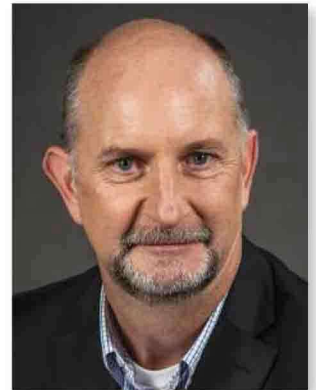


# Omnichannel *Apprehension*

EVERYONE IS DOING IT, BUT NO ONE IS DOING IT RIGHT. WELCOME TO THE **COSTLY, CHALLENGING AND HIGH STAKES WORLD OF OMNICHANNEL FULFILLMENT.** > By Mike Troy

Since the dawn of the e-commerce era, the aspiration of many retailers has been to integrate their physical and digital presence to offer a seamless shopper experience. The notion of omnichannel was seen as a way for traditional retailers to leverage their physical presence and in so doing provide shoppers with a best-of-both-worlds experience that would be preferable to online-only competitors. Pursuit of the omnichannel vision has proven costly and challenging for every function within a retail organization. However, nowhere are these challenges more evident than with the supply chain and store operations teams at the front lines of executing the omnichannel vision. Documenting the challenges for the past seven years has



▲ Brian Gibson

been Brian Gibson, PhD., Executive Director of the Center for Supply Chain Innovation (SCCI) at Auburn University. Gibson and his team of researchers conduct an annual survey called, “The State of the Retail Supply Chain,” in partnership with the Retail Industry Leaders

Association (RILA). Despite the words “supply chain” being in the report’s name, the research skews heavily toward e-commerce and the fulfillment issues facing retailers as executing omnichannel has emerged as the industry’s top challenge.

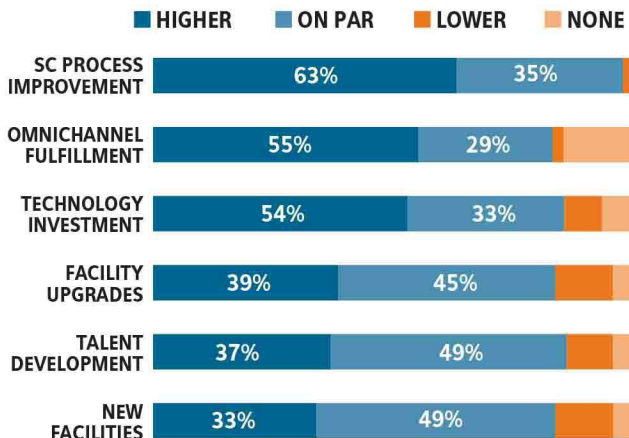
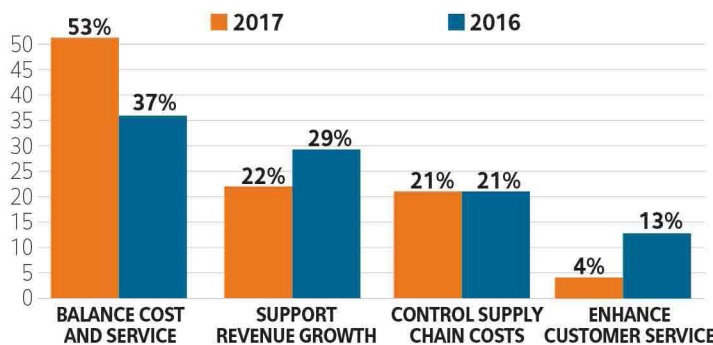
Retailers have made strategic choices to realign their supply chains to changing customer desires, according to Gibson, resulting in significant investments to enhance fulfillment processes, opening new and retrofitting existing facilities and acquiring state-of-art technology.

“These are tacit acknowledgements of the value of omnichannel customers. Even though current online sales may not have reached the breakeven cost threshold for most retailers, they all believe that ignoring online customers would be detrimental to their retail enterprise,” according to Gibson.

While no retailer would willingly ignore online customers, the omnichannel experience, even among retailers regarded as leaders, can leave much to be desired. Gibson’s research reveals several noteworthy shifts in retailers’ priorities as omnichannel remains a work in progress. Most notably, executing an omnichannel strategy is a costly undertaking that stresses a retail organization hoping to meet shoppers’ elevated expectations. That helps explain why among the 76 retail supply chain executives who participated in the SCCI research more than half reported that they are looking to better balance supply chain costs and service levels.

“This focus contrasts with the notable declines in the pure customer service and revenue growth strategies. Among this year’s participants, there is a strong realization that supply chain costs cannot be ignored and margin erosion must be halted,” according to the report. “In line

## RETAILER PRIORITIES EVOLVE



Percentages may not add up to 100%, as they are rounded to the nearest percent.

SOURCE: Center for Supply Chain Innovation

with the 2017 strategic priorities, retailers are making major investments in supply chain process improvement, omnichannel fulfillment capabilities, and technology. Leveraging the current and previous years' investments in these key areas helps retailers provide the desired level of service without breaking the bank. This can lead to much needed omnichannel profits."

Profit is the name of the game, after all, and to get there the research shows that retailers are focused on key issues of: enhancing order fulfillment capabilities, incorporating an extensive use of stores for fulfillment, and end-to-end supply chain planning. Each of these front burner issues revolve around the ongoing digital transformation of the retail industry drive by the expectations of omnichannel customers.

For example, Gibson's research shows that despite making significant capital investments, many retailers are still converging their operations into a unified omnichannel supply chain. Early on, a separate direct-to-consumer distribution channel kept the potential disruptive elements of e-commerce away from their store operations. However, there is a broad consensus among this year's interviewees that overcoming these disruptive elements and integrating all channels is the only way forward.

When it comes to reliance on stores for online order fulfillment, the priority for supply chain executives is to improve store inventory accuracy and product flows. Gibson notes that retailers are investing in auto-ID technology, such as RFID tagging, and using robust cycle counting programs. They are also working to ensure that store inventory reflects not just what in-store customers want, but also to anticipate online demand that will be filled from the stores

"The expanding order fulfillment role of stores also means that store replenishment will occur more often. Increased delivery frequency to stores can improve in-stock availability, generate sales lift, and facilitate last-mile delivery of online orders," according to Gibson.

The third area of focus, end-to-end supply chain planning, is arguably the most important and the key enabler of enhancing store fulfillment and inventory accuracy. Gibson notes that the supply chain is taking a broader role in end-to-end planning. It is the type of elevated roles that gives the supply chain team a more strategic role in international and domestic sourcing, demand forecasting, and merchandise allocation decisions, on top of their traditional responsibilities.

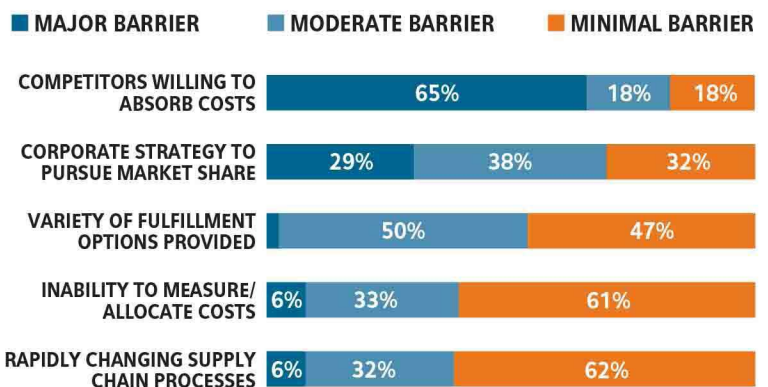
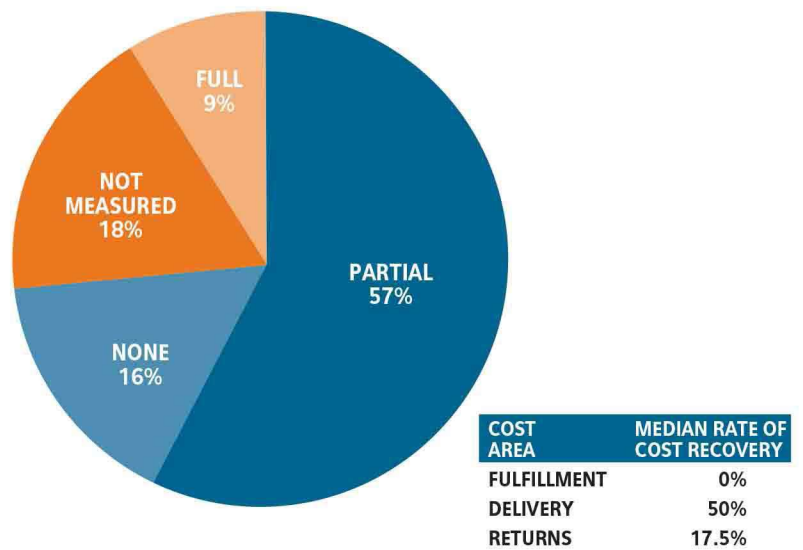
"These additional responsibilities require the supply chain organizations to expand their cross-functional interactions. They are now covering

territory that had been the playground of merchants and store operations," according to Gibson.

The importance of cross-functional collaboration within retail organizations has never been more critical given the complexities of executing an omnichannel strategy. In fact, collaboration permeates each of the best-in-class focus areas Gibson's research highlighted, including omnichannel integration, supply chain analytics and monetizing fulfillment. While each has its unique set of challenges, the stakes for getting them right, and omnichannel overall, were neatly summarized by Gibson.

"We believe that few retailers of any size will be able to thrive unless they have either already chosen to make omnichannel integration their new normal or are aggressively moving in that direction," according to Gibson. RL

## THE COST OF OMNICHANNEL EXECUTION



Percentages may not add up to 100%, as they are rounded to the nearest percent.

SOURCE: Center for Supply Chain Innovation