – the need to focus on incorporating technology into the store and online experiences to further engage and personalize the shopping experience. The retail industry is realizing that in order to be successful, they must provide access and have a presence in every channel. The movement from a traditional multi-channel to the market required omni-channel ensures that consumers access the best shopping experience, based on their unique needs and requirements.

Omni-channel is the evolution of retailing...*until the next revolution is identified!*

³ "Managing Retail Returns: The Good, The Bad, and The Ugly." Inbound Logistics. <http://www.inboundlogistics.com/cms/article/managing-retail-returns-the-good-the-bad-and-the-ugly/>. 20 July 2014.



About Spinnaker

Founded in 2002, Spinnaker consistently delivers supply chain excellence through partnering with clients to achieve desired operational results. With comprehensive service offerings in supply chain planning and returns management, designed to support every stage of supply chain lifecycle maturity, clients can increase their profitability and reduce operating costs while maintaining or enhancing customer service levels through our holistic People-Process-Technology focused approach. Spinnaker has offices in Boston, Columbus, Houston, Denver, Memphis, and Pittsburgh. To learn more about omni-channel retailing, contact us at www.spinnakermgmt.com or call +1-877-476-0576.