Are You Ready for the Omni-Channel Holidays?
A Supply Chain Primer in 7 Steps

With the upcoming holiday season just around the corner, if you're still thinking about what your multi-channel strategy should be, you may have already missed the boat. The marketplace has evolved beyond multi-channel to embrace omni-channel commerce.

What's the difference? Plenty. As the term implies, multi-channel commerce is an internally focused approach for handling the various tasks required to service multiple distinct channels of commerce simultaneously. Omni-channel, on the other hand, turns the focus on customers, recognizing that shoppers don't care about channels. They want a seamless experience with your brand regardless of how they are accessing it at any given time. Omni-channel retailers treat all of their channels as if they were one – one source of orders, one set of inventory, one fulfillment process – even though they may be physically very different operations.

Why does this matter, especially if you only get a small percentage of your sales through e-commerce channels? One answer is growth. According to Laura Indvik of Forrester, e-commerce sales in the U.S. will grow 13 percent in 2013 and will reach $370 billion by 2017. E-commerce sales growth will continue to outpace that for brick-and-mortar stores.

Another reason is Millennials – those between the ages of 18 and 34. It's hard to believe, but there are actually more of them than baby-boomers. And they love to shop, they have the resources, they love to be mobile and they love their social networks. This digital generation grew up with PCs, smartphones, tablets and social networks and they expect the same shopping experience across all of these.

With the rapid growth of e-commerce and with retail's largest customer segment expecting seamless shopping experiences, retailers must begin now to get ready for the expected surge in omni-channel shopping for the upcoming holiday season.

Omni-Channel and the Supply Chain

In order to effectively and efficiently deploy an omni-channel strategy, you must focus on the 1.) Customer, 2.) Inventory and 3.) Orders.

The "C" is about understanding all customer attributes and behaviors. You must develop a strategy that delivers a consistent, homogenous experience for the customer, while understanding individual preferences and what motivates them to buy.

The "I" is about inventory. Once you have a great brand or product, omni-channel requires that the inventory is available for sale, at the right price and right time. Your inventory and order allocation methods need to support both physical and logical inventory deployment strategies, meaning inventory is available from any source (DC, stores, vendors, in-transit and competitors). In addition, where inventory is positioned in your supply chain can be the difference between holding too much inventory or not enough inventory to support your

omni-channel sales. Effective omni-channel retailers understand how to effectively allocate inventory from any place at any time to maximize profit.

Finally, omni-channel is about the "O," or order fulfillment. Retailers must be able to ship (forward logistics) from a distribution center, store, vendor, and yes, even a competitor, in order to meet or exceed the expectations of their customers. "O" also refers to reverse. Your ability to complete a reverse logistics order is just as important as a forward logistics order. For many apparel and shoe centric online retailers reverse logistics orders can exceed 30 percent.

How do you go from being a single channel or multi-channel supply chain operation to being an omni-channel fulfillment operation? There are seven steps you must consider that support a C-I-O model. You may have already taken some or all of these steps before, but don't ignore any of them as you take this new journey because the solutions for seamless omni-channel fulfillment are often different from what you have known in the past.

Step 1: Network Design

Omni-channel fulfillment raises new questions about retail strategies and the design of your distribution network. Should online fulfillment be separate from store fulfillment? Will you offer the popular "buy online – pick-up from store" option? Will you offer same-day delivery? Will you fulfill orders in stores from online or

from your other stores? Do you offer "endless aisle" and "save-the-sale" options to enhance store revenue? Do your answers to any of the previous questions vary by region, store format, season, or other factors? The answers to these and many other questions will impact the design of your supply chain network. Perhaps now is the time to reconsider your network design to see if it still fits your go-forward fulfillment strategies and the changing marketplace requirements.

The impact of omni-channel fulfillment on network design is new to many retailers. Because of its importance for meeting customer expectations and the potentially high cost of network changes, having experienced outside help during this analysis is prudent. Look for firms that have specific experience in retail network design.

Step 2: Facilities Design

Changes in network design may necessitate new facilities. But even within existing facilities, changes in fulfillment strategies – for example, going from simple store replenishment to fulfilling online or "endless aisle" orders from the DC – can require new designs for picking, packing and shipping. New material handling equipment such as sorters, conveyors, goods-to-person robotics or automated guided vehicles may be warranted. You may want to consider productivity solutions such as pick-to-light, voice or slotting systems.

Another consideration in facility design is whether you are baking in the best solution for today, but freezing out the agility to quickly adapt to changing future needs. There is no question the market is changing rapidly. You must design for the omni-channel needs of today – a big enough challenge in itself – but also for the unexpected needs of tomorrow.

Whether you are designing a new facility or reconfiguring an existing one, producing the right design for your markets and fulfillment strategies today and tomorrow can have a huge impact on efficiency, service and whether you can realize the benefits of your omni-channel strategies. If you aren't comfortable doing this on your own, seek outside experience. It could be your most important investment.

Step 3: Selecting the Right Technology

Once you have your network in place and your facilities designed for the challenges of omni-channel fulfillment, the next question is whether you have the right software systems in place to support your strategies. Does your e-commerce system properly present your merchandise and promotions based on the shopper's mobile device? Does your order management system accept and keep track of all orders transparently across all channels? Is your network-wide inventory – what is in your DCs, your 3PL's DCs, your stores and at your suppliers – always visible for "available to promise" and "capable to deliver" initiatives across channels? Will your warehouse and

distribution systems support new cross-channel fulfillment strategies? Will your store systems support "buy online – pick-up from store" or fulfillment from store strategies? The questions are endless.

Many retailers are finding their older systems are stumbling blocks to achieving their goals for omni-channel operations. But how do you go about deciding which types of systems will best support your strategies and which vendors are the best fit based on your requirements? Consulting firms that have a long history of implementing retail and supply chain systems are your best bet to help you grapple with these design and selection issues. They have experience working with these systems, are familiar with each system's strengths and weaknesses, and can coach you on what to look for and what questions to ask. With the importance of these selections to corporate success, getting help in making the right choices can be an excellent investment.

Step 4: Staffing for Profit

With all of the economic troubles over the past few years, retailers have been reducing headcounts to save money and improve the bottom line. However, in today's omni-channel retail environment, stores are often used as much for showrooms to aid online purchase decisions as they are for the final purchase destination. To compete against this "showrooming" trend, brick-and-mortar retailers must offer services and shopping experiences not available online. The only way to do that is to have the right number of associates with the right skills staffing your stores in order to provide those enhanced shopping experiences.

Thus, the focus must change from considering associates as an expense to be minimized to thinking of associates as a source of differentiation and profit. This requires more sophisticated labor management software that can evaluate the many staffing, scheduling and revenue factors that drive productivity and revenue growth. It also requires industrial engineering services to analyze work content and success factors to set appropriate processes and standards in place on which the software will depend for its calculations. But since this way of thinking is new to many retailers, getting outside help, especially for engineering services, can significantly improve speed of adoption and results.

There are other compensation and training issues you may want to consider in this new environment as well. For example, how do you incentivize salespeople for fulfilling orders in the

store that were placed online, or for arranging sales that will be completed in other stores that have the necessary inventory? How do you evaluate retraining salespeople to focus on service first versus hiring service-oriented staff? Can work be done in the DC, such as creating show floor-ready displays, to reduce the effort in stores to free associates for customer-facing tasks? Staffing strategy, compensation and training are areas where you may want to seek assistance if you haven't dealt with these issues before.

Step 5: Transportation Strategy, Selection and Negotiation

Transportation requirements can be vastly different for omni-channel operations than for brick-and-mortar retail. Rather than just arranging multi-stop truckloads to replenish stores, you may now be shipping thousands of parcels direct to customers from your DCs, or potentially from stores. This can substantially change transportation planning, execution and costs, and raises new questions.

How will new practices such as "buy online— pick-up from store" or "fulfillment from store" impact replenishment practices and associated transportation plans and costs? How will the trend toward free shipping for online and "endless aisle" purchases impact margins and profitability? Can traditional transportation routing and consolidation techniques be used for parcel shipments? Can your transportation system evaluate the trade-offs between use of internal fleets, common carriers and parcel carriers to optimize spend?

Once you have evaluated the service, transportation and cost factors and arrived at a transportation strategy, how do you select the right carriers to use and negotiate favorable rates? Transportation procurement can be much more complicated in the omni-channel world because of a much heavier reliance on parcel carriers, with which many retailers have never before negotiated rates. Getting help with transportation strategy, carrier selection and rate negotiations can provide significant cost reduction dividends.

Step 6: Understanding Omni-Channel Demand

Successful retailers typically have a pretty good handle on shaping and forecasting store demand. They may also be good at forecasting online demand. But throw in mobile and social commerce, and all of the cross-channel selling and fulfillment options of omni-channel retail, and suddenly understanding and shaping demand becomes much more complex. Social networks can have a huge impact on demand despite the relatively small percentage of sales coming from social channels so far. This is largely because the new largest customer base – Millennials – are seemingly always on their mobile devices and use social networks to instantly communicate to a wide audience. Thus, opinions and experiences with your products and promotions, whether good or bad, are instantly shaping demand in ways you have never seen before, creating wild swings that traditional demand planning processes can't account for or predict. How will you deal with this?

The answer is you will need much more advanced demand sensing and forecasting strategies and systems to properly understand and evaluate omni-channel demand. Social-driven consumer demand is more volatile, so predictive analytics will play a larger role than traditional historical patterns. The trick is knowing how to balance all factors to arrive at the best forecast, but also being agile enough to respond to the inevitable demand swings. Better forecasting demand and being more agile in responding to changes will allow you to reduce inventory levels without increasing stock-outs. Again, if this is new to you, you may want to ask the experts.

Step 7: Handling Returns

It is no secret that return rates are much higher for online and mobile purchases than for brick-and-mortar stores. This can cause new problems in omni-channel operations because many of the returns from online channels may be returned to stores. Are your stores set up to handle the increased volume of returns? Do you send the returns back to the DC for handling or do you use some of them to restock stores? Are your store associates trained to understand which items can be restocked, which to return to the DC and which to throw out? What is the impact of these choices on replenishment and transportation costs? What will be the impact of increased returns on staffing decisions after the holidays? If you are unsure about how to answer any of these questions, you may want to speak with experts who have faced these decisions before. Otherwise returns can drain profits quickly.

The Omni-Channel Primer

The upcoming omni-channel holidays will hold great opportunities and great risks for retailers. Retailers who have planned properly and have the right people and supply chain practices in place can gain a larger share of the rapidly increasing digital marketplace. Those who don't make informed choices, and those who do nothing, will find themselves falling farther behind the leaders.

The good news is that you don't have to take this journey into the brave new world of omni-channel alone. There is expertise available to help you. Seek out consulting firms that have specific experience in the seven areas covered above. It could be the best holiday investment you make. Because if you can do omni-channel retail right, Santa might be putting a little something extra in your stocking this year.

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