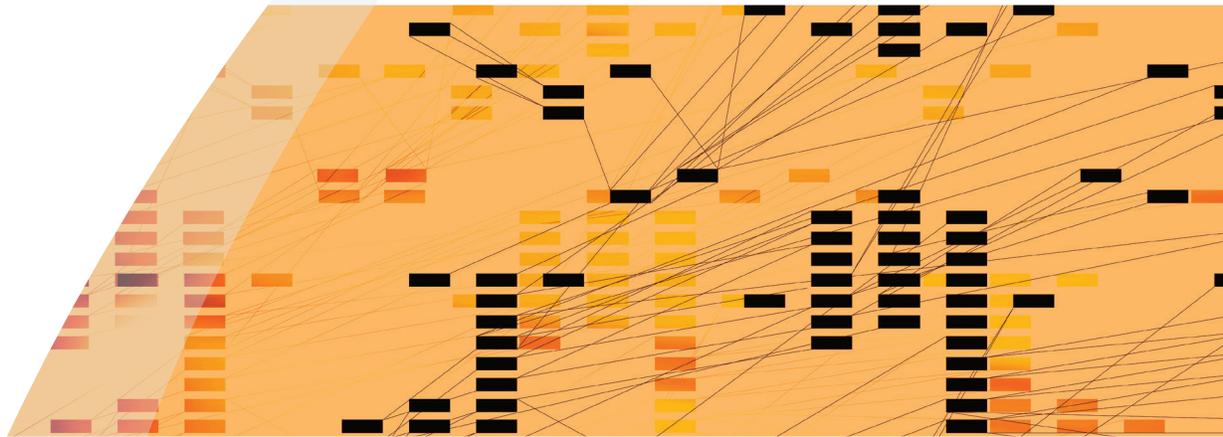


Infinite Touchpoints, One Organization

Moving toward an Omnichannel Merchandising and Planning Organization



Although most retailers are in the midst of one or many initiatives to improve their omnichannel customer experience, many have yet to crack the code on how their organizations will have to change to support them.

In fact, the ideal omnichannel organization is not unlike the final frontier —while most retailers have a decent grasp on the supply chain and IT changes necessary to support omnichannel, the optimal underlying organizational structure remains a mystery.

But for all the uncertainty, deciphering the right omnichannel organization remains critical. Without changing their organizational structures, retailers will be unable to better align customer experience and marketing across channels; handle the increased complexity that comes with growing assortments; enable cross-channel inventory visibility, sharing and fulfillment; and access the customer data that underlies key decisions.

Clearly, this level of change will require transformation across the organization. In this article, we focus on the merchant and planning organization, which will be one of those most significantly impacted by omnichannel. Those who haven't already started thinking about this critical part of the organization will soon risk seeing their omnichannel strategies fail to deliver their promised value.

First Responders

Leading retailers are already beginning to address this issue. In particular, their responses are centered on three key issues:

Optimizing the functional structure. Retailers are working to balance exploiting the unique capabilities of each channel with a cohesive customer experience that supports their overall positioning within the constraints of their current operating environment. The end result could be separate, combined or hybrid organizations (for example, integration at the GMM/SVP level with distinct people accountable for each channel below or slightly different structures by business under one CMO).

Redefining the traditional “pod.” As retailers move to an omnichannel model, the traditional “renaissance buyer” becomes insufficient to handle the added complexity and diverse responsibilities. Even traditional “pods” (buyer-planner-inventory management teams) are shifting to incorporate every function that is integral to delivering an omnichannel experience, such as analytics and digital merchandising.

Aligning responsibilities and metrics to drive business performance. Once these new structures and processes are in place, leading retailers are redefining roles and responsibilities accordingly. In doing so, these retailers are aligning internal behaviors and incentives with the external objective of developing a compelling and consistent customer experience across all channels. Metrics are particularly crucial, especially when transitioning from a separate organization to one with shared responsibility.

The Next Move

For retailers yet to begin shifting their organizational structure, determining the right model can be challenging. We have identified the five key factors that should inform any retailer’s optimal omnichannel organization. Within each factor, there are a number of considerations, many of which are included here. Each factor needs to be addressed from both the perspective of the business as a whole and from the category level. For example, a retailer’s overall assortment could be 90% consistent across channels, but in a category like footwear, that may drop to 60% as breadth and sizes expand online.

Omnichannel Drives Organizational Changes across Functions

Effectively enabling omnichannel requires significant organizational change across many functions. While changing the merchandising and planning organization is critical to providing assortments that meet the omnichannel consumer’s needs, organizational change in areas such as supply chain, stores, IT and customer experience is equally necessary to enable an enhanced omnichannel experience.

When it comes to supply chain, a company’s history will help set the stage for the right organization, but the trend today is moving toward having a single point of ownership for the omnichannel experience. Separate online and retail supply chain executives will each grow their particular channels instead of thinking and acting as one, thus jeopardizing flexibility and responsiveness, especially without common measures of success. On the other hand, a single decision maker will make unbiased decisions for the good of the retailer as a whole. Yet 61% of retailers do not have a single executive at the helm of all fulfillment, according to the 2012 State of Retail Supply Chain Report. From an IT standpoint, many retailers are grappling with ownership issues around omnichannel applications, especially who should own DOM (distributed order management), an application that intelligently routes orders through various fulfillment points. Clearly, supply chain, e-commerce, merchandising and allocation, and stores should all be involved in these discussions, but many leading retailers are struggling to determine which group controls the business rules.

1. FOUNDATIONAL ISSUES

- a. **Absolute size of each channel.** Is the direct business less than 10% or more than 25% of total sales?
- b. **Growth rate.** How important is direct to total corporate growth? Is the business doubling each year? Or has it stabilized to less than 20% annual growth?
- c. **History.** How have the store and direct organizations historically been structured? Who makes the decisions about each business? What are the reporting structures?

2. CONSUMER EXPERIENCE

- a. **Target consumer profile.** How similar or different are consumers in each channel in terms of lifestyle, demographics, psychographics and purchasing behavior?
- b. **Brand expectations.** What are the consumers' expectations of the experience? How do they want to engage with the brand within and across channels?
- c. **Competitive set.** How much do the core and extended competitive sets overlap across channels?
- d. **Marketing.** How different or similar are marketing and promotions in each channel? What is the promotional cadence or frequency in each channel? What types of messages and vehicles are most effective?

3. ASSORTMENT

- a. **Assortment and vendor overlap across channels.** Is the majority of the assortment the same across channels? Or is there greater differentiation in terms of product offering? Is there a focus on extended styles (sizes, colors, etc.) in one channel over another? For non-vertical retailers, are there vendor guidelines that drive different assortments within channels?
- b. **Importance and time requirement of cross-functional partnerships.** How reliant are merchants and planners on other functions to both provide key inputs and execute key activities? How does this differ by channel?

4. INVENTORY

- a. **Business cadence.** How similar or different are requirements in terms of freshness (for example, monthly changes to in-store floor sets vs. daily homepage updates on e-commerce sites)? What is the cyclical nature of each channel's sales?
- b. **Markdowns.** What is the markdown and clearance strategy for each channel? Are they used similarly, differently or in tandem?

5. OPERATIONS

- a. **Current tools and systems.** To what extent are tools and systems integrated to support omnichannel capabilities?
- b. **Distribution capabilities.** To what extent is inventory shared across channels? How easy is it to access and fulfill demand across channels?
- c. **Vendors.** Do we have the necessary relationships with our vendors (brands and supply chain) to optimize omnichannel efforts?

While not all areas will be weighted equally, together they will help inform the optimal omnichannel organization. Individually, each factor may point toward a different answer, so it's important to reconcile all the data points, as the holistic picture will surface the best solution, which may be different by category.

In the two case studies below, we explore how the interplay of these factors helps drive important organizational decisions.

Retailer A: Growing E-Commerce

Retailer A, a successful multibillion-dollar multibrand retailer, was faced with an underrepresented e-commerce business that made up less than 10% of its sales. As a result, e-commerce growth was a top priority, and the retailer aimed to double its e-commerce sales in three years.

Based on consumer insights, Retailer A found that brand recognition and consumer experience are extremely important, leading to a desire to offer a similar assortment and experience across channels. However, Retailer A expected to maintain an extended online assortment to give its customers more choices, primarily additional sizes and, in a few select categories, increased style breadth.

Retailer A was also in the midst of implementing a DOM system to provide holistic visibility into its supply chain and inventory access across channels.

Based on these factors, Retailer A chose to have one merchant responsible for its assortment across all channels, but also created an additional e-commerce-only planning position to combine the traditional sales and inventory aspects of planning with a more robust focus on Web analytics. Retailer A also adjusted merchant incentives to promote an increased focus on e-commerce.

Since prioritizing e-commerce growth, Retailer A's e-commerce sales have grown at a rate of over 70% for the last three years, significantly outperforming its peers.

Retailer B: Trichannel Powerhouse

Retailer B, a true trichannel international specialty retailer, captured about 40% of its sales from its direct

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channel. While direct sales had stabilized, the business continued to be a critical driver in Retailer B's corporate growth plan.

However, Retailer B was concerned about the sustainability of its business as a result of suboptimal organization and systems. It had separate organizations for each channel, which resulted in different customer experiences and assortments for each channel, plus service issues when customers tried to interact with the retailer across more than one channel. This growing customer dissatisfaction helped fuel an effort to enable enterprise-wide inventory sharing, which its historical tools and systems did not support, and a desire for a better understanding of the customer experience and assortment across channels.

In light of its situation, Retailer B chose to keep a channel-specific focus at lower levels of the merchandising organization, but merge responsibilities at the senior and mid-management levels. The retailer also moved to a single planning organization to support a shared inventory pool and unified financial plans. Direct merchandisers and planners benefit from a separate analytics role to help them make the best decisions. Finally, Retailer B migrated its creative and visual merchandising teams to have omnichannel responsibility.

These organizational changes have improved brand consistency, helped reduce customer service issues and helped Retailer B continue to sustain double-digit growth rates in its direct channel.

Getting There

In addition to the benefits described above, retailers can expect other general benefits from implementing an omnichannel organization—and the broader changes it will enable. For example, it's well known that omnichannel consumers spend four to five times more than single-channel customers on average, according to Forrester Research. Plus, better cross-channel inventory management will help reduce out-of-stocks, which Harvard Business School found cost more than

\$69 billion annually, and cut inventory carrying costs by 30% to 59%, according to Motorola. And, last but not least, better cross-channel coordination will result in improved consumer experience and loyalty.

Of course, achieving these benefits won't be easy. Any organizational change has to be supported by new processes that drive the right behavior, systems that help manage shared inventory and provide omnichannel visibility, updated planning or reporting software, a migration plan to new performance metrics, and a comprehensive change management program that touches those both directly and indirectly impacted. Many retailers may be best served by taking a multiphased approach to their new organizational state while they work out process and operational kinks. Plus, C-suite sponsorship is critical. Transforming to an omnichannel organization can be a political quagmire without the right leadership in place, as certain employees may lose independence or decision-making power to benefit the organization at large.

Despite the challenges, retailers can't afford not to work toward an omnichannel organization. As consumer expectations around cross-channel experience, assortment and fulfillment continue to grow, the only retailers able to meet these needs will be those supported by an organization designed with an omnichannel world in mind. ❖

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