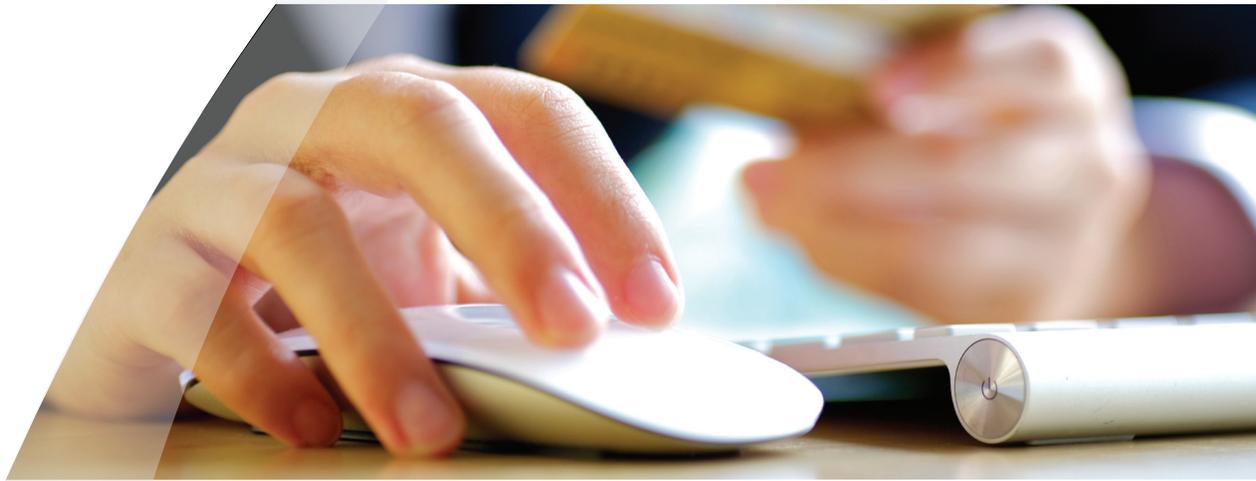


# The Core of Omnichannel Retailing

## Five Commerce Technologies Every Innovative Retail Chain Needs



**The interest around** omnichannel retailing has reached a fever pitch. From solution providers to trade publications to retailers themselves, everyone is implementing and discussing omnichannel initiatives.

It's important, then, to cut through the hype around the subject and boil omnichannel down to its essence: A customer wants a product, and the path to that product must be short, readily available and consistently support the brand promise. Channels are merely vehicles on that path; it's the path—the holistic experience—that increases sales and customer loyalty. So it's in every retailer's interest to make sure that their investments in technology center around enabling that experience while remaining profitable.

While much has been written about customer-facing technologies that enable “shop anywhere” capabilities, less attention has been paid to the core commerce technologies that make these customer-facing systems work together intelligently. While retailers will need

to quickly experiment with many types of consumer-facing technologies to capitalize on new devices, shopping patterns and potential selling touchpoints—some will see greater adoption than others—retailers need to be able to invest once in the core infrastructure required to manage commerce seamlessly behind the scenes. With core commerce technologies, retailers can leverage availability of all network inventory, have a holistic view of all demand regardless of the customer touchpoint and extend fulfillment to virtually any supply chain node.

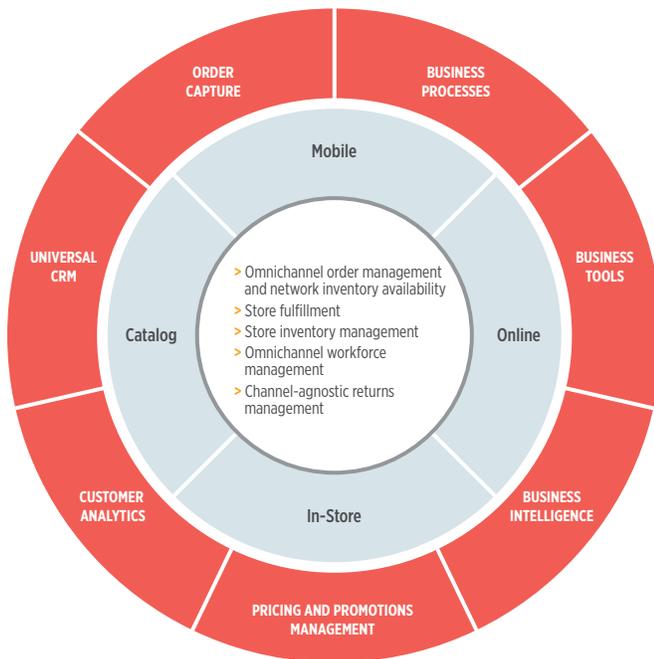
Analysts such as Forrester envision such core commerce technologies integrating via common Web services to virtually any consumer touchpoint. Application programming interfaces (APIs) surface customer data, inventory availability, pricing and order history to help inform customer experience design. Core commerce technologies, meanwhile,

manage the consolidated view of all of the enterprise’s data and business rules.

We all know how important omnichannel is to the future success of retail companies. Where many struggle is in determining which systems and processes need to be put into place to enable the complete omnichannel customer experience. The key to success is to leverage a repeatable, proven process to identify the correct technology components, the sequence in which they should be implemented and the optimal integration between each component.

This paper outlines the five system components which must work seamlessly together as a core commerce technology to ensure that customers have the ability to shop in the manner they wish to shop, buy in the way most convenient for them and, ultimately, give retailers the flexibility to fulfill that demand from virtually any available inventory in their network:

**CORE COMMERCE TECHNOLOGIES**



- » Omnichannel order management and network inventory availability
- » Store fulfillment
- » Store inventory management
- » Omnichannel workforce management
- » Channel-agnostic returns management

**Omnichannel Order Management and Network Inventory Availability**

Order sourcing technology is a basic necessity for the “buy anywhere and ship from anywhere/pick up from store” concept. When properly designed and delivered, order sourcing technology that can determine the optimal location from which to source inventory for customer orders is a game changer and can lead to significant sales increases. For example, online sales at American Apparel have increased by 30% since they started using their stores as backup

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fulfillment centers. And Nordstrom attributes a 39% online sales bump to efforts to integrate its online and in-store inventories. Finally, Urban Outfitters CEO Richard Hayne estimates that half of the retailer's direct-to-consumer sales would have been lost due to out-of-stock situations in DCs.

The standard requirements of order sourcing technology are to provide a single view of inventory across channels and rules-based processing that determines the best fulfillment source across DCs and stores. While these requirements appear simplistic at first glance, a strategy that determines what is ship-from-store eligible needs to be developed and business requirements defined before evaluating order sourcing solutions. A robust order management solution will intelligently determine the optimal source for a customer order based on highly configurable rules that control the availability of inventory across channels. These rules provide levels of control at the store and enterprise level, allowing merchants, planners and store operations management the latitude to ensure consistent service levels.

There is an art in identifying not only which stores are eligible for the ship-from-store concept, but also to what extent they're eligible. The amount of store labor required to pick, pack and ship an order cannot be overlooked; it's not uncommon to overwhelm a store's labor pool. Every store that is eligible for ship-from-store needs processing space to pack and ship orders. Inventory price point and margin also need to be considered.

But despite the challenges, developing a markdown avoidance strategy by sourcing orders from stores with stagnant inventory can pay dividends in the form of improved margins. For example, retailers such as Ann Taylor and Danier Leather have seen their margins increase 1% to 2% overall and up to

#### THE IMPORTANCE OF REAL-TIME INVENTORY VISIBILITY

Real-time, accurate visibility into inventory across the supply chain is one of the key enablers of any successful omnichannel strategy. By supporting truly channel-agnostic fulfillment, inventory visibility helps retailers satisfy customer expectations, grow assortments, and improve merchandising and planning accuracy, all without breaking the bank. To accomplish this, retailers will need consistently up-to-date inventory data—last night's snapshot is no longer sufficient.

30% on items nearing markdown. In fact, Ann Taylor's CEO notes that, by using ship-from-store, "We are able to liquidate product on markdown at a much higher gross margin rate." Markdown avoidance strategies are becoming such a margin driver that even the cost of shipping from stores furthest away is becoming seen as comparatively negligible; as Macy's CEO Terry Lundgren told an audience at the 2013 Global Retailing Conference, "Avoiding a markdown is almost always a better choice. It's well worth the shipping cost."

Network inventory availability systems allow retailers to tap into any inventory within the network, whether it's currently sitting static in a DC or store or moving between facilities, as in the case of a transfer from DC to store or from store to store. Leading network inventory availability tools also enable monitoring of inventory on order or in transit from external suppliers with full awareness of when that inventory is expected to be available for sale. These tools provide the foundation for order sourcing and managing inventory available to com-

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merce, enabling retailers to consolidate a view of all inventory across the enterprise while virtually segmenting the units to ensure that any single touchpoint doesn't fully cannibalize any other—unless the retailer has decided it should.

During order sourcing, an effective omnichannel order management solution considers many complex variables to ensure the optimal inventory is selected for fulfillment, including inventory availability, fulfillment tiers, shipping costs, labor availability and, potentially, margin. Retailers have the ability to configure specific business rules, or sourcing templates, to meet the specific needs of their business but, most importantly, they can quickly and easily alter them to meet changing business needs. Consider, for example, a situation where a critical store gets overwhelmed with shoppers during a key promotional event and needs to be excluded temporarily as an inventory source.

### **Store Fulfillment**

The benefits of sourcing inventory from stores are numerous. Stores can be used to increase speed to the customer, as Walmart is doing this year to combat Amazon. Ship-from-store can be used as a relief valve to siphon orders from the fulfillment center during peak processing, reducing the capital investment required to meet the defined service-level agreement. Further, e-commerce fulfillment centers are particularly expensive to build and operate—a recent Jones Lang LaSalle report on 'big-box' warehousing trends detailed the high cost of labor, mezzanine infrastructure, picking automation, value-added services, HVAC and even parking space driving up the investment required to in-source and expand e-commerce fulfillment. Given the costs of dedicated, direct-to-consumer fulfillment operations, store fulfillment offers the promise of leverag-

ing existing infrastructure and labor to reduce the burden on a growing e-commerce business.

However, it's no small feat to design and implement the store-level processes required to execute the ship-from-store concept. Don't underestimate the change management effort required for the changes to store processes, as these efforts can often be more difficult to achieve than merely deploying the underlying technology solutions. Order fulfillment technology aids in the automation and execution of these processes and is an essential component for successful ship-from-store operations.

One of the biggest benefits of store order fulfillment is that it provides notification and schedules orders to be filled from stores to help organize store labor. Since a store has many variables that can affect its ability to execute, such as insufficient labor or inaccurate inventory, the ability to confirm that an order has been received and will be processed at the store or to be able to cancel fulfillment of the order from the store is essential to maintaining service-level agreements for order processing times. Confirmation once orders have been picked, to update inventory levels, and packed, to send shipment notifications, are also major benefits. An effective store fulfillment solution allows associates to fulfill when possible, whether scheduled or during down time in the store, and is architected to ensure service-level agreements aren't missed.

Given that store labor can often be the single greatest investment made in the store, any new processes introduced for store staff will be highly scrutinized by store operations, as time spent fulfilling orders is often initially viewed as time away from servicing customers. A robust store order fulfillment solution is designed to be performed by a workforce typically characterized as being young and modern and that,

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unfortunately, turns over frequently. It enables the following fulfillment workflows:

- » Buy online, pick up in store
- » Buy online, ship-from-store (to consumer)
- » Site-to-store fulfillment (i.e., pick up in a store to which the inventory has been transferred from another facility)
- » Store-to-store transfers
- » Claims/recall shipments
- » Returns (to DC, to vendor)

Best-in-class store order fulfillment solutions leverage direct integration with leading parcel carriers to enable rating, shipping, manifesting, tracking and proof of delivery, all while masking the complexity of parcel integration from the store associates. To the associates in the store, they're simply shipping a package and applying a label. Behind the scenes, the software does the hard work of plugging into the carriers' Web service-based shipping APIs while allowing the carriers themselves to manage rates by origin, label certification and other factors.

Just as important as functional richness and ease of use is integration of the store order management tool with omnichannel order management. As associates take action in the store, leading omnichannel order management systems become immediately aware and can instantly react to changes in order status. For example, this might include re-sourcing an order rejected by one store or triggering an update to the e-commerce platform to notify the customer that their order is ready for pickup.

One final consideration is whether the tool is fully mobile enabled and whether it can support the "occasionally disconnected" user. Despite how far the industry has come with RF availability, there are still stores with either no connectivity or known dead zones where associates still have to work.

### **Store Inventory Management**

Retailers cannot create profitable, successful omnichannel operations without remembering that a store cannot operate as efficiently and effectively as a warehouse. Companies seeking to implement in-store fulfillment or pickup must have a solid plan to address in-store inventory accuracy and visibility. Identifying store inventory policies and practices to improve in-stock reliability is a necessity for successful omnichannel selling.

Due to regular movement and handling of merchandise within a store, store-level inventory accuracy commonly ranges between 50% and 80%. Omnichannel fulfillment only complicates this issue. When a customer purchases an item online with the promise that it will be ready for in-store pickup within the hour, the inventory needs to be in stock to avoid a poor customer experience. Imagine how irate the customer would be if they drove to the store only to find that the item they purchased is not available. Out-of-stock experiences like this not only result in lost sales now, but down the road as well, and they must be addressed by any retailer seeking to implement an excellent omnichannel buying experience.

Improving inventory accuracy in the store clearly becomes an enabler for store order fulfillment, but also has the added benefits of improving sales, reducing out of stocks and improving store replenishment efficiencies.

Armed with an effective tool, stores can perform scan-based receiving to improve the accuracy of inbound movement of goods. This reduces the notion of "false shrink" that often occurs when inventory cannot be located at the store because it never truly arrived. Stores can also implement periodic cycle counts to support the annual physical counts that most stores execute today. Cycle counts become

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an invaluable tool for verifying accuracy before key promotional events occur or for simply ensuring that key high-margin items are accurately reflected in the perpetual inventory. Users can also perform ad hoc inventory adjustments to account for damages, known theft and in-store usage.

### **Omnichannel Workforce Management**

A well-designed and implemented omnichannel architecture can yield incredibly successful revenue gains for retailers. As more inventory is made available to online customers via the Web store, online promotions can generate large volumes of new orders—orders that the retailer wouldn't have had the opportunity to fulfill otherwise. That's the main upside of omnichannel and it's where the vast majority of retailers are currently focused.

For those who have gotten a taste of what this new order volume feels like, especially through a holiday or heavy promotional period, there's a new appreciation for labor costs that quietly eat away at all the new revenue gains attained during the event. Paying overtime to ship orders or hiring temps to help out may work as a stop gap, but the introduction of these new fulfillment tasks has created a fresh emphasis on the need to properly forecast and plan labor to meet these needs.

Traditional labor forecasting and scheduling looks only at POS activity or store traffic counters and non-service-based activities in the store (such as corporate-initiated merchandise-related projects) to determine the optimal amount of staff needed to complete the tasks at hand. Adjustments need to be made to account for the labor required for ship-from-store capabilities. Balance is key: Staff too lightly and risk paying overtime to catch up on orders needing attention or sacrifice in-store service for online fulfillment. Staff too heavily and you will burn staffing dollars unnecessarily.

In an omnichannel environment, software solutions can be a source of valuable labor drivers to ensure the labor forecasting and scheduling solution is well aware of all expected store labor needs (not just direct sales activities).

### **Channel-Agnostic Returns Management**

The returns process cannot be overlooked in the omnichannel world. Customers need the ability to return a product via any channel, regardless of where it was originally sourced. The omnichannel consumer doesn't expect to be bothered with the complexities of buying from one channel and returning to another—they expect it to be easy. In today's omnichannel environment, an effective returns strategy needs to incorporate not only customer experience, but also inventory management across channels.

Ensuring that returns are as easy as possible will help keep customers happy and coming back. However, it's essential to strike the right balance between making returns easy for customers and encouraging additional purchases. Returns are an opportunity to engage the consumer, ensure they are still happy with the brand and recommend additional products. When executed properly, the store returns process can be a way to increase sales.

As a result, developing an inventory management strategy that defines how to disposition returned inventory is critical. The strategy needs to be product specific to ensure that online-only products don't sit on store shelves only to collect dust, zap profits by prematurely placing them into store clearance or that low-margin items are shipped across the country. No matter what rules are put together, the goal is to minimize the amount of time a product is not available for purchase. To help make these decisions, retailers need a clear picture of both inventory availability and demand. Technology can help.

## *Universal customer relationship management systems cultivate a single view of the customer by storing customer profiles and transaction history across all channels.*

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By tightly integrating returns with order management, leading-edge omnichannel returns systems can take full advantage of a network-wide view of customer transactions and inventory when managing a return. This includes augmenting the retailer's consumer touchpoints with a single set of business rules to verify the return, setting expectations for disposition and, finally, creating the RMA. This allows the retailer to leverage any consumer-facing technology they choose (Web store, mobile, kiosk, etc.) while guaranteeing they do not have to replicate their returns processes with each new experience they choose to make available.

Once an RMA is generated, a corresponding ASN can also be sent to the system receiving the return, e.g., the warehouse management or point-of-sale system. When the associate in the DC or store indicates the condition and quantity of the return, the system will issue the corresponding credit or release an exchange order for processing.

### **Integrating with Customer-Facing Technology**

As the five core commerce technologies are put into place, retailers can take advantage of Web services to integrate them with their new and existing customer-facing technologies, leveraging the commerce technology as an intelligence layer to enable a seamless omnichannel customer experience.

### **Universal CRM—A Single View of the Customer**

Having a single view of the customer is an essential requirement for an effective omnichannel model. Universal customer relationship management systems cultivate a single view of the customer by storing customer profiles and transaction history across all channels. CRM data provides opportunities to individualize experiences for the customer throughout all interactions.

One view of the customer gives organizations the ability to personalize communications and experiences by providing business users with visibility to the customer and the tools to understand and act upon customer insights. With these customer insights, retailers can engage in active dialogue with their customers, delivering relevant content that is personalized to their needs. These insights can also be used to facilitate personalized pricing and promotions based on purchase history. And these personalized offers can pay off. For example, Safeway anticipates that its personalized pricing program, Just for U, will help drive a 1% to 2% increase in same-store sales, according to the *San Francisco Business Times*.

A CRM system enhances the ability to provide brand-relevant content and evolve the brand. With CRM data, retailers can source and create engaging and authoritative content that is aligned with the brand and enhances the customer experience. Plus, CRM data enables the brand to identify its most loyal customers and engage them as brand ambassadors. Brand content can then be delivered across multiple channels, including stores, online and mobile devices.

### **Order Capture**

Extending order capture technology across the enterprise is a quick way to immediately increase store sales. When a customer wants a particular item that is out of stock or not stocked in the store, order capture technology can save the sale by sourcing the inventory from another store or distribution center. For example, Men's Wearhouse estimates that they save over 1,000 orders per day by leveraging inventory from other stores to fulfill demand when a local store is out of stock. In the spirit of supporting shared service levels across channels, it's important that the customer can choose the same delivery/

pickup options that are allowed when ordering through other channels. While there are solutions that allow customers to independently place an order, a mobile or tablet application operated by a sales associate provides more opportunities to increase basket size.

Leading store order management solutions enable the store associate to directly interact with the commerce platform's network view of inventory. When engaging with a shopper, the associate can quickly determine whether the store is truly out of stock and, if so, determine if there's any available inventory in nearby stores, distribution centers or other locations that could be used to fulfill the shopper's needs.

Similarly, these tools offer call center order capture capabilities. Both the call center application and store order management tools should be directly tied to larger order orchestration capabilities, which will ensure the order is directed to the optimal

location and fulfilled on time, if the customer didn't opt to pick up the item in another convenient store location.

### Conclusion

Investment in a core commerce technology is the most strategic decision an innovative retailer can make because it supports the enterprise's ability to respond to ever-shifting customer preferences. A robust and extensible core infrastructure, then, is increasingly critical to succeeding in the digital commerce age, where customers are exercising their preferences in more ways than ever before. With pure-play online competitors capturing customers with low prices and wider assortments, omnichannel retailers must draw on their strengths—the myriad customer touchpoints at their disposal—by leveraging intelligent core infrastructure technologies that enable channel convergence. Only with this core can retailers hope to bring all the tools at their disposal to bear in servicing the customer and creating an unequaled shopping experience. ❖

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