Supply Chain Excellence Key to the Omni-Channel Retail Experience

Omni-channel retailing puts additional strain on supply chain operations by requiring high customer service levels across multiple delivery channels (e.g. store, online, mobile, catalog, and call center). This strain is made even more pronounced by the low overall retail consumer spending confidence. Facing a relative scarcity of consumer dollars, retailers have placed even more importance on sales opportunities. Respondents to a recent Aberdeen Omni-Channel Retail Experience survey of 77 retail professionals listed lost sales opportunity costs as their top business pressure. Merchandise availability and customer conversion become paramount under such conditions. No retailer wants to miss out on a willing customer because the product was not available at the right time! Ensuring product availability was the top strategy survey respondents adopted to meet this challenge—and the factor they identified as most vital to the success of their omni-channel strategy.

Improving merchandise availability in today’s omni-channel environment requires robust supply chain processes and supporting technologies. Many retail environments (e.g. consumer electronics, fashion) have very short windows to sell products before consumer preferences change and markdowns occur. The continuing globalization trend compounds the dynamic nature of the retail supply chain, as suppliers and even customers order online merchandise from international destinations. Retailers are being asked to move more products, through more channels, in more countries than ever before. This document will show how leading companies are using supply chain technology to provide their customer a true omni-channel retail experience.

Supply Chain Technology in the Omni-Channel

Retailers are under increasing pressure to capture every sale—lost sales in a down economic market could mean the difference between gaining and losing market share. In fact, lost sales opportunity was listed as the most frequently cited business pressure, identified by 49% of respondents. In this environment, leading retailers have invested in foundational supply chain management technology to offer the omni-channel experience customers demand. Leaders (see sidebar for definition) among Aberdeen’s survey population were 42% percent more likely than other companies to have foundational supply chain management technology (e.g. order management, warehouse management, transportation management, and inventory management). The differences between Leaders and all others are glaring when current adoption levels are compared on a technology by technology basis.

Omni-Channel Retailing

Omni-Channel refers to the seamless and unified approach to the retail customer experience through all available retail channels (i.e. store, online, mobile, catalog, call center etc.).

Leaders Definition

Aberdeen used three key performance criteria to distinguish Leaders from Followers in the January 2012 Omni-Channel report. Leaders achieved:

- Current customer satisfaction (CSAT): 95%
- Current on-time order delivery: 98%
- Year-over-year increase in revenue: 19%
Order management and warehouse management systems lead the way among leading retail companies—both are adopted by 64% of Leaders. Distributed order management systems enable online, catalog, and call center order process completion, and offer companies visibility into incoming orders, so that resource planning can occur quickly and accurately. While order management systems help companies understand incoming orders better, warehouse management systems are critical for fulfilling those orders. Warehouse management systems let companies better control the fulfillment process, from monitoring picking accuracy to managing shipping timelines. Both order management and warehouse management systems play an essential role in optimizing merchandise availability and maintaining high customer service levels (e.g., orders delivered to customers complete and on-time).

While leading retailers are out in front with regard to foundational supply chain technologies, they are also more likely to use advanced supply chain technologies and applications, including:

- **Inbound Logistics** - Leaders are 34% more likely to have an inbound logistics application. The ability to manage inbound logistics and freight provides companies visibility into incoming product, which is essential in any multi-party supply chain (e.g., carriers, suppliers, and forwarders).

- **Outbound Logistics** - Leaders are 43% more likely to have an outbound logistics application. Companies with the ability to manage outbound logistics can optimize their supply chain with regard to modes of delivery and timing of delivery.

"Customers simply want it now. The product must be available, shipping or pick up easy, payment a non-event. To us this is a topline issue. Price compression in consumer electronics means you have to get every sale. Making sure your customer can get what they want when they want is paramount to growing your business."

~ Large North American Consumer Electronics Retailer

"Inventory availability across channels will reduce markdown cost. Seamless interactions with customers across all channels will increase sales. In depth customer information/history across all channels at point of interaction with customer will increase sales."

~ Mid-Sized North American Retailer
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- Inventory virtualization - Leading companies are over 5 times more likely to have an inventory virtualization module. Inventory virtualization lets a company model different inventory levels to determine the optimal level of inventory, while maintaining a high customer service rate.

Capabilities

Our data indicates that leading retail companies are more capable than other companies when dealing with supply chain issues. The Leaders’ focus on supply chain and fulfillment issues results in their development of specific capabilities that, taken together, offer considerable competitive advantage.

Figure 2: Improved Supply Chain Capabilities

Using supply chain technology as a foundation, leading companies are nearly 79% as likely as other companies to execute a common sales and operations plan for supply chain operations. They are also nearly 79% as likely as other companies to provide up-to-date fulfillment planning information across all channels. The ability to share information and ship quickly is critical to providing the merchandise availability customers demand from retailers. Leading companies have established the necessary capabilities to support a successful omni-channel strategy.

Key Takeaways

Supply chain technology allows companies to share information, ideas, and best practices throughout their value chain in a quick and efficient manner. The continued emergence of omni-channel retailing will require retailers to adopt appropriate supply chain technology to achieve:
• **Great Capability to Share Information** - With supply chain technology as a foundation, leading companies are nearly 79% more likely than other companies to execute a common sales and operations plan for supply chain operations. They are also nearly 79% more likely than other companies to provide up-to-date fulfillment planning information across all channels. The ability to share information and ship quickly is critical to providing the merchandise availability customers demand.

• **Greater Merchandise Availability** - Lost sales are potentially deadly to retailers. In fact, lost sales opportunity was the most commonly cited business pressure, identified by 49% of respondents. Leaders had on-time order fulfillment rates of 98.6%, compared to an average of only 83.8% for Follower companies. Further, Leaders reduced lost sales opportunity costs by 20.4%, compared to a roughly 1% increase for Follower companies.

In sum, retailers are being asked to move more products, through more channels, in more countries than ever before. Under this new paradigm, retailers that embrace supply chain technology are well positioned for growth.

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