The Omnichannel Retail Supply Chain

How Technology Delivered in the Cloud Will Separate the Winners and Losers in the Eyes of Consumers
The Transformation of Retail

Retail is undergoing a transformation spurred by technology and consumer demand. The new requirement for retail success is a single, clear view of every channel in the supply chain.

Consumers hold the power in this market. They’re demanding more options and leveraging retailers against each other to get the best value for their money. A competitive and increasingly global retail environment is leading retailers toward an omnichannel strategy as they integrate their distribution channels to better serve customers.

Many companies are in the process of fusing their channels and adopting powerful, cloud-based technology to gain visibility into inventory, share data with trading partners, and find new ways to offer phenomenal customer service and survive in the wake of the transition.

However, they are far from finished, and the tactics they employ over the next few years will have a profound impact on the future of the shopping experience. Some of today’s household names will emerge as the pioneers of omnichannel retail, while others will fall victim to slowing revenues and waning customer loyalty.

The Onset of Omnichannel

Swift changes in technology, supply chain complexity, and consumer behavior are generating a need for a new model that allows a retail customer to have the same buying experience over all distribution channels. An omnichannel retail experience is becoming one of the largest factors of success for brands.

Modern retail came about at the turn of the 20th century, with pioneers like Sears, Roebuck and Co. and J.C. Penney Company, Inc. Over the next several decades, department stores and apparel shops popped up all over cities and suburbia alike, joined by big-box retailers in the ‘60s and challenged by product-specific category killers in the ‘70s. Those that survived the fragmentation of the retail industry sustained largely the same model until the arrival of ecommerce in the 1990s.

Then, among the dotcoms, Amazon came along; it thrived on an incredibly efficient supply chain coupled with a vast selection of products. Zappos arrived on the scene with outstanding customer service and a compelling brand story. Suddenly, traditional merchants were faced with the prospect of losing sales to online competitors. They began investing in their own ecommerce offerings, racing to establish themselves as a customer favorite in a world of rapidly expanding choices.

Just within the last several years, omnichannel has become central to the retail discussion. Retailers are fighting to integrate their distribution channels and compete on better visibility and better customer service. Sweeping changes across the retail environment are happening, and the choices that industry executives make now will result in the survival — or downfall — of today’s leaders.
The Customer’s Newfound Power
It’s a Buyer’s Market…

Leaping technological advances over the last couple of decades have placed endless choices at the customer’s fingertips — allowing them to shop through any channel for only as long as their interest is held.

Smart phones, ubiquitous internet connections, and the success of ecommerce retailers present shoppers with several paths to the same product. Price competition due to the ease of comparison shopping has made it less profitable for retailers to offer alluring deals, especially on commoditized items. Marked by the decline of brand loyalty, the omnichannel environment demands that retailers focus on holding the attention of buyers in other ways — like wide-ranging delivery options and exceptional customer service.

Moreover, omnichannel consumers (those that are likely to shop and purchase through several channels) spend 15-30% more than traditional shoppers. Right now, online sales still make up a small slice of the pie. But in the United States, estimated retail ecommerce sales as a percent of total quarterly retail sales rose from 1.6% in Q1 2003 to 4.9% in Q1 2012, and tech-savvy omnichannel shoppers spend more than their single-channel counterparts.

For retailers, this has strong implications: as online sales increase, the amount of revenue from those sales will increase at an even faster rate. In other words, if retailers fail to provide a better customer experience and integrate channels, they will lose exponentially more revenue as the landscape changes.

… And It’s More Important Than Ever to Adapt

There’s a sense of urgency in retail as companies are announcing their new omnichannel strategies. The leaders of this movement know that if their customers don’t find what they want, they will go somewhere else. To avoid losing customers, these retailers must adapt to a rapidly changing global environment.

Supply chains include more trading partners than ever, with diverse currencies, languages, and regulations. Longer cycle times, higher raw materials and labor costs, and higher freight spend are encroaching on profit margins. Fulfillment is challenged by poor distribution strategies, and demand is growing more volatile.

To combat these factors companies must use lean, proactive inventory management. They must have visibility into inventory and an agile enough supply chain to react to the unexpected. To achieve this, retailers are adopting a cloud-based visibility platform to manage inventory in all channels.

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1 IDC Retail report 2012
2 Department of Commerce 2012

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Williams-Sonoma’s Competitive 2012 Strategy

During their 2011 Earnings Call, Williams-Sonoma discussed their omnichannel goals:

• Serve the customer anywhere, anytime, through any device or store
• Invest in supply chain to ensure the highest service levels in the industry.
• Become less reliant on retail store expansion by growing direct-to-customer sales
• Make the in-store experience dynamic and helpful
• Focus on back-end technology investments and leverage multi-channel customer data

Source: Williams-Sonoma 2011 Earnings Call
The Customer-Centric Supply Chain

Technology: Both the Culprit and the Hero

Technology is making consumers less loyal, more demanding, and more conscious of brand and price than ever before. It empowers consumers by allowing them to shop on their smart phones or tablets as they walk the aisles. The advancement of technology demands more of retailers, but it also gives them the ability to adapt.

Retailers are investing in cloud technology to gain visibility, manage the growing pool of data, and collaborate with their global trading partners to better serve customers. On a cloud-based supply chain platform, they can see exactly where inventory is and allocate it to the appropriate selling channel.

From Forecasting to Postponement

A chief agent of change in the retail industry is the use of technology in planning and execution. Traditionally, companies have used sales and operations planning (S&OP) to forecast demand and establish an ideal inventory level and production plan. However, this process is based on the use of historical numbers rather than real-time information.

Now, some retail players are looking to a leaner model; using cloud-based supply chain technology to look straight into current demand. They count in-transit inventory as on-hand because they can see exactly where it is, and reallocate it as needed. By doing this, they increase accuracy of customer ETAs and raise customer service levels.

Fulfillment with Value-Added Services

Retailers are experimenting with several fulfillment methods as they struggle to balance supply chain costs with customer service expectations. Direct-to-store delivery has increasingly included value-added services like inventory management, or discarded it in favor of centralized distribution. Free shipping has become a huge competitive advantage for retailers offering home delivery services. Same-day delivery is also becoming more common.

The retailer must choose these strategies based on the type and variety of goods being shipped and the need for expertise and service level at the receiving end. Ultimately, each fulfillment method requires excellent visibility into the supply chain in order to deliver memorable customer service.

A Snapshot of Success

A sporting goods provider manages three order types on a cloud platform. One type, direct-to-consumer, allows consumers to order custom hockey sticks online, personalized with their name and number. The website sends orders to the sporting goods brand and feeds directly into a cloud-based supply chain system, sending a PO for one hockey stick to the manufacturer automatically. The factory puts the name and number on the stick, item scans it and creates a packing manifest for one stick. It then selects a carrier on the cloud system and generates a label for the carrier to track. The product then ships directly to the consumer via UPS.

The cloud system enables the brand to process and ship custom orders directly to the customer from Asia, eliminating a full layer in the supply chain. No inventory is held in the U.S. The process saves time and money and even reduces the carbon footprint. Most importantly, it enables the needs of an omnichannel environment.
Surviving the Omnichannel Transition

Retail’s advancement has reached a tipping point, as recent studies reveal the blurring of lines between physical and digital channels available to today’s customer.

According to a recent survey of retail professionals by RSR, only 8% of respondents indicated that the typical model of channel-specifics supply networks is ideal. 54% of them said they would prefer to have an integrated channel strategy.\(^3\) Aberdeen stated in a retail report this year that lost sales opportunity costs were the top business pressure driving retailers to channel integration.\(^4\) Retail executives placed two cross-channel opportunities at the top of the list:

1. The ability of customers to purchase, take delivery, or return a product through the channels of their choice
2. The creation of a single brand identity across channels

Nearly all retailers realize that they don’t have the optimal solution; the market leaders are working to improve their supply chain and purchase the latest technology. If retailers plan on being successful in the future, they must take specific steps on the path to omnichannel.

Building Out a Channel Integration Strategy

Siloed channels have been the norm for decades. Companies would buy systems that could only handle data from a single channel and from within the four walls of the enterprise. Now, operating this way can doom a brand. Retailers must ensure that customers have the option of shopping from the same pool of inventory online, via mobile, or in-store. First steps toward channel integration include:

1. Decide on a role for each channel and how they will complement each other.
2. Choose fulfillment modes: vendor-direct, 3PL fulfillment models, separate or combined fulfillment centers/warehouses, inventory-sharing model.
3. Implement a cloud-based supply chain technology to gain visibility into all channels on a single, real-time information platform.

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<thead>
<tr>
<th>SILO V. INTEGRATED</th>
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<td>A customer finds a shirt she likes in a store, but they don’t have her size...</td>
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**Scenario 1: Silo**
An employee tries to call a few nearby stores, but they don’t have anything in stock. A shipment of shirts is sitting in one of their warehouses just 15 miles away, but the SKU is different (for online sales) and they don’t show in the system. The customer goes home empty-handed.

**Scenario 2: Integrated Omnichannel**
An employee scans the tag to find that a shipment will be arriving at another store out of town. The customer pays for the shirt in-store, and the retailer reroutes the shipment to arrive to her home by the end of the next day.

The integrated omnichannel retail supply chain helps deliver a vastly different shopping experience and guides the customer through to the sale.

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\(^3\) RSR Supply Chain Survey 2012
\(^4\) Source: Aberdeen Group, The 2012 Omni-Channel Retail Experience, 2012

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Gaining Visibility into Inventory

An omnichannel strategy requires visibility both into and out of every channel. First, employees and customers should be able to see all available inventory — both on-hand and in-transit. Second, the company should have an accurate picture of customer activity across channels. Visibility can help retailers gain a competitive advantage by allowing them to operate with less overhead and inventory, quicken reaction time to demand fluctuations or disruptions, and manage risk more effectively.

This can only be achieved by assessing current capabilities, then upgrading them with the proper technology. Today, the most effective visibility tools are in cloud-based platforms that allow trading partners to share data across their entire network.

Channel Integration Success: Walmart and In-store Pickup

Walmart has allowed online purchases to be picked up in store for the past six years. The retail giant decided to embrace the showrooming trend — whereby customers peruse items in a store but turn to online companies to make the actual purchase — by allowing shoppers to purchase their items online and pick them up at no cost at the store of their choice. Walmart, along with other retailers experimenting with channel integration, have added such services as Web return centers, pickup locations, and drive-through customer service centers to encourage online sales while satisfying customer needs for instant gratification. This strategy has so far been a success — 50% of their online sales are now picked up in a store, leading to huge savings in inventory and transportation. As an added bonus, a customer that picks up in store may make additional purchases while there.


Can customers view available inventory and expected shipping dates via any channel?

Is inventory traceable from the moment it is manufactured?

Are milestones in place for supply chain activity?

Can last minute changes in demand be filled by quickly rerouting items for distribution?

Is it easy to compare provider performance levels to actual results?

Is the time to information less than ten seconds?

If a retailer can’t answer yes to all of these, they don’t have full supply chain visibility.
Improving Data Quality in the Cloud

Data quality is one of the most important drivers of omnichannel strategy success. Retailers are adopting cloud-based platforms that can provide high-quality data on every channel, from every trading partner, on a real-time supply chain network.

Inventory Accuracy

Visibility and integration are two concepts that lack practical application without reliable data. Without it, a company may “see” where inventory is several days too late — or miss it entirely — and be forced to make logistical decisions based on inaccurate information. However, when data is mapped properly, updated instantly across a trading network, and presented in visual form, a company can see clearly into its on-hand and in-transit inventory and achieve the agility needed to become truly omnichannel.

Supplier Performance Levels

High quality data can also be used to measure supplier performance levels. Carefully organized, timely data can be help companies compare rates with their contracted carriers and display the likelihood of on-time shipment and delivery.

Data can also be used to track allocations to multiple carriers. For example, if a store is preparing for a back-to-school promotion, they may use performance data to choose a carrier with more reliable service. In this case, the knowledge that the shipments will arrive on time for the sale is more important than saving money on shipping rates. Other times, they may pick a low-cost carrier if a late shipment will not negatively affect store sales.

FIGURE 1: What Does Visibility Look Like?

1. Based on early forecasts, a steady supply is planned to arrive in the DCs.

2. **Problem:** Unexpected change in demand can’t be met with existing inventory in East DC; no visibility into yard, where there may be inventory, or into ETAs of inventory en route, which could be just days away.

3. An Out-of-Market transfer is initiated; inventory is trucked across the country to replenish the East DC, incurring additional handling and transport costs.

4. **Solution:** With visibility into yard inventory and the inbound pipeline, yard inventory could be used, and container shipments destined for the West DC could be diverted en route to the East DC, avoiding an Out-of-Market transfer.
Customer Service

Customer service can be greatly improved if a retailer can track dynamic ETAs for the shipment of products to customers. A good supply chain platform will alert trading partners when a shipment has reached a certain milestone, allowing for a quick response to any disruption or last-minute changes. This information can be passed on to the customer, improving transparency and increasing the likelihood of repeat business.

Connecting with Trading Partners

Up to 80% of supply chain data resides outside the four walls of an enterprise, with trading partners. Retailers are increasingly investing in cloud-based collaboration platforms that bring data from each supply chain stakeholder to the cloud, where it’s shared in real-time. These networks allow companies to communicate easily, spread the IT costs over the entire network, align shipping and distribution needs, and improve the procurement process.

FIGURE 2: Single Enterprise v. Agile Network  Informational nervous systems that extend beyond corporate boundaries allow companies to be agile and responsive across their global business networks.

The Single Enterprise  The Agile Network

- a single enterprise  zone of central influence

The growing use of collaborative tools between businesses is greatly reducing supply chain inefficiencies. Retailers that choose not to participate will endure less than stellar rates, operations in a silo, and higher costs of using traditional, license-based systems.

One View, Many Channels

To survive in retail, companies must embrace the omnichannel movement. Many are already doing so by integrating their distribution channels, embracing cloud-based supply chain technology to increase visibility, and focusing on new ways to provide value and service to their customers.

Ultimately, it is the consumers that will weed out the laggards from the leaders. Shoppers will choose their favorite retailers based on measurable action — how much money saved, how many days to delivery, and how often what they wanted was available. The leaders that emerge will be the ones that, with the click of a button, will be able to use their vast web of global trading partners to guide a single item to their customer’s doorstep.