

Maximizing Multichannel Growth



Given that multichannel consumers can contribute three to five times more sales than single-channel shoppers, it's no surprise multichannel has become the industry's new mandate.

Almost all retailers' e-commerce businesses are experiencing consistent and significant, often double-digit, sales growth and, in many cases, online sales, while starting from a much smaller base, are still growing faster than any other channel.

This growth, combined with changing consumer shopping habits and technological developments such as mobile shopping and social media, heightens the importance of a successful multichannel strategy. But many retailers have not yet integrated their channels, which is necessary to build a seamless experience, realize operational synergies and drive growth across all channels.

Leading retailers have discovered that a successful multichannel strategy requires a holistic approach, revisiting three core aspects of the business model—business strategy, operating strategy and operating model—to ensure they are aligned to drive multichannel growth.

Business Strategy

As always, a business strategy defines the company's strategic and financial goals, though these goals now reflect a changing channel mix. To help refine these goals, determining the role of each channel—for example, which will drive growth and

which will form the sales base—and how these roles may shift in the future, is critical. A successful business strategy will use these roles to guide the development of each channel, taking into account how each channel is used to connect with customers while complementing the brand as a whole, both of which impact financial and operational key performance indicators.

Leading retailers' target customers, value propositions and customer experience strategies also reflect an evolving channel mix. The target customer may not change across channels, but her shopping behaviors and preferences for each channel likely differ, and understanding these differences is essential to providing a compelling product offering. The value proposition—the quality, function and value of the offering—may also require refinements, and a successful strategy will consider whether differences can be managed profitably based on unique channel economics. Finally, the desired customer experience in each channel must be determined—how the brand is presented and how interactive and integrated the experience is across channels.

Business strategy sets the direction for the concrete business decisions that form a retailer's foundation. How these core components translate across channels is fundamental to how the business evolves. Business strategy and operating strategy intersect as retailers decide how each of these aspects is leveraged to develop a profitable multichannel strategy.

Operating Strategy

Determining the level of channel integration, or similarity of the product offering and customer experience across channels, best suited to shape a successful multichannel strategy is a key component of a retailer's operating strategy. This decision should reflect customer preferences and brand goals.

Assortment is clearly at the very core of a retailer's offering. How the assortment is managed across channels will not only impact customer relationships, but sales, margin and inventory performance as well. Three key questions can help a retailer flesh out a successful multichannel assortment strategy. What portion of the assortment is common? What should be carried online only? Is certain merchandise more appropriate for specific targets, for example, unique customers or regions?

Most retailers are maintaining a predominant core and increasing assortments online to drive incremental value. Increasing the breadth of available sizes and colors is thought of as an easy win, but determining how that can be leveraged to drive increased productivity in-store remains a significant challenge and real opportunity.

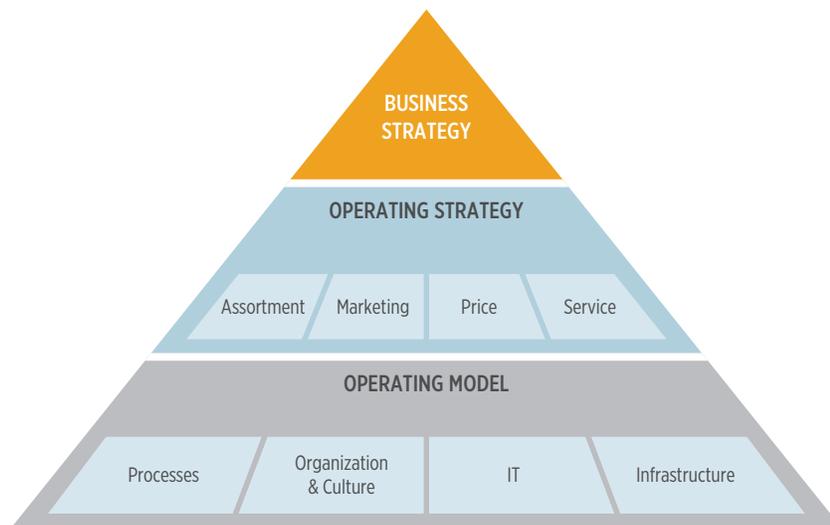
Successful merchandising decisions are supported by thoughtful pricing strategies across channels. The option to differentiate pricing at each point in the product lifecycle (full price, mark-

down, clearance, promotional) creates complexity and will have concrete impacts on traffic, sales and margins. The online channel is unique, with heightened competitive activity and new technologies that provide real-time capabilities for the consumer and retailer, technologies that also impact the bricks-and-mortar space. Managing pricing effectively can provide value for the customer and produce top- and bottom-line results for the retailer.

Determining the level of customer service in each channel and category is another key operational decision. It is shaped by the importance of customer service to a retailer's business strategy. Varying customer expectations in each channel also impact the optimal level of service—for example, the "high touch" in-store model may not be necessary online. Perhaps online, customers shop primarily for basics and need less education from associates than the same customers need in-store. New technologies, including in-store kiosks and other interactive features, provide innovative ways to support this decision and should be considered in light of customer preferences and return on investment.

Finally, multiple channels provide a unique opportunity for two-way communication with customers. The ability to gather more information than previously available helps retailers build a deeper understanding of their core customers, which can in

EXHIBIT 1: Multichannel Considerations across the Business Model



turn be leveraged to develop more effective marketing in the future. But how similar should communication be across channels? With the level of information available, all aspects of marketing, including message content, frequency and medium, could be tailored to the individual customer, but this may not be appropriate for the brand or the customer.

Operating Model

Finally, once the operating strategy is defined, the operating model may need adjustments to ensure it supports these new business goals. Assessing processes, organization, tools and infrastructure within each functional area and across the company will help ensure the development of a comprehensive model that supports the overall strategy, as illustrated by Exhibit 2. For example, merchandise processes may vary across channels, and a decision around the optimal level of integration, timing and sequence of key activities and cross-channel linkages is integral to solidifying the operating model. Additional considerations, such as channel allocation and in-season inventory management, are also critical to bringing the strategy to life.

A successful multichannel strategy may also necessitate organization structure shifts. Some areas of the business may need to be integrated, while others should remain channel-specific.

Changes to roles and responsibilities and new skill sets will also be required. In addition, system/tool requirements to support development of a seamless cross-channel experience, such as integrating and leveraging CRM data, need to be identified.

Finally, supply chain and store infrastructure may require changes to accommodate multichannel operations. Many retailers are keenly focused on assessing their supply chain capabilities. In addition, most are discussing or already implementing distributed order management (DOM) systems to manage cross-channel inventory complexity. Stores are also being impacted by online sales, as supporting “Click-to-Collect” or “Ship-from-Store” programs has significant implications on store layouts and productivity. Each new customer offering has ripple effects throughout the infrastructure.

Because of these wide-ranging effects, successful multichannel strategies will be challenging to design and implement. In speaking with retailers about their multichannel strategies over the last several months, Kurt Salmon has found that only a select few retailers have fully examined the three core aspects of their business model, but this comprehensive approach is essential for success. Retailers who ensure these core aspects reflect and are aligned to meet multichannel needs are better positioned for sustained growth and a competitive advantage in the future.

EXHIBIT 2: Holistic Evaluation of the Operating Model

	MERCHANDISING AND PLANNING/CATEGORY MANAGEMENT (Assortment Planning and Inventory Management)	FULLFILLMENT (Logistics and Transportation, DC Operations)	MARKETING (Communication Strategy, Analytics and CRM)	CUSTOMER SERVICE (Store and E-Commerce Operations)
PROCESS	Key Activities, Timing, Sequence and Links across Channels			
ORGANIZATION AND CULTURE	Structure, Roles and Responsibilities, and Skill-Sets			
SYSTEMS/TOOLS	Ability to Support and Enhance Integration			
INFRASTRUCTURE	Ability to Support Integration and New Services/Offerings			

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