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The Long Race To "Any-Channel" Retail Commerce

There's no prescriptive approach to establishing true, seamless, any-channel retail commerce, but experts agree on four imperatives to the equation.

BY MATT PILLAR Editor In Chief

The race to any-channel (or omni-channel, if you prefer) seamlessness is looking more like a disorderly, staggered-start distance medley relay than it is a sprint. Retailers, bound by legacy, channel-specific sales and fulfillment systems, and equally legacy mindsets, are for the most part only making incremental advances toward presenting an any-channel brand and meeting any-channel consumer demand. The field of merchants in the race is so scattered around the track that it's become difficult to determine who's leading and who's flailing. Retail technology vendors fuel the race with cheers, hype, and promises of the spoils of victory, only to quietly turn their attention to the plodding task of mapping next moves as batons are passed and split-time performances assessed. It's a new event, one without precedent and rife with complexity.

This race is the main event. It's the high-stakes race of your life. And if you're being honest with yourself, you didn't enter it willingly. Running it wasn't your idea. Nor was it your enterprise resource planning (ERP) vendor's idea. It was your customers' idea. Consumer demand pushed you onto the track, giving you no choice but to run. That's why it's so challenging (see figure 1) and so important that you finish.

Like a relay race, strategies among the field of contestants differ widely from one retailer to the next. Those strategies are in a constant state of adjustment based on ongoing assessment of technology evolution, organizational acceptance, consumer trends, and sales and cost performance. We consulted with two prominent experts who agree that these four influences must underpin the strategic and tactical moves retailers make as they circle the track. In this report, Retail Systems Research's managing partner Nikki Baird and Forrester's vice president and principal analyst Peter Sheldon will call the race, leaning on fact-based insight into the state of any-channel retail commerce.

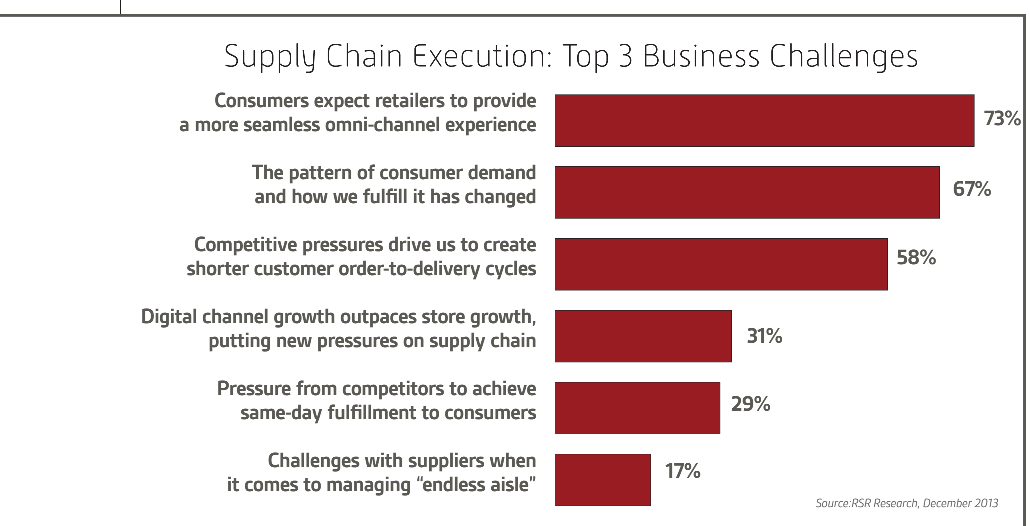

Figure 1

Baird and Sheldon approach the race from decidedly different perspectives that mirror those of the all-important leadoff and anchor legs in the event. Baird's expertise is in store systems and the back office technologies that keep supply chain logistics and fulfillment systems humming. Her take on things leans toward the CIO/CFO. Sheldon focuses on e-commerce technologies and solutions, including B2C and B2B e-commerce platforms, mobile commerce solutions, digital in-store technologies, and digital commerce. He sees things through the lens of the newly coined COCO (chief omni-channel officer). Collectively, their perspectives on these four pillars of any-channel commerce encompass the daily challenges faced by the evolving multi-channel retailer. And not surprisingly, while their tactical opinions sometimes differ, their strategic intentions coalesce.

In practice, the following four pillars can't be tackled one at a time or in a specific order. They're too interdependent. But without the first two — platform renovation and organizational change management — any-channel retailing is a nonstarter. We'll begin with the platform, an assessment of the tech infrastructure that's enabling any-channel execution, and what's coming next.

ANY-CHANNEL REQUIRES PLATFORM RENOVATION

Before any-channel fulfillment promises can be made (or in some cases, in order for retailers to catch up with the promises they've made but are having trouble keeping), commerce platforms must be reengineered to enable enterprisewide inventory visibility, item-level logistics optimization, and intra-enterprise transaction fluidity. In other words, you have to figure out how to see inventory in every channel, how to move that inventory freely among stores, e-commerce, and other sales channels, and how to account for the movement and sale of that inventory. This is largely technology- and process-driven.

It's no secret that the big ERP vendors — Epicor, Oracle, SAP, et al, — are endeavoring to build single-platform commerce engines. Some major POS and e-commerce software providers have, in fits and starts, attempted to do the same through acquisition.

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>
> **NIKKI BAIRD**
> managing partner,
> Retail Systems Research

In the meantime, there is that race and those consumers who put you in it, and Sheldon says that leaves those of us in the here-and-now with three key components to the platform renovation equation:

- **The e-commerce platform.** Responsible for the outbound digital experience and including mobile devices and tablets, he cautions that the mobile platform should not simply mirror the website. "Mobile platforms should parrot contact center and in-store order entry experiences such as kiosks and associates' mobile devices," he says.

- **The in-store platform.** The traditional POS and the e-commerce platform are alike, says Sheldon, in that they perform a relatively simplistic front-end function. "These systems take orders, but they're hopelessly incapable of orchestrating the complex fulfillment process. They generally have to send it somewhere."

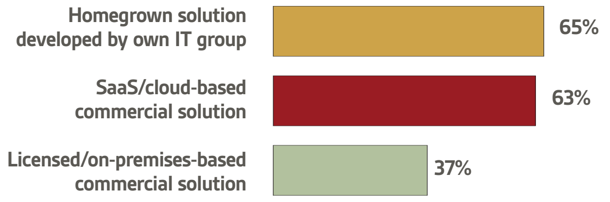
- Increasingly, that "somewhere" is **the order management platform.** "When we talk about all these omni-channel permutations, such as click-and-pick, order from store, e-commerce fulfillment from stores, and so on, order management is the foundational layer. It's the glue that holds online and offline together," says Sheldon.

Sheldon goes so far as to say that for multi-channel retailers on the path to any-channel commerce, order management — and more specifically purpose-built, third-party order management software — is becoming

Figure 2

Many Retailers Favor Homegrown Or SaaS Retail OMS Solutions

"Thinking about your needs for a retail order management system (OMS), which of the following types of solutions is your company considering?"



Base: 337 global retail and manufacturing decision-makers with knowledge of multichannel fulfillment.
Source: A commissioned study conducted by Forrester Consulting on behalf of OrderDynamics, October 2013.

mandatory. "Many early iterations of the order management integration layer between POS and e-commerce systems were built in-house, and many retailers are still supporting and developing them," he says. Recent research conducted by his firm supports his claim. A Forrester survey of 337 global retail and manufacturing decision makers with knowledge of multichannel fulfillment found that 65 percent were operating or are considering a homegrown order management system (see figure 2 on page 21). "But the permutations of consumer fulfillment demand keep getting more complex," he says. "Despite retailers' attempts at DIY order management, getting the integration right and ensuring the system is future-proof might require a dedicated third-party effort," says Sheldon.

That consumer fulfillment complexity is not lost on Baird. She recently authored a survey-based report that ranks retailers' **perceived importance of** versus **use of** twelve different cross-channel fulfillment processes. As figures 3 and 4 on these pages illustrate, the takeaway is that they're **all** perceived as important, but adoption and rollout are a different story altogether.

"Over the last couple of years, we've seen a lot of vacillation on the retailers' part," says Baird. First, she says retailers' demand was for a single commerce platform to run the whole show, to mirror the customer's perception of the brand by doing away with the distinction of channels e- and m- and POS. "Then last year, our omni-channel strategy report findings indicated a shift — more retailers were working toward a hybrid future of centralized data and common, integrated services across channels." Baird concludes the shift was born of necessity. "Channels still have specific and unique needs from the technology that runs them. The store, for instance, still needs to pop a cash drawer and facilitate physical payment," she explains.

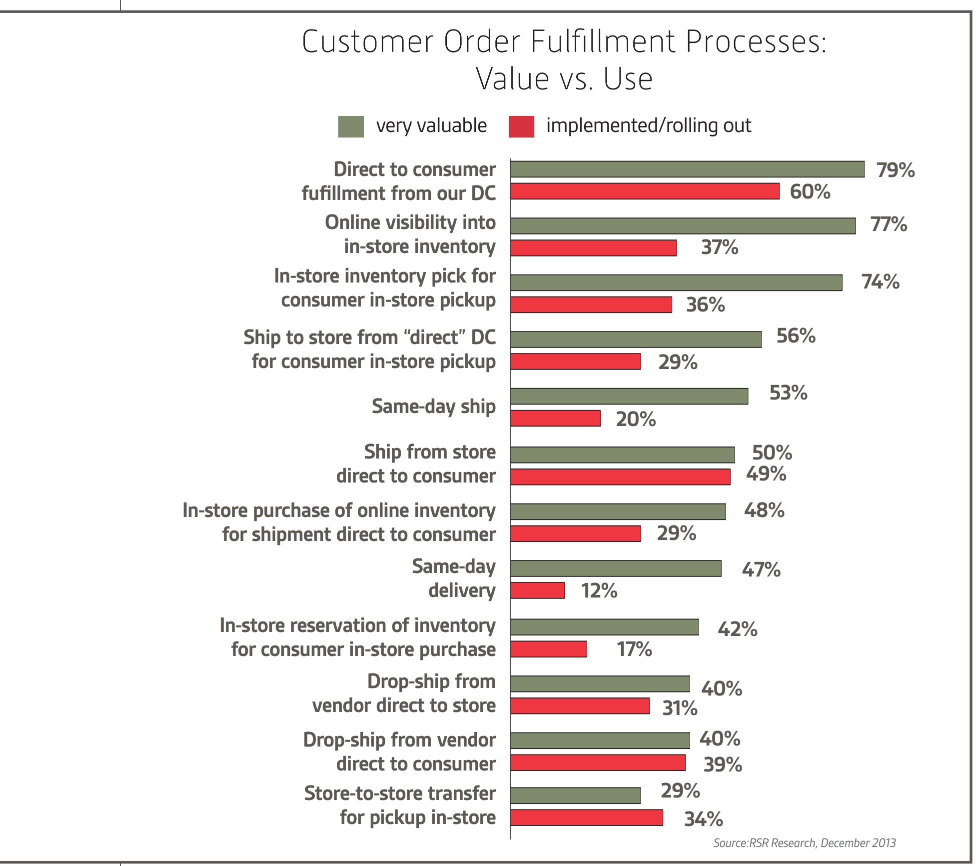


Figure 3

Adding to the quandary, however, is that many retailers concede the obsolescence of their POS systems. Few have the stomach to invest millions in a store systems refresh without the benefit of some semblance of a road map to the commerce engine of the future. And, Baird says, that progress toward the single-platform panacea has been slow. "I wish there was a lot more progress being made toward a single commerce platform for all channels," she says in prelude to a candid assessment of the vendor effort. "We all watched the acquisitions that were supposed to lead to that end. SAP acquires Hybris to gain an e-commerce platform. Oracle combines the power of 360Commerce and ATG. IBM built on its storied history in POS by developing WebSphere Commerce through acquisition, then sold POS off to Toshiba. NetSuite acquires POS via RetailAnywhere." Adding to the ongoing jockeying among race leaders, there are hundreds of small POS and e-commerce providers that muddy the water. "With many solutions on the market, it's difficult to tell if they're the beginnings of another e-commerce platform, a marketing/customer engagement/ loyalty platform, or an attempt at a single platform. Here we are five years later, and we still haven't gotten there," says Baird.

The ensuing turf war — marked by e-commerce players vying for POS business and vice versa — results in a big question mark as to who in the vendor community will tie it all together and emerge first from the scrum. Meanwhile, retailers that can't wait are playing a game of "ring around the POS," investing in one-off mobile apps that extend, or as Sheldon puts it, "parrot" the store as far as possible through digital channels. Some hope to arrive at a point where the POS can be turned off and a browser window to the "any-channel" commerce engine can run the show at every touch point. In the meantime, application proliferation requires a funnel, a channel catch-all. To Sheldon's point, enter the order management solution that sits on top of it all. Their providers are the winners of the day.

WITHOUT CHANGE MANAGEMENT, ANY-CHANNEL IS A NONSTARTER

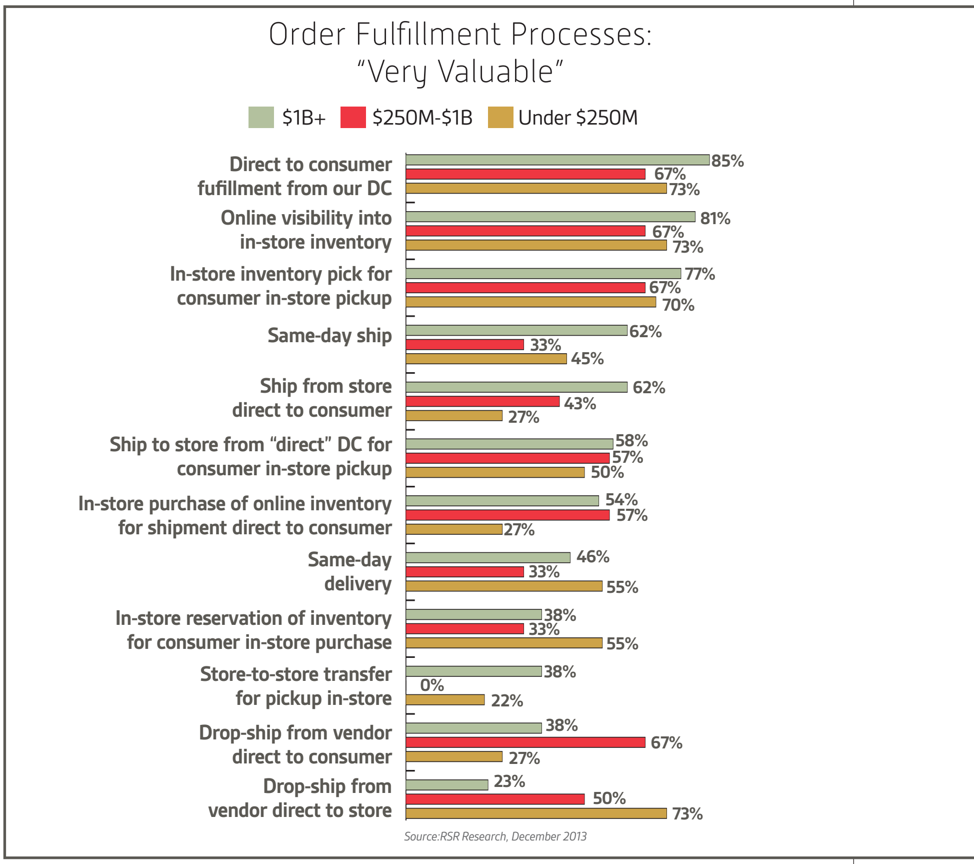
Despite the tepid progress toward a single, central retail commerce engine, the technologies and business processes that drive "any-channel" retail commerce are falling — ever so cautiously and ever so creatively — into place. But, is your organization ready for the process changes you're building? To drive execution, retailers must effectively manage the sweeping organizational and cultural change that new any-channel technology platforms — or for the time being, **applications** — enable. This might include some daunting tasks, such as changing the credit for the sale paradigm and dismantling (or managing) intrabrand channel and store competition.

Sheldon's wisdom holds that, if you were to put an order to things, this effort would come first. "If today is the starting point, retailers are staggered across the continuum in terms of their organizational readiness to enable omni-channel functionality," he says. "A huge number of retailers still treat channels separately, as if there are three distinct customer bases: contact center, online, and store. As long as channel owners in those organizations are given any degree of profit and loss responsibility, there will be channel conflict." Those retailers that haven't grasped the cross-touch- point phenomenon, he contends, are the first tier on the omni-channel maturity chart. Another sizable portion of the industry has accepted that consumers cross channels, and per that understanding, they've manipulated their fulfillment systems to enable basic maneuvers such as buy online, pick up in store. Sheldon calls this second-tier maturity. "For most, extending this functionality is not yet core to the commerce philosophy. In terms of issues such as sales attribution, this halfhearted approach is inherently problematic," he says. Some experiment with 50/50 attribution for online orders fulfilled through the store. Others hold fast to awarding credit to the channel in which the transaction took place. Still others merely treat the online channel as a service center with the primary responsibility of driving leads to store (see figure 5 on page 24). "In the third tier of maturity, the CEO is pushing organizational change from the top

> "Despite retailers' attempts at DIY order management, getting the integration right and ensuring the system is future-proof might require a dedicated third-party effort."

PETER SHELDON
VP and principal analyst, Forrester

Figure 4



down. These retailers understand that there's one customer on a complex journey that involves multiple touch points," says Sheldon. He asserts that it takes this commitment, increasingly recognized by the COCO who sits at the right hand of the CEO and acts as the evangelist of change, from the outset (see figure 6 on page 25). "Before the processes can be placed and managed, a process orchestrator is in order — someone who can bang heads and make everyone work together to meet cross-channel fulfillment challenges such as sales attribution."

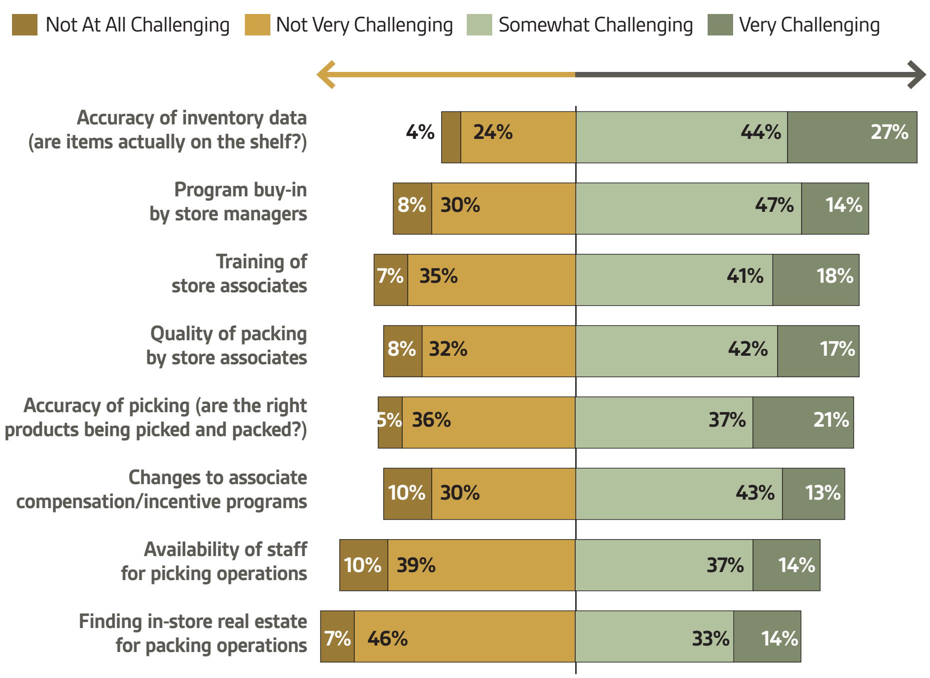
It's a huge, fundamental change, and Sheldon recognizes that not many retailers are ready to cross that chasm. "At the moment, most leaders are investing in a head of omni-channel to begin creating holes between channel walls. This has to come first, before technology," he says.

For her part, Baird asserts that process change management must happen in lockstep with what the technology can enable. "It's impossible to define the organizational structure first. There are too many constraints in how you piece it all back together, constraints dictated by your current technology and what the future holds," she says.

As a case in point, Baird alludes to the early "many-channels, one brand" work that fell under the auspices of retail marketing departments. "Traditional retail marketers were not good at Web marketing, and Web marketers were not good at traditional marketing. Separate digital marketing teams were born. At some point, it was realized they needed to come together and operate from the same playbook," she says. This proved difficult. "When you bring digital resources under the enterprise umbrella, you lose e-commerce results. In trying so hard to create one face to the customer, retailers lost some of the benefits of the unique opportunities each channel offers." As retailers realized this, they backed off the pressure to consolidate. "Many are moving toward a matrix model, where digital resources stay with e-commerce, there's a dotted line of report to the CMO, and the opportunity to put a channel-specific spin on the

Operational Issues Plague The Rollout Of Ship-From-Store Programs

"How challenging were the following during the rollout of your ship-from-store program?"



Base: 106 global retail and manufacturing decision makers with knowledge of multichannel fulfillment who support buy-online, ship-from-store programs. (Percentages may not total 100 because of rounding.)
Source: A commissioned study conducted by Forrester Consulting on behalf of OrderDynamics, October 2013.

Figure 5

overarching story is preserved," she says.

Many-channels, a single presentation of the brand. This was supposed to be the easy one. "If consolidating the marketing effort resulted in some hard lessons, consider how complicated it is to build an any-channel supply chain," says Baird. "If you're going to ship from store or add home delivery, who owns the labor and technology resources that enable those functions? Who do they report to? The store manager? He's not a supply chain guy. Supply chain executives? They're not on the ground." It's one of many unanswered questions concerning channel consolidation, but Baird says an increasing understanding of consumer demand and cross-channel consumer dynamics will help dictate those answers. "If planners are allocating for stores and e-commerce separately, they're not doing omni-channel planning. And that's probably because they're not analyzing consumer demand," says Baird. "To paraphrase Terry Lundgren, transformation of the marketing and customer-facing organizations was a start, but the rest of the decade is about the rest of the organization."

CROSS-CHANNEL CONSUMERS: TO SELL, OR TO ENGAGE?

So you've achieved enough technical prowess to enable some semblance of cross-channel and intrastore inventory visibility and fluidity. You've established an organizational commitment to serving the brand instead of the channel. How are you communicating your newfound any-channel customer centricity to those who demanded it in the first place?

Poorly, laments Baird. "Concerning engagement technologies in the store, retailers are being unimaginative. A line-busting mentality is pervasive. If I put a device in the hands of an associate, I want her to use it to sell something," she says. That sounds intuitive enough — after all, we're retailers and selling stuff is what we do. But Baird says the expectation that a store-level device should immediately facilitate a sale is, in fact, counterintuitive. "That expectation closes the distance between the call to action and the transaction to zero, and that's just not the way shopping works anymore."

It's true that the ultimate measure of a retailer's ability to influence a customer is whether or not they bought something. But if you're into engaging the consumer on the consumer's terms, your objective simply can't be to sell more stuff right now, but instead, over the lifetime of the customer. "An investment in technologies that aim to change consumer behavior — as opposed to simply sell — is tough to get past the store ops team. Store managers and associates are compensated and commissioned on sales, not influence," says Baird. She points to e-commerce metrics, however, as an instructive source of enlightenment for stores. "E-commerce teams are able to collect enough behavioral and usage data to support an argument that their performance should be judged based on metrics beyond sales such as site traffic and hits to the store locator," says Baird. If we accept and credit the Web for its role as a waypoint to the sale, shouldn't the same philosophy prevail over every touch point? Yes, says Baird. "We have to expand the measures we use to determine a store's success and change store managers' job descriptions and the way we compensate them. Stores are not the end-all and be-all anymore; there's an entire ecosystem guiding the path to the sale," says Baird.

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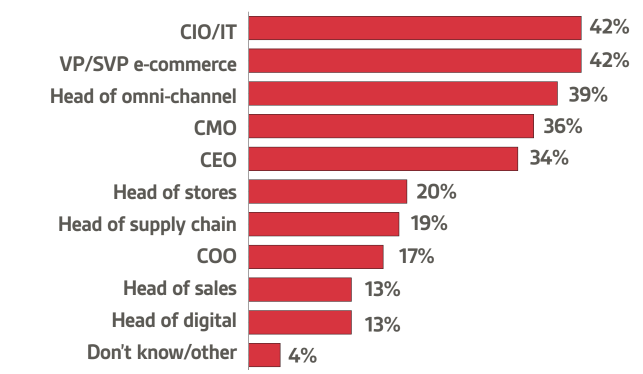
> managing partner,
> Retail Systems Research

Sheldon could not agree more. "Consumers spend \$3.3 trillion on retail goods in the United States annually. About 10 percent of those are online orders. Some 99 percent go through the POS, and that's perceived as store revenue," he says. There is, of course, a but. "In virtually every segment, at least 40 percent of store revenue is influenced by digital touch points. In housewares and shoes, that influence is closer to 70 percent." Product specifications, ratings and reviews,

Figure 6

39% Of Companies Already Have A Dedicated Executive Leading Omni-Channel Initiatives

"Within your company, who is responsible for the strategy and execution of omni-channel initiatives?"



Base: 337 global retail and manufacturing decision-makers with knowledge of multichannel fulfillment (multiple responses accepted).
Source: A commissioned study conducted by Forrester Consulting on behalf of OrderDynamics, October 2013.

images, and videos are sought on the Web, on mobile phones and tablets, at home, and in store aisles.

But, how to measure that influence, make multi-touch-point application decisions, and change traditional thinking about channel and labor roles? Measure, say Baird and Sheldon. And it's retailers' intent to measure that's heating up the analytics market. "The big investment in data analytics is to map the customer, their research over the past month, how they behaved in the time between call to action and purchase," says Sheldon. "Analytics engines are helping retailers determine the nuances between casual research and intent to buy, whether their digital traffic exhibits a healthy ratio of the two, and indeed, what a healthy ratio even looks like," agrees Baird. She cautions, however, that these analytics tools need lots of data. It's highly unlikely enough data can be generated from a single opt-in application. There are plenty of location-based and wayfinding applications flooding the market, built on technologies such as iBeacon, for instance. They provide a service to customers, and perhaps more importantly, they collect granular customer data to feed to the business intelligence machine. "If you deploy an app and you get 10 percent opt-in, you're not gathering enough data to create a representative sample," says Baird. It's not enough data to base sound decisions on, whether those decisions are related to merchandising, allocation, or your next great app. Baird says the trick is to deploy multiple applications that will appeal to a wider sample of your audience and garner a larger volume of decision-driving usage and preference data.

Sheldon insists that as in-store engagement goes, mobile first is key because it's at once your biggest opportunity and your most dangerous threat. "A consumer finds a washing machine in your store. She uses her phone to look at online specs, watch videos, and read reviews. If she doesn't find those resources on your site or application, she turns to Google or Amazon to find them. Only then does she find the same appliance at a competitor for $50 less," he says. Thus, consumers are circumstantial showroomers, and those circumstances could be avoided altogether through mobile engagement. "The average United States consumer uses a smartphone 150 times a day. That's nearly 10 times per waking hour, and the figure skyrockets among Generation Y. Build an app. Make it contextual. Deliver the e-commerce experience for the home user, but know when the consumer is in the store and change the experience to reflect that," advises Sheldon.

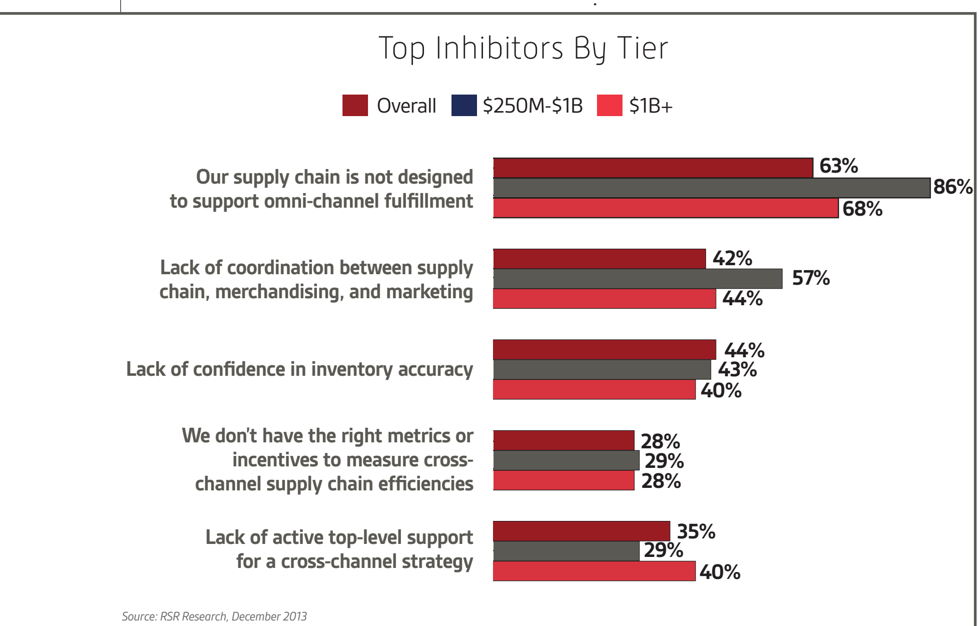


Figure 7

FULFILLMENT OPTIMIZATION AT ANY COST?

Finally, even when the enterprise technology pieces are in place, the brand is on board from top to bottom, and customers are engaged and taking advantage of a retailer's "any-channel" capabilities, fulfillment to the consumer must be carefully managed to avoid both excessive logistics costs and poor execution on the brand promise. Support of omni-channel fulfillment is a vexing problem across the tiers of retail (see figure 7). Retailers might have the tools and commitment necessary to find inventory anywhere and meet the consumers' demands for it in any way. How can retailers cost-effectively enable the delivery of goods at the consumer's discretion? Is that a profitable promise to make?

Increasingly, the answer to that question is a resounding yes. It's profitable to enable consumers' fulfillment demands, no matter how twisted they are. It's the **degree** of profitability that will determine the winners (see figure 8 on page 28). "The best results I've seen have come from those retailers who got going on it," says Baird. "They made promises and figured out how to keep them, and they worried about making it profitable on the back end. Those retailers realize that there's plenty of opportunity to improve the cost-efficiency of fulfillment, but they're making money even without that efficiency."

Baird says these cross-channel fulfillment experiments have a higher calling. They're what she calls a "gateway drug" to an omni-channel merchandising revolution. As retailers engage and begin shuffling merchandise to meet demand, they'll learn a lot about the best efficiency practices to meet that demand where it lies. "Forecasting solutions are enjoying a resurgence as a result of this. Many forecasting techniques analyze the probability of the next item being sold, where it will be sold, and when it will be sold," says Baird. "Layer price on top of that, and it gets really interesting. What's the probability I'll sell this size 8 black jacket in the New York store at full price versus markdown? From there, all you need is a relatively static parcel rate, and you have your 'ship from' answer."

Sheldon concurs, adding that retailers who wake up to the idea that customers are the same in any-channel will win the any-channel fulfillment leg of the race. "Treating the e-commerce site like a large, separate store and allocating to that store's 'dark' DC creates huge issues with online inventory depleting very quickly," he says. "Online out-of-stock issues are the number-one reason for abandoned carts. If the rest of the allocation is going to stores, it seems logical to roll out store-based fulfillment, enabling stores to become mini e-commerce warehouses." Enter the argument for order management. Modern order management solutions feature analytics-based algorithms that route orders intelligently, leveraging a single view of enterprise inventory.

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> VP and principal analyst, Forrester

"When a customer is on a product page, they won't see an out-of-stock message unless the item is truly out of stock throughout the enterprise. They don't know or care where the item is fulfilled from," says Sheldon. He says it's an easy business case to put together, and although it's potentially more expensive from an in-store labor perspective, many

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NIKKI BAIRD
managing partner,
Retail Systems Research

retailers are using existing in-store labor resources to pick, pack, and ship orders from other channels.

Strategically leveraging a geographically diverse store base to enable orders has another powerful benefit. "Quicker fulfillment makes you competitive with Amazon Prime," says Sheldon, which is music to the ears of traditionally brick-and-mortar brands. Of course, breaking down allocation and fulfillment barriers works both ways. Those retailers that present a broader selection of merchandise online enable store associates with an endless aisle.

Baird and Sheldon both acknowledge that expanding fulfillment scenarios creates a major ripple effect in the supply chain. Forecasting and allocation changes, reorganization and centralization of distribution centers, and transport logistics strategy and cadence are among those effects. "Major national players such as Toys"R"Us and Macy's are well down this path, and it will be a major initiative for many more retailers in 2014," says Baird.

The challenge is complex, and all parties have a lot of catching up to do. But the takeaway is simple. When a solutions provider or software vendor tells you about a technology you need to have, chances are good you can finish the race without it. When your **customers** collectively demand something to enable their desires, chances are good you'll fall short of the finish line without it. Such is the race to any-channel commerce. ■

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Figure 8

Retail Leaders Find Widespread Positive Impact On Business After Implementing Omni-Channel Initiatives

"What impact has each of these omni-channel capabilities had on your business objectives?"
("Significantly positive impact" responses shown)

	Customer Acquisition	Customer Retention	Fulfillment Costs	In-Store Revenue	Online Revenue	Store Traffic
Buy online, ship from store (N = 110)	43%	45%	32%	31%	47%	34%
Buy online, ship to store (N = 106)	44%	43%	25%	37%	37%	34%
Buy online, pick up in store (N = 75)	39%	41%	29%	32%	35%	36%
Reserve online, pick up in store (N = 67)	26%	38%	22%	38%	34%	38%
Making real-time in-store inventory information available online (N = 88)	38%	43%	25%	41%	32%	38%
Associate in-store ordering/endless aisle (N = 75)	45%	43%	27%	39%	32%	32%
Cross-channel returns or exchanges (N = 91)	32%	46%	22%	22%	23%	30%
Cross-channel gift cards purchase and redemption (N = 80)	44%	46%	31%	35%	30%	40%
Cross-channel loyalty card reward program (N = 64)	41%	47%	26%	41%	24%	33%
Single view of customer profile and order history across channels (N = 70)	40%	39%	28%	31%	26%	29%

Base: 337 global retail and manufacturing decision makers with knowledge of multichannel fulfillment.
Source: A commissioned study conducted by Forrester Consulting on behalf of OrderDynamics, October 2013.