Omni-Channel Fulfillment and the Future of Retail Supply Chain

Benchmark Report

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Executive Summary

The omni-channel consumer has forever changed retail, and there is no going back. And while marketers may scramble to navigate new demands and expectations for how retailers should communicate with customers in this brave new world, more fundamental change is occurring with retail operations – particularly supply chain.

Business Challenges

The retail supply chain was designed for one thing: to fulfill to stores. When consumers demand so much more, retailers must be prepared to respond. Unfortunately, supply chain challenges are particularly acute: lack of visibility into inventory (wherever it may be), increased pressure on inventory turn and margins (making it difficult to continue to proliferate inventory to support a proliferation of channels), and a growing sense among retailers that they aren't just missing out on some demand – they are missing out on a LOT of demand.

Opportunities

While there may be a near-infinite number of variations on cross-channel fulfillment, there is still one clear primary channel that consumers prefer to use for that last step on their path to purchase – take possession of their purchase – and that is the store. With nearly 95% of sales still being transacted in stores, retailers' biggest opportunity is to tie demand capture from all channels into some version of in-store fulfillment.

Organizational Inhibitors

The retail supply chain poses unique, entrenched challenges to retailers, with an enormous amount of investment in distribution centers and the systems that support them. But the biggest organization inhibitor to supply chain change for cross-channel fulfillment is the organization itself: too many people own too little of a piece of the overall fulfillment process. Without a holistic view of customer fulfillment, retailers are particularly challenged to build the business case needed to drive change.

Technology Enablers

Visibility is key to changing supply chain processes – particularly visibility into cross-channel influence on customer purchases. Retailers are most keen to invest in analytics that provide that visibility.

BOOTstrap Recommendations

RSR identifies four key steps on the path to omni-channel fulfillment: prioritize based on customer needs, capture customer demand wherever it may live, orient on the store to connect demand capture to store fulfillment first, and then work through a manual in-store process before deciding how to automate it. This won't deliver a fully omni-channel supply chain, but it will move a retailer well down the path towards the supply chain of the future.

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Research Overview

Why This Study Was Conducted

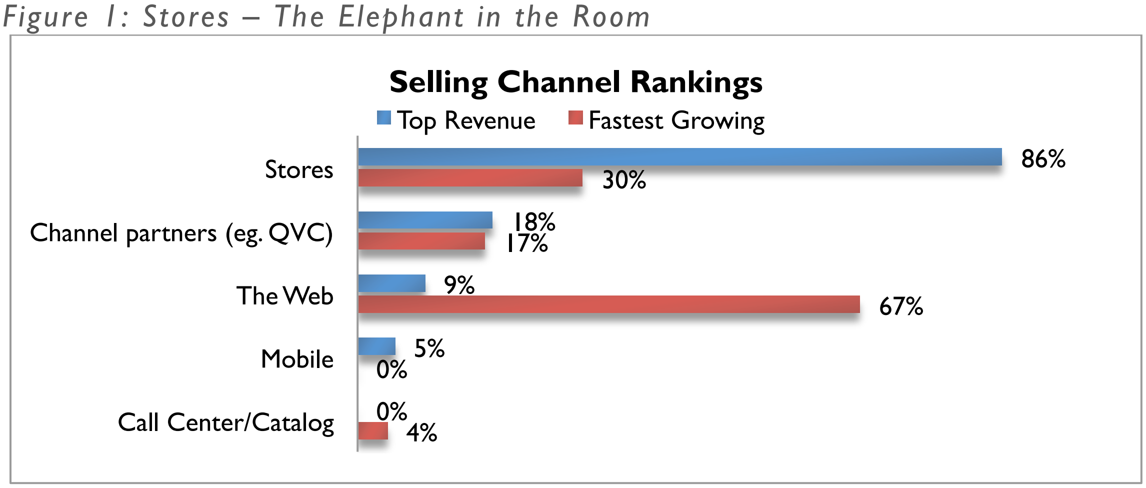
Even the simplest questions in cross-channel fulfillment lead to a Pandora's Box of challenges. Take the most basic: buy online/pick-up in store. As soon as a retailer starts asking questions about how to enable the fulfillment piece - where will the inventory come from? From stores? From eCommerce shipped to stores? - they rapidly find themselves descending into the middle of a strategic review of the entire supply chain network.

The plain reality is that current supply chain models are not suited to an omni-channel world – a world where consumers increasingly have little care which channel they use to research, select, transact, or collect products. The current supply chain model assumes that the store is the endpoint of the transaction, and further is built to deliver as efficiently as possible to that endpoint, with the assumption that the inventory delivered to the store will live out its life there until some consumer picks it up and brings it home.

But the trade-off to extreme efficiency is a lack of flexibility, and cross-channel fulfillment exposes just how inflexible a store-based supply chain really is. It makes sense when consumers research, select, and transact all in the store. When a retailer doesn't know exactly where the demand is, moving inventory around on the off chance of capturing that demand is risky and expensive. Cross-channel shopping creates the opportunity for greater visibility into demand and enables retailers to find ways to tap into their inventory sources wherever they are in order to meet that demand.

The store-based supply chain is a huge investment that currently yields diminishing returns, particularly in mature retail markets. Online is growing much faster, and as mobile and social efforts continue to grow and roll-up under the eCommerce banner that pace will only accelerate (Figure 1).

Figure 1: Stores – The Elephant in the Room



Source: RSR Research, March 2011

RSR believes that fulfillment as a competitive weapon is a near- to mid-term opportunity for retailers – something that can be capitalized on within the next five years. After that, it (like everything else) will become commoditized – a base expectation of consumers. How close are retailers to achieving true, ubiquitous cross-channel fulfillment? According to survey respondents, retailers are still only in the early stages. But this benchmark report reveals certain trends in motion that hold promising glimpses of a future supply chain transformed by omni-channel retailing.

Methodology

RSR uses its own model, called the "BOOT," to analyze Retail Industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large – Retail Winners. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Defining Winners and Why They Win, and Why Laggards Fail

Our definition of Retail Winners is straightforward. We judge retailers by year-over-year comparable store sales improvements. Assuming industry average comparable store sales growth of three percent, we define those with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans." It is consistent throughout much of RSR's research findings that Winners don't merely do the same things better, they tend to do different things. They think differently. They plan differently. They respond differently. Of course, in dour economic times like those of late 2008 and most of 2009, it's hard to find anyone over-performing. ***We therefore attempted to re-normalize our results by asking retailers to report their performance over the last two years***.

Laggards also tend to think differently. They may have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today's customer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don't change their business processes in an effective manner, and so they either eschew technology enablers, or don't gain expected Return on Investment on those they DO buy. In good times, they skate by: in tough times these weaknesses come back to haunt them.

Survey Respondent Characteristics

RSR conducted an online survey from November 2010 to February 2011 and received answers from 76 qualified retail respondents. Respondent demographics are as follows:

- Channels in Operation:

Stores	90%
The Web	74%
Call Center/Catalog	36%
Mobile	26%
Channel partners (eg. QVC)	14%

- Job Title:

Senior Management (e.g., CEO, CFO, COO, CIO)	22%
Vice President	11%
Director/Manager	43%

Internal Consultant	19%
Staff	5%

- 2009-10 Revenue ($ Equivalent):

Less than $50 million	17%
$51 million - $249 million	9%
$250 million - $499 million	6%
$500 million - $999 million	9%
$1Billion to $5 Billion	36%
Over $5 Billion	23%

- Market Segment:

Apparel, Footwear and/or Soft home	46%
Consumer Electronics	15%
General Merchandise and Hard Goods	20%
Groceries	11%
Hardware and Construction	9%
Drugs	4%
Jewelry and Accessories	11%
Home Furnishings	11%
Music, Books and Entertainment	11%
Prepared Food	4%
Fuel (Petrol)	0%
Auto Parts	7%
Miscellaneous Services	7%

- Headquarters:

USA	48%
Canada	6%
Latin America	4%
UK	4%
Europe	12%
Middle East	2%
Africa	2%
Asia/Pacific	21%

- Retail Presence:

USA	55%
Canada	28%

Latin America	21%
UK	28%
Europe	36%
Middle East	15%
Africa	15%
Asia/Pacific	43%

- Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3%):

Better than average	69%
Average	25%
Worse than average	6%

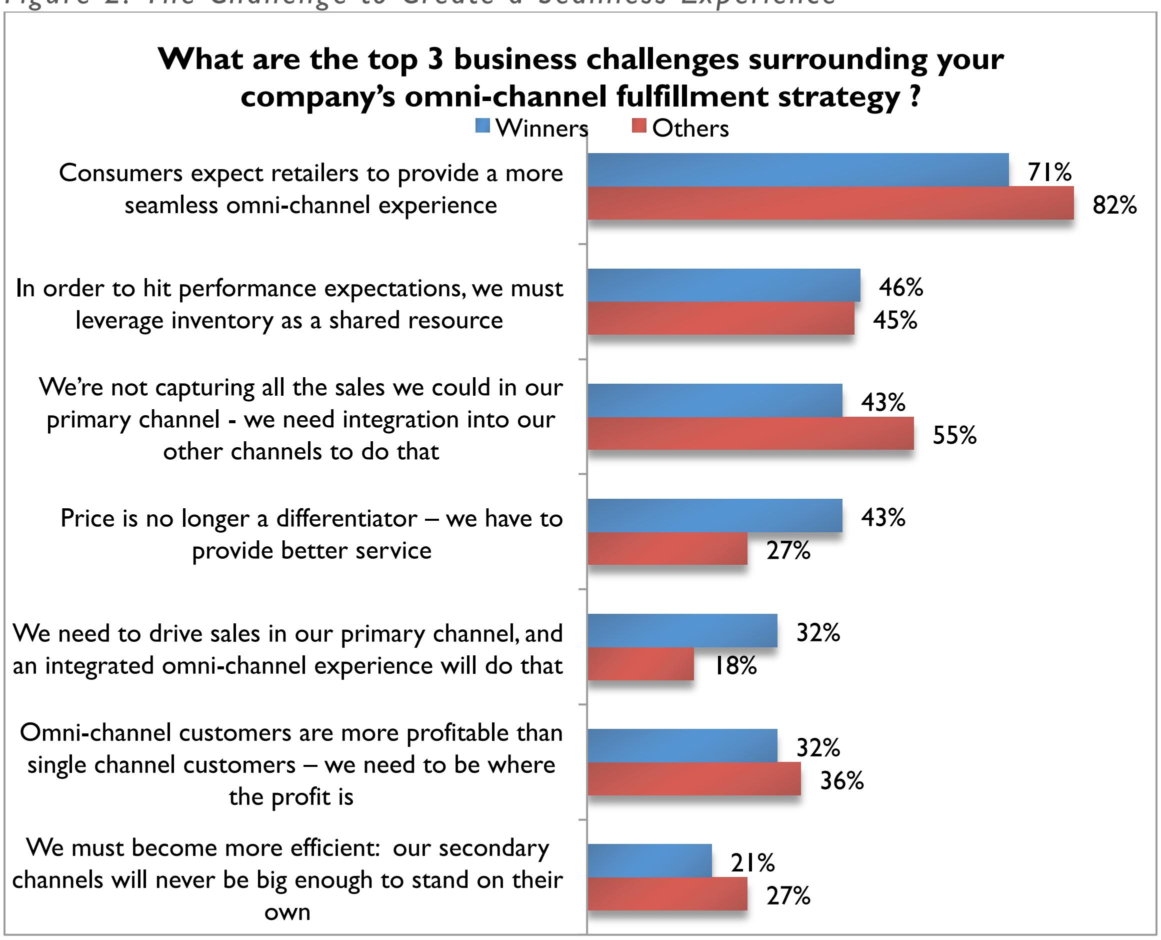
Business Challenges

Channel-less

The idea of the omni-channel shopper is now undeniable, made possible by massive and rapid adoption of "smart" mobile technologies by consumers the world over. Most retailers find their operational models challenged as a result. Channel-specific operations were developed to follow the "store" model. This tried-and-true model assumes that consumers investigate, select, pay for, and take possession of their purchases in one *physical* place: the store. For retailers who ventured into multi-channel operations such as catalog and the web, the non-store channels usually replicated what retailers did in store operations, that is, that everything from the supply chain through the point-of-sale was aligned to the channel.

Omni-channel shopping breaks the traditional operational model. Now, consumers routinely investigate and select products in non-store channels, even when they complete those purchases in the store. Consumers don't care about *channels*, but they do care about finding *solutions* to their lifestyle needs, and a retailer either satisfies a need or it doesn't. This is the ***omni-channel challenge***. In order for retailers to successfully address the challenge, they must be able to see the customer's experience across the entire retail enterprise. Retailers of all stripes clearly understand the consumer expectation for a seamless, "channel-less" experience (Figure 2).

Figure 2: The Challenge to Create a Seamless Experience



Source: RSR Research, March 2011

Retailers understand that the consumer's *path to purchase,* from the moment she begins investigating the "right" solution through to fulfillment, is not bound by one channel or another. Ultimately, the goal is for the consumer to be able to buy any available inventory from any selling channel, anywhere and at any time. But while nearly one-half of all respondents agree on the need to leverage inventory as a shared resource to enable the omni-channel shopper, there are differences of opinion between winning retailers and all others as to why.

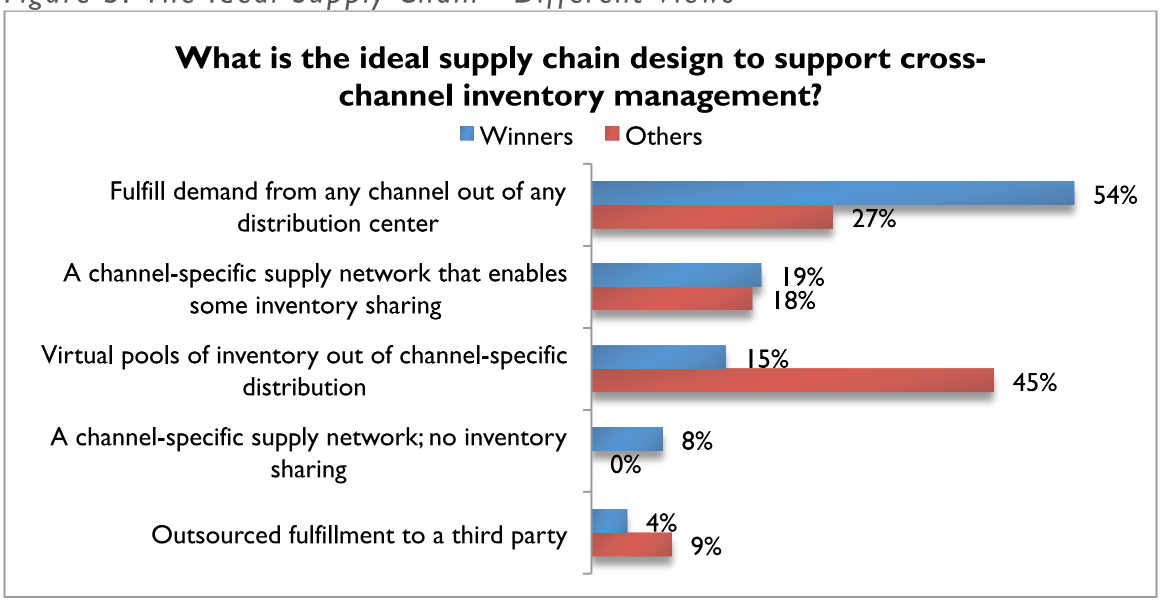
Average performers and laggards take an almost defensive posture: they feel more strongly than Winners that they are losing store sales because their non-store channels lack integration (in other words, consumers are turned off by the inconsistencies between the channels). But almost twice as many Retail Winners as their peers take a more proactive stance: they believe that they need to more aggressively drive sales to the primary channel (the store) with an integrated omni-channel experience.

Beyond Visibility: Access

While integration of the channels implies more than visibility into inventory across the entire enterprise (a single view of customer and product is also critical), visibility isn't enough. Retailers need to be able to commit to sell inventory for a customer order coming from anywhere. How best to do that?

We asked our respondents to answer that question, and stark differences between Winners and other retailers emerged (Figure 3).

Figure 3: The Ideal Supply Chain - Different Views



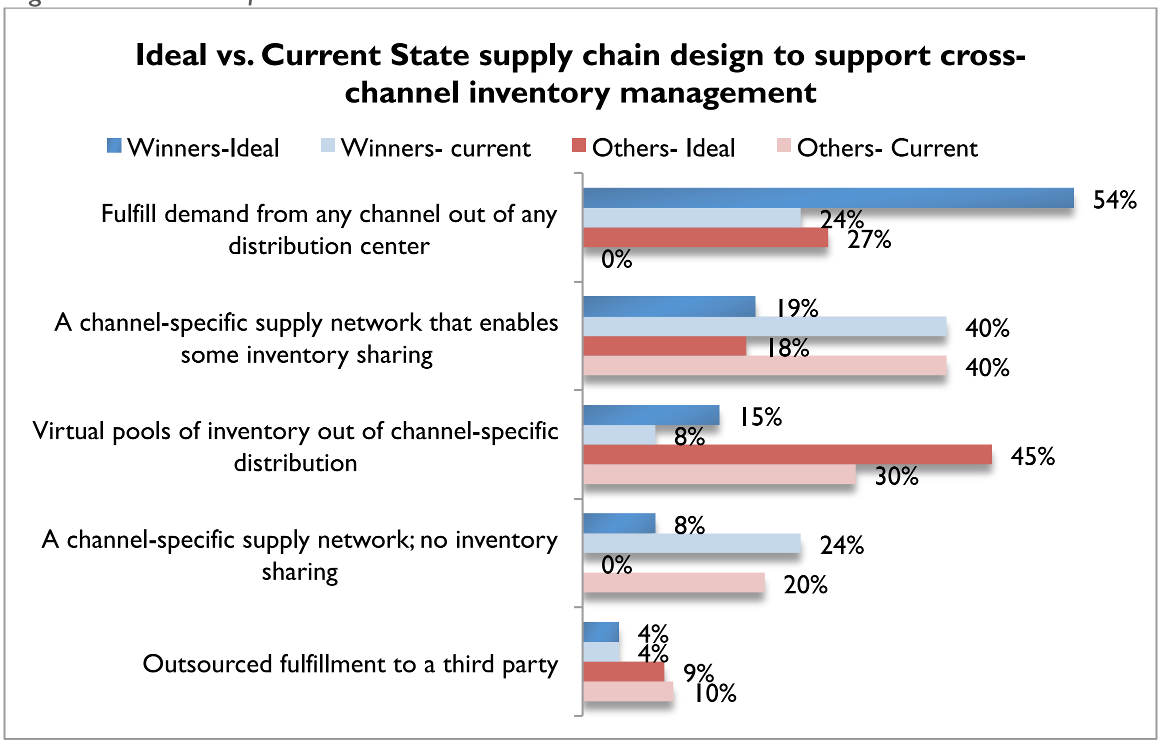
Source: RSR Research, March 2011

Twice as many Winners as other retailers want to be able to access inventory anywhere to fulfill demand from non-store channels. But their peers don't see it that way. Almost twice as many of those retailers think that the "ideal" supply chain strategy to enable cross-channel demand fulfillment is to create "pools" of inventory at channel-specific distribution centers rather than fulfilling orders from any inventory location – in essence, segregating some inventory for omni-channel order fulfillment. While such an approach allow might these retailers to avoid (for the time being) creating systematic enterprise-wide inventory visibility to enable omni-channel fulfillment, it creates the risk of excess inventory in channel specific distribution centers (DC's) and duplication of inventory across multiple locations. **Inventory is money tied up in assets**, and in these capital-constrained times it's not a winning strategy – as responses clearly show.

Towards The Ideal

While Retail Winners and other retailers may disagree on the most ideal supply chain design to enable omni-channel fulfillment, most of them indicated that today's reality is far from ideal no matter how you define it (Figure 4).

Figure 4: State of Transition



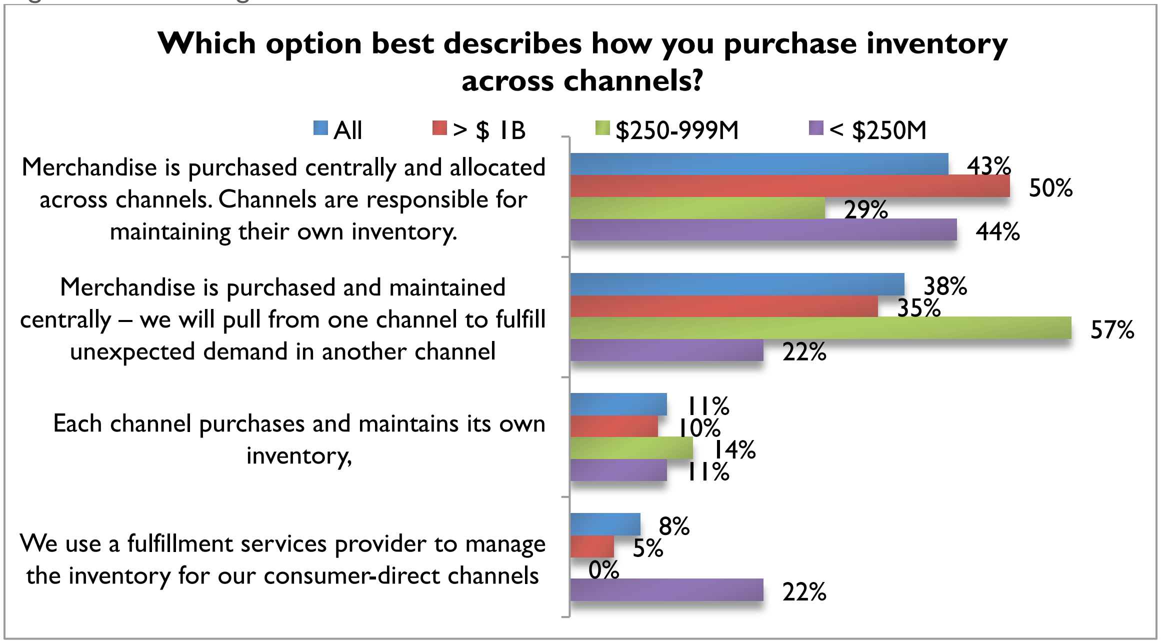
Source: RSR Research, March 2011

By a fairly wide margin, retailers of all performance groups most typically have channel-specific supply chains that enable "some inventory sharing". Beyond that, retailers in the different performance groups are pursuing their "ideal" supply chain designs. Some Winners have enabled demand fulfillment from any channel out of any DC, while some of their peers have created virtual pools in channel-specific DC's. Although almost one-fourth of the total response group has "traditional" channel-specific supply chains with no sharing whatsoever, the movement is towards sharing, one way or another. The difference between Winners and others is that **Winners aren't willing to sacrifice inventory efficiency to enable omni-channel fulfillment**.

Trying To Maintain Control

While there are differences of opinion about how best to design the supply chain to meet the needs of the omni-channel shopper, retailers generally agree that merchandise procurement should be controlled centrally (Figure 5). Few retailers of any size enable channel-specific purchasing.

Figure 5: Dealing With It



Source: RSR Research, March 2011

But it's getting harder for retailers to maintain control *after* the inventory is purchased. The current state of many retailers' supply chains is channel-specific, and channel-specific DC's are responsible for maintaining their inventories. But many retailers report that they must pull inventory from one channel to fulfill unexpected demand from another channel – particularly mid-tiered retailers. Meeting unexpected demand in this way costs money and creates a risk of not being able to maintain service levels for the *expected* demand. Large retailers control this better than mid-tiered companies do, while smaller retailers, who often use fulfillment services for their consumer-direct channels, have less of an issue.

A Challenge in Flux

The retail industry is clearly in a state of flux as it tries to adjust to the omni-channel challenge. While average and lagging performers are attempting to preserve their current supply chain and inventory management practices even as they try new fulfillment schemes, Winners see the need to create enterprise-wide capabilities that create the most flexibility to fulfill demand in the cheapest way possible – and create the "buy anywhere, get anywhere" paradigm without suffering from redundant, bloated inventory levels as a result.

Opportunities

Integrating Customer Order Management And The Store

A 2010 IBM study of over 30,000 global consumers entitled ***Capitalizing On The Smarter Consumer***[1] found that:

> *"…49 percent of respondents are instrumented – a 36 percent rise in 12 months globally. The number of shoppers who are currently not willing to use any technologies has also fallen to just 14 percent. The Internet and in-store kiosks remain the most popular options: 75 percent of all consumers are willing to shop on a retailer's Web site, while 39 percent are willing to use in-store kiosks – a year-on-year increase of 10 percent. But interest in digital TV and mobile technologies is climbing even faster. The number of consumers who are ready to use digital TV has risen 41 percent (from 17 percent to 24 percent), and the number of consumers who are ready to use mobile technologies has soared by 92 percent (from 13 percent to 25 percent)."*

But in spite of the fact that more and more consumers are making full use of the available technologies, the great preponderance of retail volume as measured by revenue flows through the stores. For example, the U.S. Department Of Commerce states that online sales represent less than 5% of total U.S. retail sales.

Most retailers believe that consumers expect a seamless experience regardless of how they choose to interact with the retailer. But they still (reasonably) expect that the end result will be a visit to the store, regardless of the path to purchase that a customer chooses. In the traditional retail model, a customer order is the market basket, and the customer does a lot of the work *physically* investigating, selecting, and paying for merchandise – in the store. But in the omni-channel model the consumer *digitally* investigates and selects, and sometimes even pays for, merchandise, and then wants to take possession of the merchandise in a store. So it follows that **the biggest opportunity for retailers is to integrate store-level demand fulfillment with omni-channel customer order generation capabilities**.

But today many retailers are either in denial or in transition. While most Retail Winners – 74% according to our survey – try to enable some form of store-level pick, pack, and pay process for non-store customer orders, half of non-winning retailers admit that they don't enable non-store orders to be fulfilled at the store (Figure 6). For those retailers that do enable in-store order fulfillment, most accomplish pick and pack manually, with varying levels of interaction with the POS system for payment processing.

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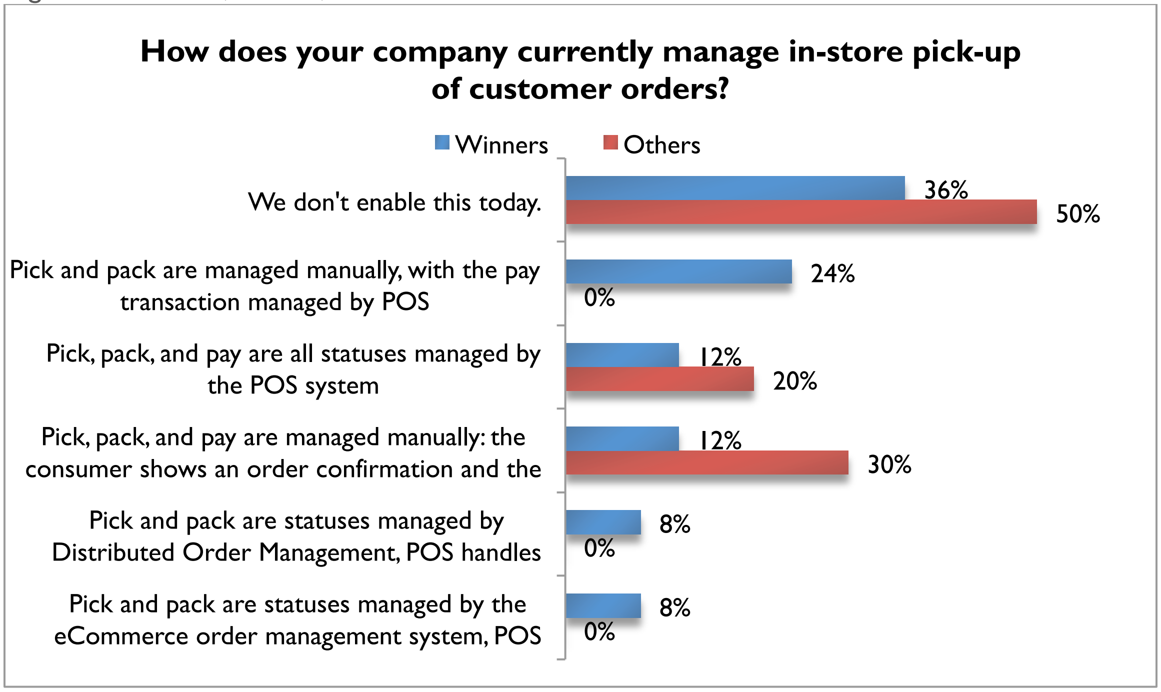
1 ***Capitalizing On The Smarter Consumer***, *IBM Global Services,* © Copyright IBM Corporation 2011, p.4

Figure 6: Crawl, Walk, Run



Source: RSR Research, March 2011

Currently, the most common process used by Winners is to handle pick and pack manually, and process the payment via in-store POS. For average and under-performing retailers, the most common method is completely manual (pick, pack, and pay).

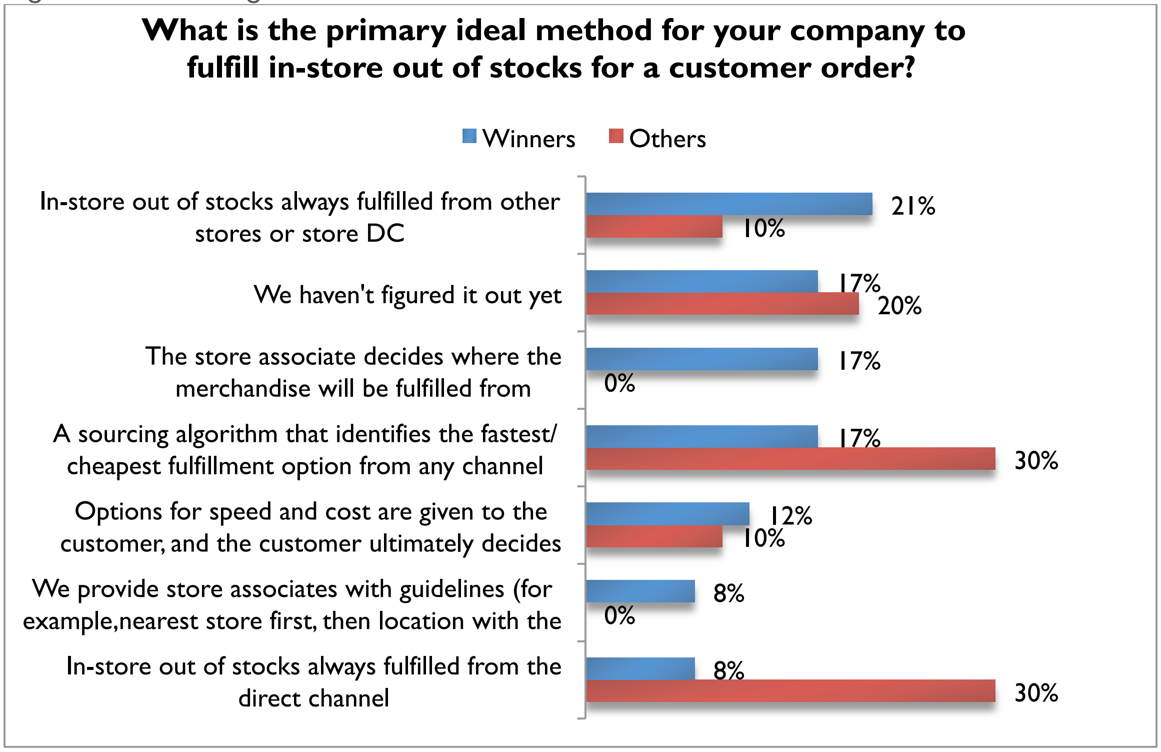
The state of integration of omni-channel order generation and in-store fulfillment reflects the current state of cross-channel inventory management. Sixteen percent of Winners are managing pick and pick via either distributed order management or e-commerce order management systems and handling payment via POS, compared to 24% of Retail Winners who have enabled demand fulfillment from any channel out of any distribution center (Figure 4 above). Conversely, none of their peers who responded to our survey report that they have integrated distributed order management or e-commerce order management processes with the stores, and that is consistent with an identical finding (0%) of non-winners who have enabled demand fulfillment from any DC. The two winning capabilities are clearly related**: enterprise-wide inventory management and enterprise-wide customer order generation, alongside store-level fulfillment.**

Whatever It Takes

Regardless of these emerging capabilities, most of our respondents say that the reality for them now is much more manual, and this creates the risk of disappointing the consumer at the point of fulfillment in the store. For any retailer, it's a worst-case scenario: the consumer has investigated and chosen a solution to their lifestyle need, and comes to the store to pick it up only to find that the store doesn't have the promised merchandise.

How do retailers avoid this customer service *faux pas*? Eighteen percent of all survey respondents admit that they "haven't figured it out yet". The largest group of Winners believes the best way to enable stores to fulfill out-of-stocks is from other stores or a DC (Figure 7).

Figure 7: Avoiding a Worst-Case Scenario



Source: RSR Research, March 2011

Retail is a famously "whatever it takes" environment when it comes to customer satisfaction, and one-quarter of Retail Winners indicate that they would put the decision as to where to pull merchandise into the hands of store employees, either with or without guidelines. But non-winning retailers don't think that this is a good idea. Clearly, "whatever it takes" doesn't extend to empowering store employees for average performers and laggards. Instead, those retailers would like a technology to tell them what to do ("A sourcing algorithm…", the most favored option for mid-tiered retailers), or to be able to pull the inventory form one known source – the direct channel (the most favored option by small retailers).

Direct Shipping: Smaller Retailers are More Nimble

While the store remains the #1 selling channel for most retailers and it is clearly the #1 point of fulfillment for most consumers, direct-to-consumer shipping is an important service option, and most retailers indicate that this part of omni-channel order fulfillment is well understood. Almost one-half of all our survey respondents (44%) commit to "next day" shipping and another 31% indicate that although they make no commitment they "usually" ship within a day of order receipt.

But a closer examination of the responses reveals that larger retailers are more non-committal about fast shipping (Figure 8). Almost twice as many mid-tiered retailers commit to same day or next day shipment compared to larger retailers, and almost one-half of big retailers make "no commitment" other than to try to ship next day.

Figure 8: Bigger is (Perhaps) Slower

Source: RSR Research, March 2011

A Clear Opportunity

Retailers and consumers seem to be in sync about one thing: stores are a great place to complete the shopping experience. And most retailers now accept that consumers will use non-store digital channels to begin their shopping experience. But stores need to be a part of the omni-channel model and not a holdover from the uni-channel age.

Retailers should seize the opportunity to integrate enterprise-wide inventory management with enterprise-wide customer order generation and store-level fulfillment. Prerequisites to this level of integration are difficult. First, retailers have to enable enterprise visibility of *real-time* customer, product, and inventory information. Second, retailers need to enable consumers to reliably select their method of fulfillment (the store or direct) based on *accurate* inventory availability information. Third, stores must be integrated into non-store customer order generation capabilities.

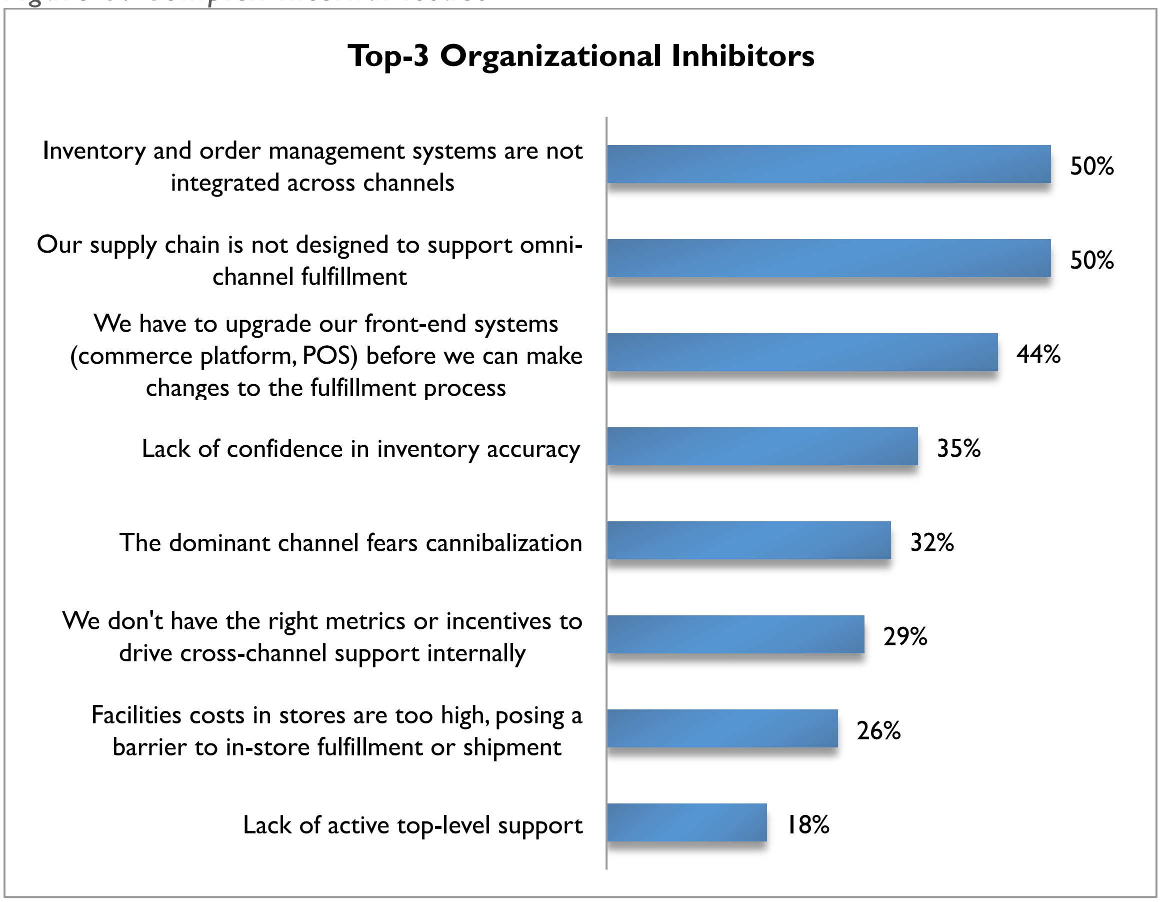
Retail Winners are farther along than others in making this happen, but it's still "early days" and their peers have a chance to catch up and even surpass today's top performers. But they'd better get to it quickly: Consumers are adopting new channels like "smart" mobile and social media at an astounding rate, promising yet a new wave of challenges to the fulfillment model.

Organizational Inhibitors

Constraints on Every Side

The top three organizational inhibitors reported by survey respondents reflect the deep-seated nature of their supply chain challenges: supply chain is not designed to support omni-channel fulfillment, inventory and order management are not integrated, and we have to upgrade our front-end systems before we can do anything to fulfillment (Figure 9).

Figure 9: Complex Internal Issues



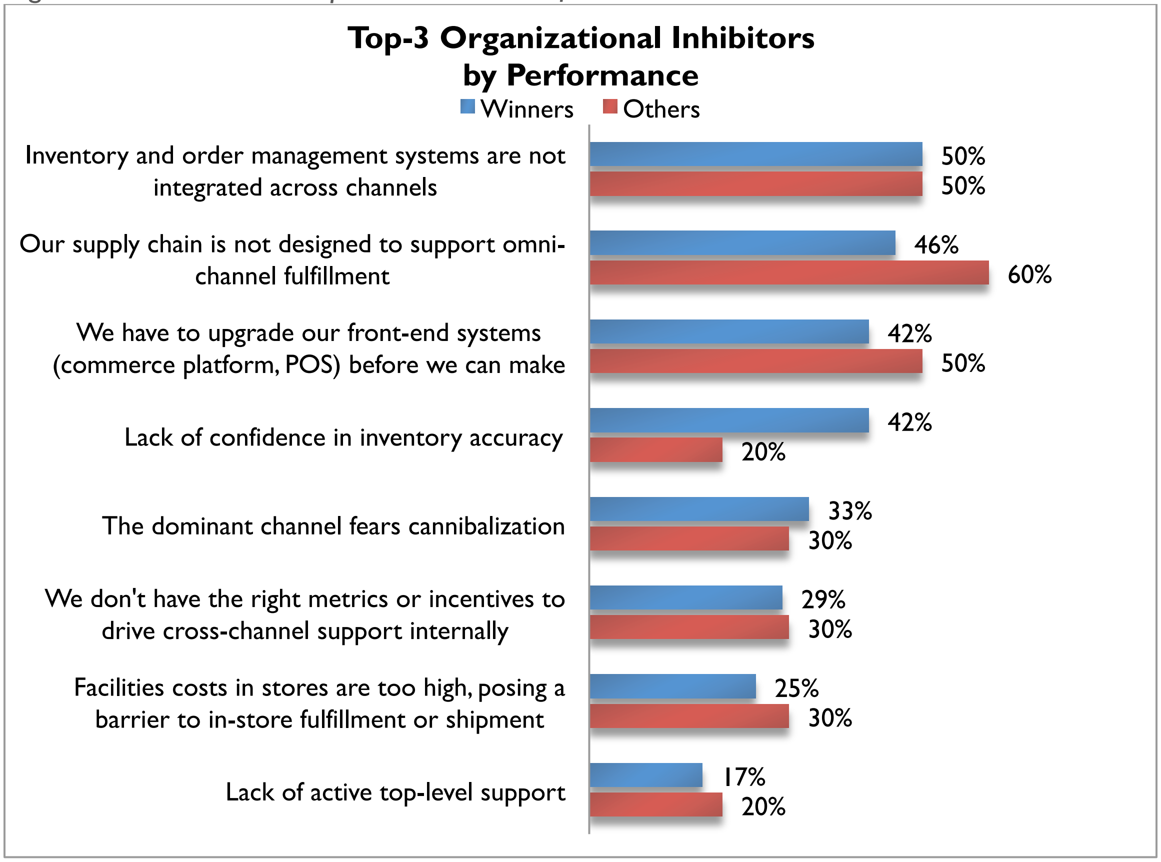
Source: RSR Research, March 2011

On the plus side, there is no lack of top-level support. While the problem is complex, and the ultimate end result is currently more of a vision than a well-defined project (meaning that the opportunities are endless), retailers appear to realize that *something* needs to be done, both to meet consumer expectations and to raise the bar for supply chain efficiency, inventory turns, and overall profitability.

Winners: No Lack of Confidence

Looking at results by performance, Winners appear more confident in their ability to get to an omni-channel fulfillment end-game: while they are just as challenged by their lack of integration between inventory and order management, fewer Winners admit to being challenged by supply chain design or front-end systems than peers (Figure 10).

Figure 10: Winners Express More Confidence



Source: RSR Research, March 2011

But where the confidence really stands out is with the perceived accuracy of their inventory. Across RSR's research we consistently find that winners worry more about inventory accuracy, and try to do more to achieve benefits that tend show up in other places – in pricing and demand forecasting, and here as well, in their ability to meet cross-channel demand.

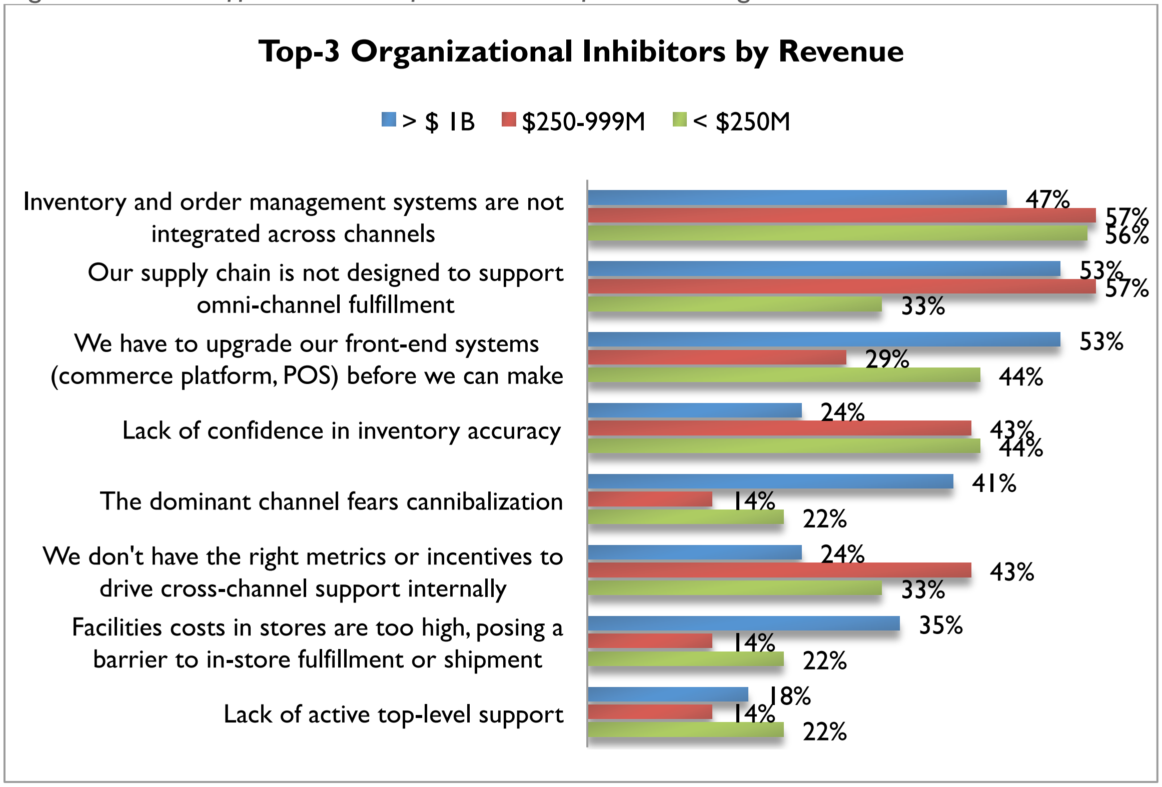
No "Big" Surprises

At first glance, larger retailers (in terms of revenue) don't appear to have the same degree of internal challenges as their smaller peers (Figure 11):

- Their supply chain is just as inflexible as peers.
- They are slightly ahead of the game in inventory/order integration, and more confident in their inventory accuracy.

However, it quickly becomes clear that larger retailers do face unique challenges that make pursuing omni-channel fulfillment particularly difficult, namely the size of their store base.

Figure 11: A Different Set of Inhibitors for the Largest Retailers



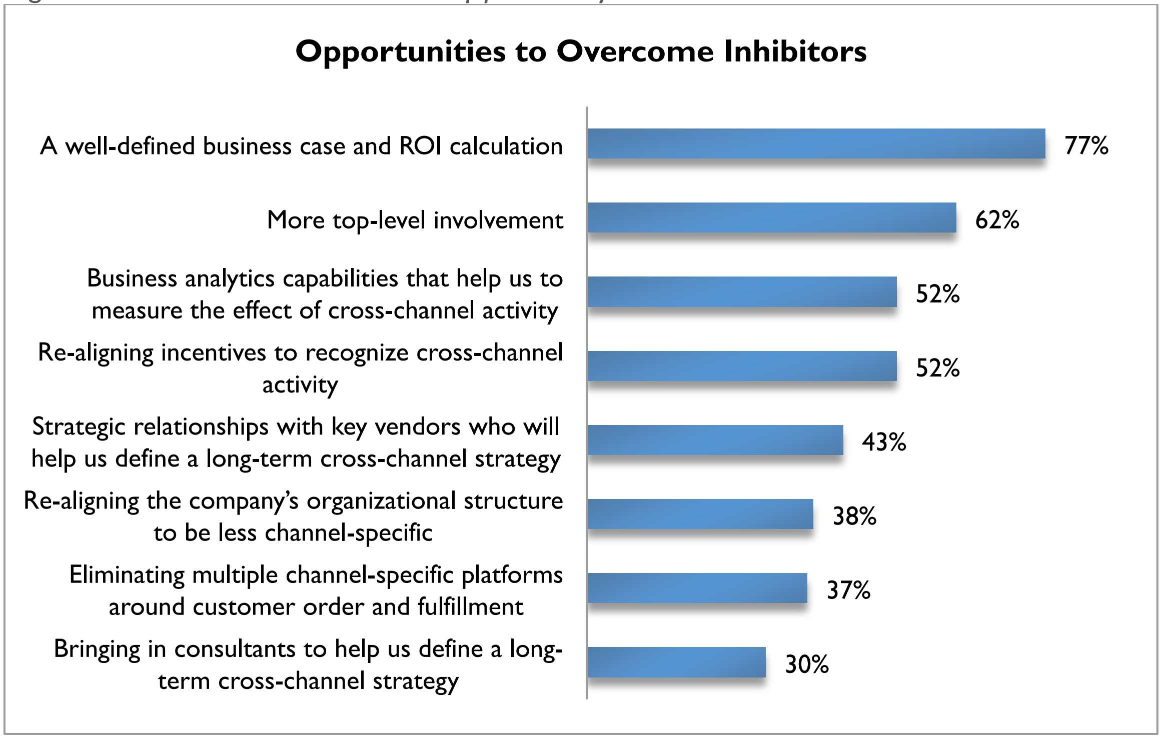
Source: RSR Research, March 2011

Larger retailers are particularly constrained by the weight of their stores. The largest retailers are more likely to report old, entrenched front-end systems, which are particularly difficult to get around in stores (requiring enormous capital investment and lengthy rollout periods). They also report a store base more suspicious of investment in cross-channel capabilities, and in the largest retailers that's a lot of organizational weight to throw around. A large store base also makes the in-store investment required to make the changes to support cross-channel fulfillment very expensive, thanks to the store multiplier effect.

Tell Us Why It's Worth It Again

The number one opportunity to overcome inhibitors reported by survey respondents – by far – is a well-defined business case and ROI calculation, followed by more top-level involvement and business analytics capabilities to help get a bead on the nature of cross-channel activity (Figure 12).

Figure 12: The Business Case Opportunity



Source: RSR Research, March 2011

Calculating the business case for omni-channel fulfillment is harder than it seems at first glance. RSR has done extensive work to define the cross-channel business case, and much of the difficulty lies in putting values against too many factors that are unknown.[2] While the business case itself boils down to "saving the sale" – whether using online inventory to save an in-store sale, or using in-store inventory to save an online sale – few retailers have a complete picture as to how much influence each channel has on cross-channel sales. What value does the store contribute to an online transaction? It depends on how many times the shopper came into the store, and whether she ever tried to transact there.

Interestingly, there is very little difference in perceived internal barriers by performance – the only thing that can be said about Winners vs. their peers is that slightly more Winners place more value on executive leadership and metrics, while peers tend to turn to vendors to lead the way. However, fully 100% of retailers with revenue over $1 billion say they need a business case and ROI, vs. 71% of peers. They also look to vendors to play a leadership role more so than peers – 71% vs. a third of all others.

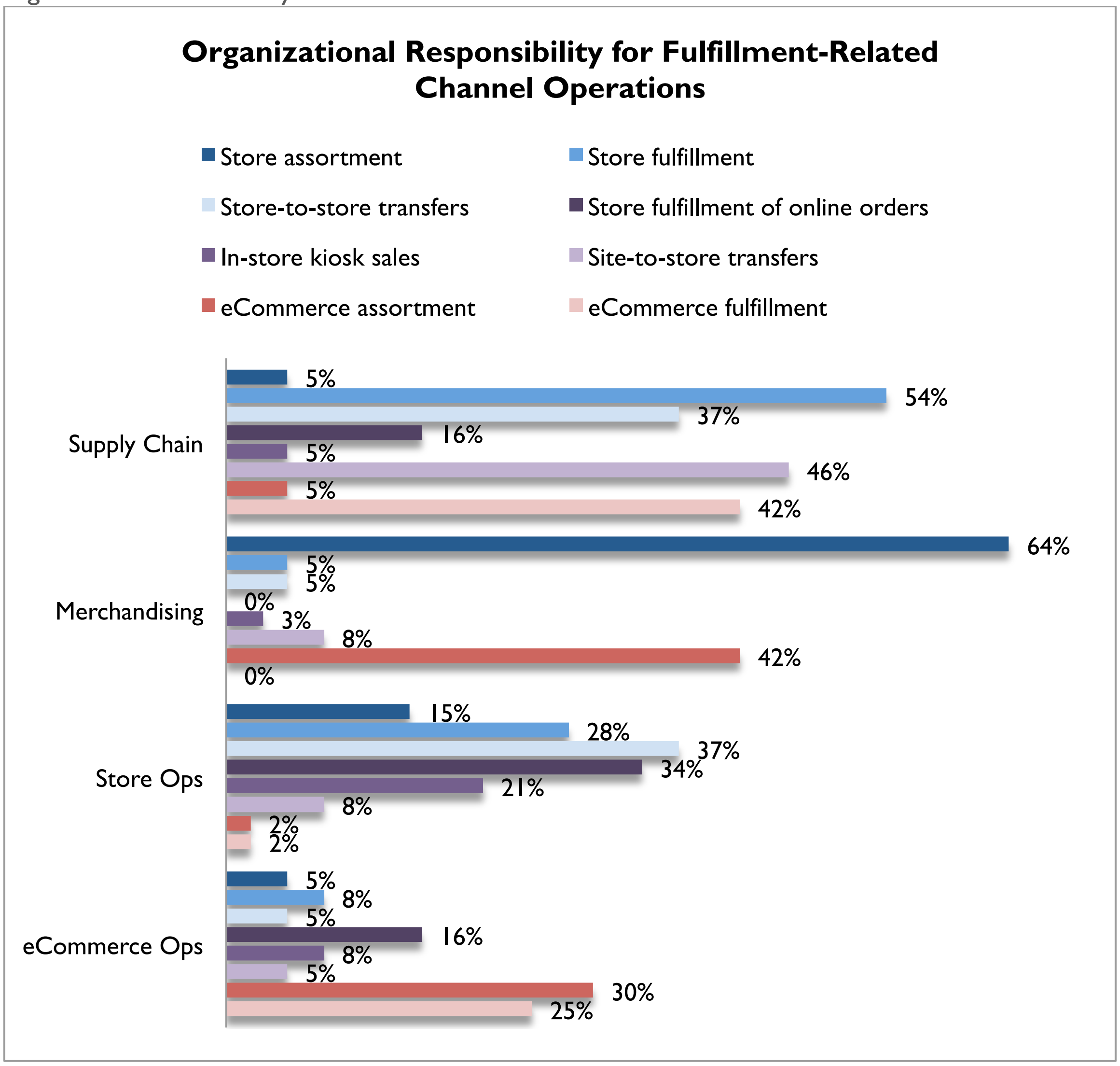
Anecdotally, emerging evidence suggests that the business case for flexible inventory management across channels is quite large – not just from "saving the sale" but also from driving purchase behavior from one channel into another. Retailers like Best Buy and Sears are reporting that buy online/pick-up in-store is driving an enormous amount of incremental trips to the store and that consumers are spending anywhere from 50-75% of the original online basket size in the store once they get there.

[2] ***The Cross-Channel Opportunity: Business Impact Analysis***, RSR Research, May 2009.

The Real Organizational Inhibitor

All internal challenges around supply chain design and systems aside, the real organizational inhibitor to omni-channel fulfillment is the organization itself. Survey respondents report that there is no lack of ownership when it comes to channel supply chain processes – unfortunately, few owners control more than one little piece of the puzzle (Figure 13).

Figure 13: Too Many Cooks in the Kitchen



Source: RSR Research, March 2011

According to survey respondents, the supply chain organization tends to own store fulfillment, and to a lesser degree site-to-store transfers, as well as eCommerce fulfillment and store-to-store transfers. Merchandising clearly owns store assortment, and increasingly eCommerce assortment, but little else.

The cross-channel waters get murky after that: around a third of respondents report that store operations manages store-to-store transfers, store fulfillment of online orders, and DC-to-store fulfillment, but only 21% report ownership of in-store kiosk sales (which explains typical store resistance to using kiosks). eCommerce Operations has the least control over their destiny: only

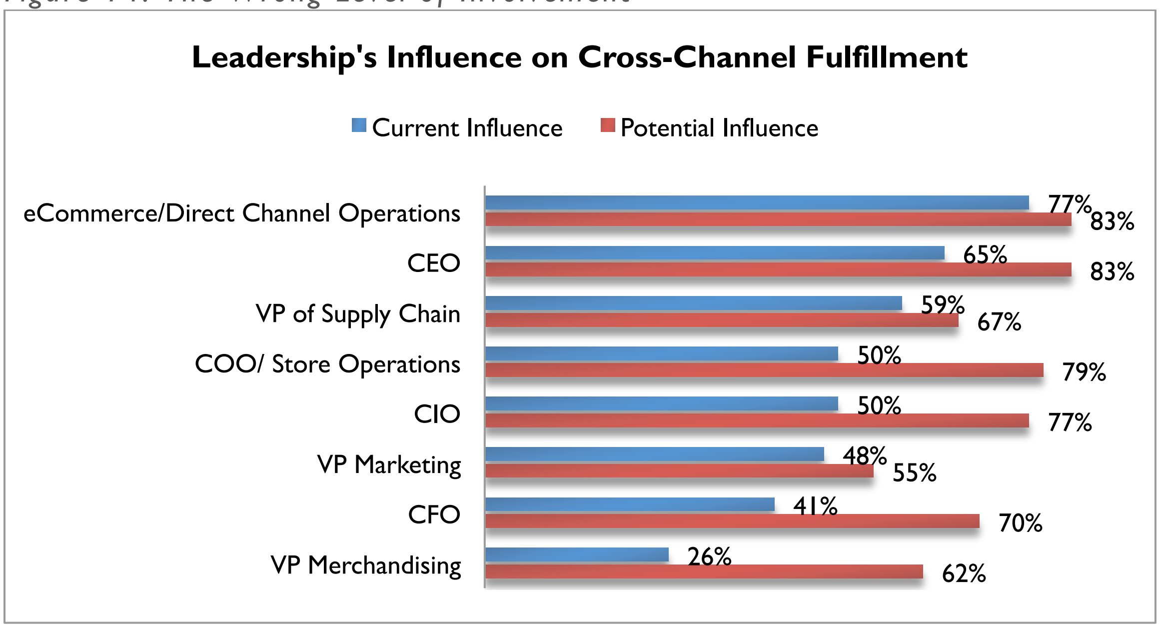
30% of respondents report that eCommerce has clear ownership of their online assortment and additionally 25% report ownership of eCommerce fulfillment. Another 16% say eCommerce is responsible for store fulfillment of online orders.

With so many cooks in the kitchen, it's no wonder that the ROI is the number one business challenge, followed by executive leadership and analytics to determine cross-channel influence. No single group has the full picture of supply chain activities – or benefits – related to cross-channel fulfillment.

So Who Takes Charge?

According to survey respondents, the eCommerce Executive currently has more influence over cross-channel activities than the CEO. Given the lack of ownership over cross-channel processes that most eCommerce organizations appear to have, this is clearly too much influence for someone who has little say over the outcome, and not enough influence by the people who can make a difference (Figure 14).

Figure 14: The Wrong Level of Involvement

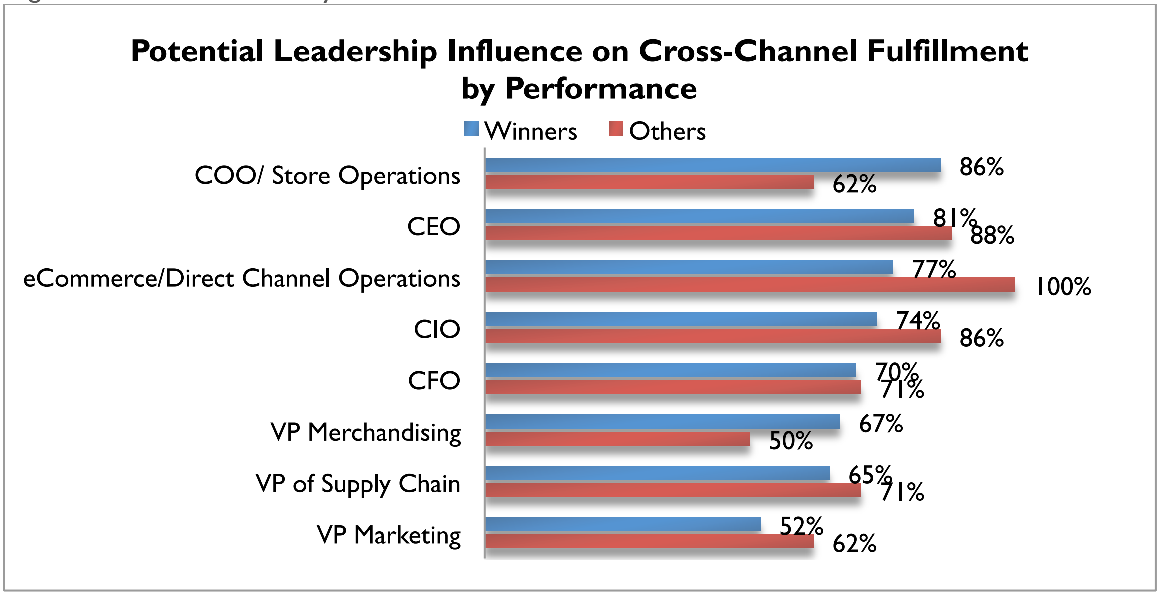


Source: RSR Research, March 2011

Winners appear to understand that Store Operations needs to be more involved, and are more likely to see the value of roping in the lead merchandising executive alongside his or her supply chain counterpart (Figure 15). Peers tend to see more opportunity for involvement by eCommerce operations, the CEO, and the CIO to make things happen internally.

Unfortunately, under-valuing merchandising and store operations' contributions to cross-channel fulfillment is a mistake. Especially for larger retailers, the value of cross-channel fulfillment is greatest in stores, and merchandising and store organizations have the most influence over what happens there.

Figure 15: More Heavy Hitters Needed



Source: RSR Research, March 2011

The Fulfillment Experience

While retailers have historically resisted adding a new "Chief Customer Experience Officer" (when a retailer just had one channel, the VP of Store Operations usually played that role), times are changing rapidly. But while retailers are indeed placing more attention on a holistic view of the customer experience, it's not clear that they are extending their definition of "experience" to include fulfillment. With a piecemeal approach to both where inventory should be located and how it should be used to meet demand, a critical piece of the customer experience doesn't just get lost in the cracks – it falls into deep organizational chasms, never to be seen again.

Technology Enablers

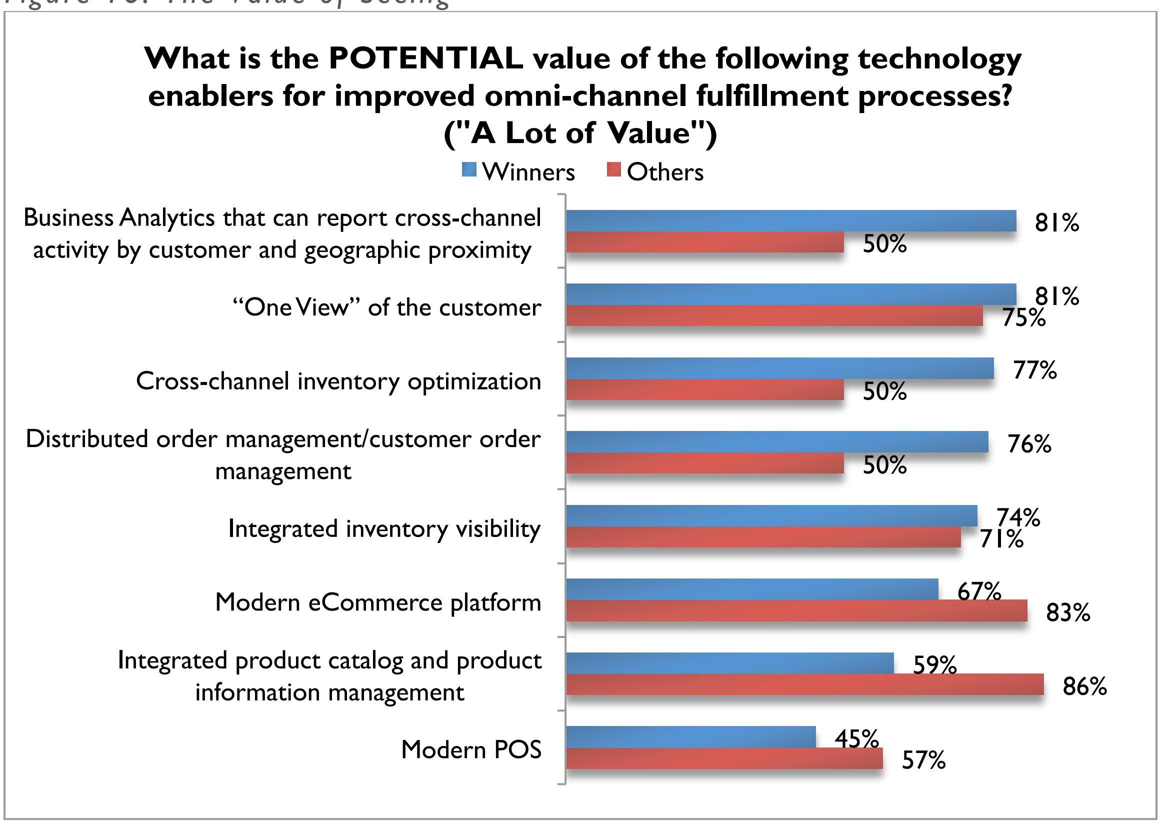
Modernizing For The 21st Century Consumer

RSR contends that the retail industry is at an inflection point the likes of which it hasn't seen since the introduction of POS scanning. It's useful to look back at what happened then: companies could now see item movement based on actual sales (rather than what had been ordered) and were able to rationalize assortments, optimize their supply chains, push product through the pipeline from source to consumption much faster, and scale their businesses to sizes never seen before. With scanning, retailers had *visibility* – they could see real item movement from the point of sale, and that became a new proxy for demand.

POS scanning could not expose *true* demand however – it only exposed true *fulfilled* demand. To get to true demand, retailers need to see what consumers want, not just what they buy. eCommerce applications gave some indication of that with metrics such as "top searches", but still couldn't reveal consumers' true *path to purchase*.

Now, web-based search, "smart" mobile applications, and social media sentiment indicators, along with item movement from sales, can get the retailer much closer to an understanding of the differences between what consumers are looking for vs. what they buy, and their path to purchase. Retail Winners in particular see a lot of value in a having the ability to analyze new generation demand signals from cross-channel (Figure 16).

Figure 16: The Value of Seeing



Source: RSR Research, March 2011

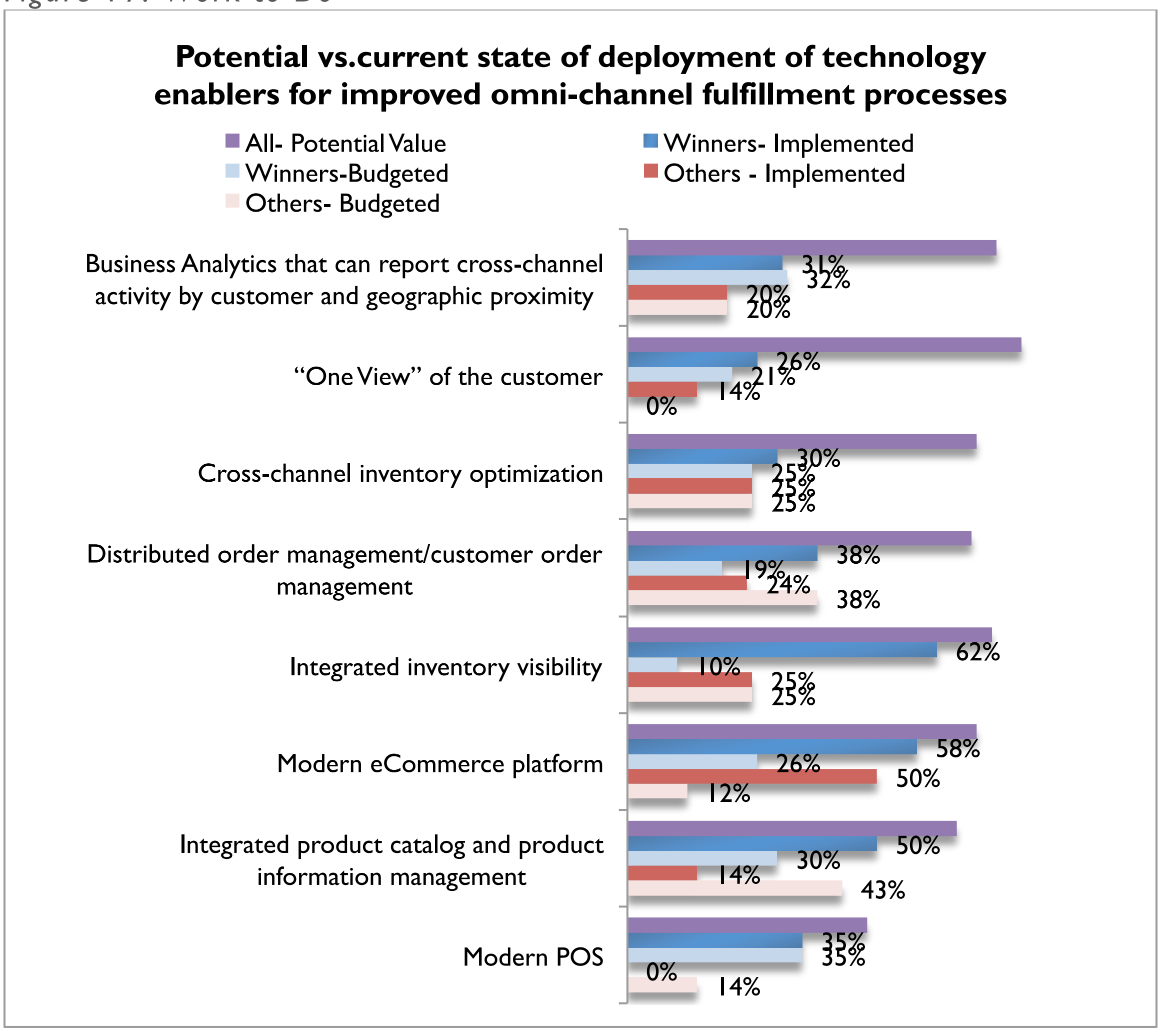
Average and under-performing retailers put less emphasis on analytics that can examine consumer cross-channel activities. These retailers value better "visibility" (of customer information, inventory, and product information) as a first step.

While Winners agree with their peers that a modern eCommerce platform has a lot of value, they place more importance on a distributed order management capability that can manage customer orders for all the selling channels, and not just the web. That's an important distinction: **Most Winners view the omni-channel challenge holistically, while one-half of their peers still think "eCommerce" is separate from other selling channels (particularly the store).** Winners also see a lot of value in optimizing inventory across all the channels – again, more Winners than others are thinking holistically, and tie an omni-channel selling environment to enterprise-wide supply chain and inventory management as necessary to enable efficient omni-channel fulfillment capabilities.

Gaps Between Today And Tomorrow

Looking at the total response group, what retailers value compared to what they have actually implemented or have budgeted projects for, shows some interesting gaps (Figure 17).

Figure 17: Work to Do



Source: RSR Research, March 2011

While the differences between what has perceived value and what has been implemented or is currently budgeted are relatively small for the bottom four capabilities on the chart (integrated inventory visibility, modern eCommerce platform, integrated product catalog, and modern POS), the gaps are bigger for the top four, and particularly for non-Winners.

The obvious question is why. One answer might be that integrated inventory visibility, modern eCommerce platform, integrated product catalog, and modern POS all have to do with the way business is done today, not tomorrow (and non-Winners even show a big gap between the perceived value and current state of "modern POS"). This response reflects the fact that consumers are forcing the omni-channel agenda onto retailers. Few retailers embraced the "omni" notion two years ago, but the extraordinary speed with which consumers have adopted smart mobile and social media, and then turned those technologies into tools for making better shopping decisions, has forced the issue.

The Consumer's Seat at the Technology Table

Retailers have no choice but to respond, but there's still plenty of resistance to the need to rethink the operational model to be more "channel-less". An omni-channel "buy anywhere, get anywhere" strategy requires a re-think of virtually ever aspect of the operational model, from planning and demand forecasting, supply chain, customer order management, fulfillment, and (of course) the store itself.

Winners are "getting on with it", as we have seen over and over again, by paying attention to the consumer.

BOOTstrap Recommendations

Business Model Change Changes Everything

Consumers' adoption of technology as part of the their shopping experience is rapidly driving a complete retooling of retailers' businesses. By breaking down the walls between channels and demanding omni-channel services, consumers are forcing retailers to reconsider everything from marketing to merchandising to supply chain.

The retail supply chain was built around a single channel: stores. Most retailers, when they added channels, added completely separate supply chains to support those channels. Today, as our research shows, they understand the need to change, but face a daunting task: evolving an enormous, entrenched investment in a fulfillment model that consumers are rapidly rendering obsolete.

However, while many retailers may wish they could throw up their hands and just start their supply chains over from scratch, the supply chain model evolution to omni-channel does not need to be as overwhelming as it first appears. Here are RSR's recommendations for how to manage the initial stages of the transition:

Prioritize Based on Customer Needs

Not every retailer will need to be able to fulfill every SKU from every channel for every demand source. While the initial requirement appears to point in that direction, consumers still shop very differently for different types of goods. Media retailers increasingly have to manage both physical and virtual availability of their goods. Electronics retailers face the most cross-channel-savvy customers out there. And on the other end of the spectrum, grocery retailers are just now moving into eCommerce with a level of commitment not seen since the days when consumers handed them their hats over the likes of WebVan.

Generally, it appears that fashion retailers – those that purchase "one-shot" items that must be allocated with very little chance for adjustment during the short product lifecycle – need to focus more on using inventory wherever it may be (most likely in the store) in order to fulfill demand in other locations (whether other stores or channels). Replenishment-based retailers, whether hard goods or (ultimately) grocery, need to focus instead on delivering a larger universe of online SKU's into consumers' final shopping destination – the store.

Before rushing to create a new delivery model, retailers should take a moment to consider consumers' evolving shopping habits across channels, the types of goods in question, and whether they will need to either pull inventory out of stores to meet a wider population of demand or move inventory that might never be regularly carried in a store to a specific store location.

Capture Demand Wherever it May Be Found

With consumers using more technology to assist their shopping experience, retailers have more opportunities than ever before to get leading indicators to customer purchase intent – ultimately, to demand. Retailers will never be able to anticipate customers' needs if they lack visibility into the intent that shoppers express as part of their shopping experience. This means that things that might seem "nice to have" today may actually be critical to determining the ultimate supply chain strategy. For example, a scanning application for smart phones in stores that link to online wish lists or shopping carts. Or being able to tie online research to purchases in stores.

Retailers have lived with their own version of the marketer's complaint: "I know that half the money I spend is wasted, but I don't know which half" – the retailer analog being "I know that I'm missing half of what my customers want, but I have no idea what that is." For unmet customer demand, the opportunity to truly identify what that demand is, and how much it is costing the retailer not to meet it, is right around the corner.

Orient on the Store

With nearly 95% of retail sales still occurring in stores, retailers should focus first on enabling that fulfillment point before all others. Whether the primary objective is to tap into other stores' inventory or other channels' inventory to fulfill store demand, we increasingly see a business case that shows that driving consumers into stores pays off in spades. Additionally, it is infinitely easier to modify the online channel to tap into store inventory availability than it is to change the point of sale to accommodate online ordering as part of the checkout process.

Yes, inventory accuracy can be problematic, but there are easy fixes here that can serve until a stronger store inventory strategy can be put in place. For example, the retailer can set variable thresholds on when in-store inventory is shown to online customers. The actual quantity available doesn't have to be displayed, as long as consumer expectations are set – for example "Available" or "Low Availability" could be displayed online rather than "5 on hand."

Work it Manually Until You Know More

There is the temptation to seek a system to, for example, manage the in-store fulfillment process of online orders right away. However, for most retailers this area of the business is either an old, long-neglected area of in-store shipping, or a completely new process. While vendors can certainly provide expertise on their clients' best practices, retailers should not lose sight of the fact that fulfillment is part of the customer experience. Apple is famous for its focus on the "box opening experience," right along with Tiffany and Amazon. In-store fulfillment of a customer order is an opportunity to delight or frustrate a customer, and should be considered in light of "service" before "delivery." To that end, it is well worth it to pilot something manual until the full extent of what's needed to enable a true in-store "experience" has been identified and defined.

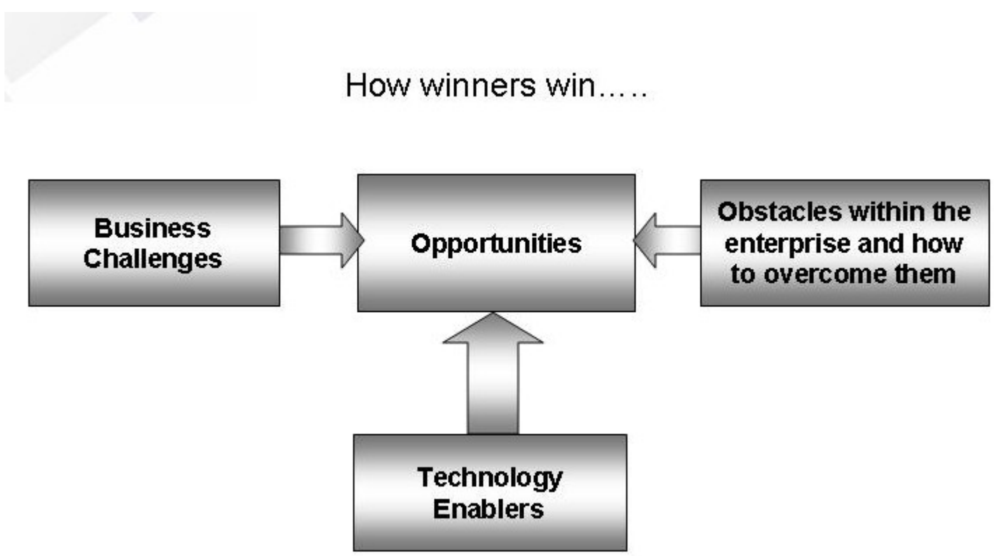
That said, as soon as a customer is connected to a store for a product, the store should to be able to communicate directly with that customer. There is no worse thing that a retailer can do than to promise something to a customer, drive them to visit a store, and then fail to deliver on that promise.

Appendix A: RSR's Research Methodology

The "BOOT" methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



Appendix B: About Our Sponsors

Manhattan Associates®

Today's retailers must provide a consistent brand experience with a wide array of selection, convenience and return options. One glitch and the customer is gone. Manhattan Associates' **"Zero Disappointment Retail"** approach to retail supply-chain management preserves current systems and investments by providing technology that seamlessly aggregates inventory, order, pricing, promotion, merchandising and execution information across all channels. As a set of software solutions within Manhattan SCOPE: Supply Chain Optimization-Planning through Execution, Zero Disappointment Retail offers cross-channel planning, forecasting and order management so retailers can proactively anticipate and respond to demand to ensure the right amount of inventory goes where it's needed. For more information go to www.manh.com.

RedPrairie®

RedPrairie delivers productivity solutions to help companies around the world in three categories—inventory, transportation and workforce. RedPrairie provides these solutions to manufacturers, distributors and retailers looking to reduce cost, increase sales and create competitive advantage.

With over 20 global offices providing services to over 40,000 sites in 50 countries, companies trust RedPrairie inventory, transportation and workforce solutions to deliver an immediate increase in productivity— with the flexibility to adapt as business needs change.

At RedPrairie, we understand today's operational demands and we're committed to delivering solutions that work. We're committed to delivering solutions for the real world™.

For additional information, call 1.877.733.7724, or visit RedPrairie.com.

Appendix C: About RSR Research

Retail Systems Research

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.