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OMNI-CHANNEL RETAILING IN 6 STEPS:

How to build a practical, effective plan of action

By Richard Pedott and David Vranicar

Executive summary

If your retail company is investing—or planning to invest—in cross-channel or omni-channel retailing, the path ahead is more like a jungle trail than a paved thoroughfare.

While plenty of retailers are pursuing omni-channel or cross-channel strategies, none seems to have found the best route. All have met obstacles and surprises along the way.

For all the words written about omni-channel or cross-channel retailing in recent years, few sources have provided much practical advice on how to do it. This may be because the leaders aren't very far ahead of you, and they're trying to find their own way.

Every company starts at a different point of departure. Many have different destinations. No one route will be appropriate for all. Even so, consistent guiding principles can be helpful to most.

To provide what customers expect, most retailers must rethink virtually every aspect of their business.

This document shares some of the insights we at Columbus Consulting have gained through our work with dozens of prominent retail clients, mainly in North America. Many of these clients have transitioned to multi-channel retailing—some with our help—and now many have set omni-channel retailing as their next goal.

Why are these retailers moving to omni-channel? Because their customers demand it. Customers want consistent pricing, service, convenience, merchandise availability, and hassle-free returns across their entire experience of a brand.

To provide what customers expect, most retailers must rethink virtually every aspect of their business. It's not enough to integrate business processes and systems across sales channels.

In this document, we propose a simple six-step framework. To succeed in this new world, you must *simultaneously* pursue all of these six key tasks:

1. Understand your customers. Know how they shop, what they expect of your brand, and how they want to shop your channels.
2. Know your organization. Honestly assess who you are and who you want to be.
3. Rethink your business from your customers' perspective. Plan to provide the new omni-channel capabilities your customers want.
4. Get the execution right. Be sure you can deliver on the operational side before you roll out new customer-facing initiatives.
5. Structure your organization appropriately. Eliminate structural issues that will get in your way.
6. Adapt your financial metrics, incentives, and compensation programs accordingly. Reward the right kinds of behavior and penalize the wrong kinds.

This document explains each of these steps. It emphasizes organization and financial incentives because our experience suggests that changes to your organization chart, performance metrics, and compensation plans are likely to meet internal resistance. For this reason they're most likely to be avoided, postponed, handled inadequately, or overlooked entirely.

The method we recommend should help you prepare for a more direct and trouble-free trek to your destination.

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To omni-channel retailing and beyond

Omni-channel, all-channel, and cross-channel retailing all mean essentially the same thing. They refer to a retailer's ability to meet the expectations of customers, regardless of the sales channel through which customers buy.

From a hundred-year perspective of retailing, our industry's fairly recent focus on sales channels seems odd—maybe misplaced. How productive can it be for retailers to focus more on sales channels than on customers?

Most customers, after all, don't think much about the channels through which they buy. They think much more about their experience in shopping the brands they prefer.

For most retailers, the current focus on sales channels is a natural outgrowth of our industry's recent past. Many retailers began doing business in one channel and then moved into others. Consequently most of their revenue comes from one or two well-developed channels. Their organization and corporate culture tend to favor those dominant channels.

The current focus on omni-channel retailing is necessary for most retailers. But it's unfortunate. In our view, it makes little sense to treat omni-channel, all-channel, and cross-channel retailing as if they're worthy destinations in themselves. They're just intermediate goals.

Beyond omni-channel retailing lies what we call Total Customer Engagement. And even beyond that, your ultimate destination is the same as for all well-run businesses: Creating and keeping customers, and growing revenue, profit, and shareholder value.

Talk about channels tends to focus retailers' attention on the mechanics of execution rather than on enhancing the customer's involvement with great retail brands.

Constant talk about channels tends to focus retailers' attention on the mechanics of execution rather than on enhancing the customer's involvement with great retail brands. The entire industry will be stronger when we're past this current stage.

In the move toward omni-channel, every retailer starts from a different place. Many factors influence your starting point—your customers, your business model, your mission and goals, your ownership, your business processes, your systems, your corporate culture and history, your organization structure, your sales channels, your brands, and the collective experience and capabilities of your employees and leadership.

The six-step process

Wherever you start, you can take only one step at a time. The six-step process we propose here will ensure that you do first things first. It will also help you stay on course throughout your trip:

1. Understand your customers.
2. Know your own organization, your capabilities, and your capacity for change.
3. Rethink your entire business from the customer's perspective.
4. Get the execution right. Put the right business processes and systems in place.
5. Structure your organization appropriately.
6. Adapt your financial metrics, incentives, and compensation programs accordingly.

These steps look deceptively simple. But they can be hard to execute well. Many capable retailers have paid inadequate attention to one or more of them.

To create your action plan, first go through all six steps in sequence, at a high level. Identify the most important changes you'll need to make for each step. Then iterate. Go through all six steps again in greater detail. Don't commit much time, money, or resources until you're confident you have solid plans to get all the steps right.

If you follow this process, you'll have a much better sense of direction than most other retailers in your situation.

Now we'll look at each step in detail.

Be careful not to generalize about the behavior of your customers. Cross-channel shopping behavior tends to vary by merchandise category, even for the same customer.

1. Understand your customers

Many retailers create buyer personas to help visualize their customers who regularly shop their brands. Effective personas may include a first name of a fictitious typical customer and a well-chosen photograph to help establish clear mental images of major customer types. Designers or merchants can have these personas in mind as they create products or assortments.

Table 1 provides examples of abbreviated personas.

Table 1. Develop more useful personas

Buyer's name	Description
Tina	Urban shopper. Buys mainly through stores. Recently joined the rewards program.
Mary Ann	Loyal customer. Often buys across channels. Heavily engaged in social media.
Sandra	Loyal member of the rewards program. Shops mainly through stores but may also do some research online. Lives in an area served by a "small-door store."

If you're already using shopper personas to visualize your customers, you may have to make them more detailed to help you refine your planning for omni-channel. Be sure your personas reflect how various kinds of customers shop your brands. Focus on their buying behavior rather than their demographic characteristics. Avoid stereotyping shoppers by their age, gender, ethnicity, income, and so on.

To keep your process manageable, limit yourself to no more than six personas in total.

Survey research shows that most retail customers expect a handful of straightforward things:

- They want fair and consistent pricing across all sales channels for the same brand.
- They want an interesting shopping experience. A growing number of customers want to control, customize, co-produce, or co-create their shopping experience. The huge Millennial generation, whose economic power is growing fast, wants a personalized relationship with the brands they buy.
- Once customers have made a purchase decision, they want their merchandise fast. They want efficient checkout, with same-day or overnight delivery at no charge.
- They want consistent service, regardless of the channel through which they buy. In particular, they want to be able to return merchandise across channels. If they buy something online, they want to be able to return it to a store.
- They want convenience. They want to save time and effort.

Multiple studies suggest that most shoppers want these things. But it's not enough for you to know what shoppers want *in general*. You have to know specifically what your *customers* want from each of your brands.

Depending on the complexity of your conversion to omni-channel, you may have to introduce your new capabilities gradually. For this purpose it helps to know what your customers want most urgently. When you understand not only their preference but also their priorities, you'll be in a better position to meet their most urgent expectations first.

Answer these questions about how your customers shop your sales channels:

- What kind of shopping experience do they expect?
- How do they shop across channels?
- To what extent do your customers own smartphones or tablet devices?
- How do they use these mobile technologies while they're shopping?
- How do they want you to communicate with them?
- How much privacy do they want? How much privacy are they willing to exchange for a highly personalized shopping experience?

Be careful not to generalize about the behavior of your customers. Cross-channel shopping behavior tends to vary by merchandise category, even for the same customer. For example, customers are more likely to perform research online when they buy electronics than when they buy clothing. (PWC 2013, 12)

Consider designating a single group in your company to be responsible for knowing your customers across all your sales channels. Ideally, this group will be at a higher level of your organization than any one channel. Without such a unified view, each channel may present a different facet of the same shopper, with no one in your organization able to see the complete picture.

2. Know your organization

In implementing omni-channel retailing, you may be tempted to think that what's right for one retailer may also be right for you. This may result from a desire to follow what some may perceive as "best practices" for omni-channel retailing. But such assumptions can be dangerous.

One specialty retailer recently shared their vision for a project to implement omni-channel operations. They sell off-price apparel in low-service stores. Yet they developed their omni-channel vision by studying the operations of a famously high-service department store. By choosing an inappropriate role model, they started off in the wrong direction.

To protect yourself against making a similar mistake, answer these questions with brutal honesty:

- Is your omni-channel vision consistent with your customers' expectations and your business model?
- Is your current organization capable of executing your omni-channel strategy? What new skills and talents are you likely to need?
- What internal cultural obstacles will you face?
- How adaptable and agile is your organization? How easily can you change your business processes and systems?
- What kind of support can you expect from your IT organization?
- What opposition will you face from key executives, managers, investors, or other groups if you try to change too much, too fast?

3. Rethink your business from your customers' perspective

At this point in your planning and analysis, you've expanded your customer personas. You now understand how your customers prefer to shop your sales channels. And you've also assessed the strengths and weaknesses of your organization.

Your next step is to consider which new shopping capabilities to enable and the order in which to do so.

Establish customer shopping missions

As you review your customer personas, envision "shopping missions" or buying scenarios for each. A shopping mission is a set of tasks or activities a customer wants to complete while shopping. You might think of shopping missions as the small, discrete elements that collectively deliver a total customer shopping experience. Customer shopping missions are akin to what agile software developers call "use cases" or "user stories."

Table 2 shows a set of shopping missions linked to the personas from Table 1. One mission is to search online for a nearby store, using a mobile phone or tablet device. Another is to research products and prices online before shopping in a store. A third is to buy an item online and pick it up in a store.

Although two shopper's missions may appear to be closely related, they may require substantially different business processes, data, systems, technologies, or staffing capabilities.

Note how narrowly the descriptions in Table 2 state each shopping mission. Although two shopper's missions may appear to be closely related, they may require substantially different business processes, data, systems, technologies, or staffing capabilities. So define your shopper's missions in a way that enables you to evaluate each separately.

List all the shopping missions that are important to your customer personas. Then assemble them in a form that looks like Table 2.

Table 2. Define your customers' shopping missions.

Persona	Persona Description	Shopper's Priority	Shopper's mission or scenario
Mary Ann	Loyal customer. Buys across channels. Heavy user of social media.	High	Customer researches products online before shopping in the store. Customer may use a computer, a smartphone, or a tablet.
Mary Ann Tina	Loyal customer. Buys across channels. Heavy user of social media. Urban shopper. Buys mainly through stores. Recently joined rewards program.	Medium	Customer uses mobile phone, tablet device or computer to locate nearby stores.
Mary Ann	Loyal customer. Buys across channels. Heavy user of social media.	High	Customer learns about special pricing and promotions through messages to her mobile phone.
Mary Ann, Tina, Sandra		High	Customer determines whether a specific product is in stock at specific stores.
Sandra	Loyal member of the rewards program. Occasionally researches online. Lives in an area served by a "small-door store."	Medium	Customer has the product set aside in a specific store for a predetermined period of time.

4. Get the execution right

Before you enable the customer-facing elements of your omni-channel strategy, you must be sure you're ready to execute the required back-end delivery and fulfillment capabilities. Not delivering on a promise is worse than not promising. Announcing a vision and then not delivering on it is worse than being late to announce. While this seems obvious, some sophisticated retailers have embarrassed themselves by implementing the customer-facing elements of their strategy before they were ready to execute effectively.

Not delivering on a promise is worse than not promising. Announcing a vision and then not delivering on it is worse than being late to announce.

At this point you're ready to take a close look at the business processes, systems, and other resources you'll need to ensure consistently smooth and reliable execution. For each customer shopping mission, ask the following questions:

- What business processes will you need to support it?
- What business capabilities and systems will you need?
- What data and business analytics do you need?
- What skills, competencies, and knowledge, must your people have? What new capabilities must you acquire? What level of staffing will it take?
- Which parts of your organization will be affected?
- How will you measure success?
- What are the customer benefits? What is the anticipated effect on earnings? What are the benefits to associates?
- How much effort will it take to enable it? How much is it likely to cost? How long will it take?

Start with the customer shopping missions you listed in Table 2. List them in the left-most column in Table 3. Then for each shopping mission, list the operational capabilities you'll need to enable it.

Next, estimate the amount of effort it will take to implement each mission. You'll eventually need accurate numbers for this, but on your first passes through the process it's enough to specify "high," "medium," or "low," as shown in Table 3.

In the next set of columns as you move to the right, estimate the cost to implement, the likely effects of the changes on your organization, the financial benefits, and the return on investment associated with delivering each shopping mission.

Table 3. Assess what it will take for you to enable your customers' shopping missions.

Customer Shopping Mission	Customer Priority	Enabling capabilities, content, & technologies	Effort	Cost	Time	Impact	Financial Benefit	Return
Customer researches products online before shopping in the store.	High	Website	M	M	M	H	H	H
		Detailed online product information	M	M	H	M	M	M
		Product reviews	M	M	L	M	M	M
		Social media	M	M	L	H	H	H
		Store locator capabilities on the website	L	L	M	H	H	H
		Use of mapping technology to provide driving directions	L	L	M	H	H	H
		Accurate information about which product assortments are carried in which stores	H	H	H	H	M	M
		Accurate real-time inventory counts in stores (RFID)	H	H	H	H	M	M
		Accurate pricing information for both stores and online channels	H	H	H	M	M	L
Customer uses a computer, a smartphone, or a tablet to research products before shopping in the store	Medium	Mobile location information	L	M	L	M	M	M
		Mapping	L	M	L	M	M	M
		Mobile-enabled website	M	M	M	H	M	M
		iPad, iPhone or Android app(s)	M	M	M	H	H	H

Your achievement of quick wins will create positive momentum for you to tackle more difficult challenges later.

With Table 3 complete, you can begin setting priorities.

Which customer shopping missions will you implement first? Your best candidates will be the quick wins. Ideally, they will meet three criteria:

- They're high priorities for your customers.
- They can generate big financial benefits.
- They're relatively easy to implement.

Your achievement of quick wins will create positive momentum for you to tackle more difficult challenges later.

5. Structure your organization appropriately

It's prudent to try to minimize disruption to your organization. Changes to organization charts tend to be traumatic for both individuals and companies. Few people welcome such changes, and many employees try to resist or undermine them.

Nevertheless, you must be prepared to embrace substantial changes to your organization structure. And you must be bold and decisive in making the changes you need.

Even if you put all the right business processes, systems, and people in place—but you don't change your organization—the old structure may still thwart your success. If your organization chart works against you, your other efforts may not deliver the results you want.

If your organization chart works against you, your other efforts may not deliver the results you want.

So despite the risks and challenges you may face in changing your organization, don't ignore the need to do so. Even relentlessly methodical retailers such as Wal-Mart have ceded market share by allowing their own organization to get in their way.

Learn from Wal-Mart's mistake

Former executives at Wal-Mart, the world's biggest retailer, say the company hampered the growth of its online business by being too slow to invest in adequate distribution logistics to support it. The executives cite conflicts that persisted for many years between Walmart.com and the company's store-oriented logistics organization. The online business suffered because its revenue was too low to justify the level of investment it needed to grow faster. As a result, Wal-Mart lost market share to Amazon.com and is now struggling to catch up.

Wal-Mart still runs e-commerce as a separate business, with its own headquarters and chief executive officer. The merchants for WalMart.com buy items only for the website. Online sales will represent only about 2% of Wal-Mart's total revenue in 2013. But even so, the business is expected to generate $10 billion in revenue. (Banjo 2013)

Recognize different paths to omni-channel

As we've noted, each retailer must pursue its own best path to omni-channel. And the complexity of your path depends on your point of departure. Let's look at three different groups of retailers, each with different implications for an effective transition:

- *Brick-and-mortar orientation.* This group of retailers started as brick-and-mortar businesses and then moved into other channels. The category includes retailers such as Wal-Mart, The Home Depot, GAP, Chico's, and many others.
- *Direct-to-consumer orientation.* This group includes retailers who began as a catalog or e-commerce business and later opened brick-and-mortar stores. It also includes big department-store retailers who have been in the catalog business for many years. These organizations typically have sophisticated, separate infrastructures to support their direct-to-customer channels and their stores. REI, J. Crew, JC Penney, and Frontgate are examples.
- *Wholesale orientation.* This group includes retailers who first sold their branded merchandise to retailers. From there, they opened to direct-to-consumer or brick-and-mortar sales channels. Examples include Coach, Guess, Nike, Tommy Bahama, The North Face, Hugo Boss, Apple, and many others.

The following sections consider each group in detail.

Strong brick-and-mortar orientation

Characteristics. These retailers are inclined to treat their direct-to-consumer business as a red-haired stepchild. They often have the following traits:

- They maintain separate profit-and-loss statements for each channel.
- They may maintain separate planning, allocation, merchandising, and marketing functions for their channels.

Challenges. As a result of their organization, they tend to share the following challenges:

- Their channels compete against each other for resources and rewards. They fight over which channel owns inventory and which gets credit for sales. The stores generally have more power and influence with senior management.
- They understaff their direct channels. They allocate head count as a percentage of SG&A (sales, general, and administrative) expense rather than determining how many people they need to run a properly staffed, fast-growing direct-to-consumer business.
- The brick-and-mortar business tends to get the best-qualified associates, and the direct-to-consumer business often gets second best. People move from the brick-and-mortar business to the e-commerce side, even if they don't know how to run a direct-to-consumer business.
- The focus on same-store (or comparable-store) sales growth stifles the growth of direct-to-consumer channels. Despite best efforts, the brick-and-mortar business grows only by single digits. With proper attention, the online business could grow by double digits.

These organizations tend to execute poorly online for these reasons:

- Merchandising and planning are inadequately staffed.
- Purchase quantities are often wrong.
- Merchandising varies by channel.
- Disjointed practices in merchandising, planning, and inventory management cause inventory imbalances. One channel is often out of stock at the same time another is overstocked. Channels lose sales when they're out of stock. When they're overstocked, they offer unplanned markdowns to liquidate their surpluses. Stock outages reduce revenue growth, and markdowns reduce gross margins.

Recommended changes. For retailers whose culture is most strongly rooted in a brick-and-mortar business, it often makes sense to take make two changes:

- Consolidate and integrate your merchandising, marketing, planning, and fulfillment functions across channels.
- Refocus your e-commerce team to achieve faster growth.

Here are appropriate goals for the newly consolidated functions:

- *Merchandising:* Ensure that you can pursue appropriate growth opportunities for each channel while optimizing the assortment for the total brand.
- *Planning:* Ensure that you pursue growth opportunities for each channel while optimizing inventory for the total brand.
- *Fulfillment:* Achieve economies of scale and efficient execution across all channels.
- *Marketing:* Own responsibility for understanding the customer across channels. Champion the Total Customer Experience for the brand. Orchestrate the brand's touch points with customers to ensure they work together in meeting customer expectations. Own data analytics. Serve as custodian of customer data and privacy.

To refocus your e-commerce team for faster growth, be sure they're staffed adequately with high-quality people who thoroughly understand the business.

Don't make e-commerce compete with your stores for inventory.

To refocus your e-commerce team for faster growth, be sure they're staffed adequately with high-quality people who thoroughly understand the business.

As you plan to reorganize for omni-channel retailing, be guided by the map you create in Table 3.

It's crucial to drive your organization changes from the top down. You'll need full alignment all the way up to your chief executive officer and maybe to your board of directors.

Strong direct-to-consumer orientation

Characteristics. Retailers with a strong direct-to-consumer orientation often have the following traits:

- They maintain separate profit-and-loss statements for each channel.
- They maintain separate planning, allocation, merchandising, and marketing functions for each channel. They may also have separate supply-chain and logistics infrastructures. These groups are strong and independent. They resist cooperation.

Challenges. Retailers with a strong direct-to-consumer orientation often face these challenges:

- Although they achieve good economies of scale in their direct-to-consumer business, the redundancies in their organization are costly.
- It's generally harder and more expensive to open new stores than to expand an online or catalog business. You can outsource logistics, but you can't outsource store operations.
- Organizations with a strong direct-to-consumer orientation may not have a strong management culture to support the effective operation of stores.
- If a retailer's direct-to-consumer business is not well integrated with the operations of its brick-and-mortar stores, both the merchandise and the customer experience are likely to be different for each channel. The brand will suffer.

For retailers with a strong direct-to-consumer orientation, the move to omni-channel operations can be difficult and capital intensive. It's smart to proceed carefully and gradually.

Recommended changes. For retailers with a strong direct-to-consumer orientation, the move to omni-channel operations can be difficult and capital intensive. It's smart to proceed carefully and gradually.

As you integrate functions, start at a high level in your organization and gradually work downward. For example, you might appoint a senior executive in charge of merchandising for all channels before you change the roles of people deeper in the hierarchy.

Think which business processes you can change before you change the lower branches of your organization chart.

When you undertake big changes to your organization, be sure your chief executive officer and your board of directors are well aligned. Plan to invest in comprehensive change-management measures.

Plan to invest in comprehensive change-management measures.

Strong wholesale orientation

Characteristics. These organizations tend to share these traits:

- Their dominant culture leads them to focus heavily on their brands and their products. They are production oriented. They typically excel at product design, sourcing, and inbound supply-chain operations. Marketing and product management are core competencies.
- They aren't retailers at heart. They developed retail channels to improve gross margins, to protect their revenue streams, and to get closer to their end customers.
- Compared to other retailers, they're likely to specialize in narrow merchandise classes or categories. Their assortments are relatively limited. They may sell only their own brands.

Challenges. Operators with a strong wholesale orientation may face these challenges:

- Margins on the wholesale side are thin.
- Except for insights they gain through their own retail operations, wholesalers may be relatively out of touch with the end users of their products.
- The corporate culture of wholesalers is often weak in managing store operations. They may have to hire knowledgeable retail talent from outside their organization.
- They often face channel conflicts with their biggest customers. As they compete more with retailers, those retailers may be less willing to buy their brands.

Recommended changes. As you move to omni-channel, the best structure for your organization will depend on your answers to the following questions:

- What is the current mix of business between your wholesale and retail operations? If you're in international markets, is the mix similar across all?
- Which side of the business has stronger potential for fast revenue growth and strong profit growth—wholesale or retail?
- To what extent is your business based on program buys? How much of your wholesale volume is 100% committed and made to order?
- How important is product or brand licensing to your business model?
- Does the wholesale side of your business maintain a separate inventory for anticipated wholesale orders? If your wholesale and retail businesses share inventory, what are your business rules for tracking ownership? Which group typically wins in disputes? To what extent is it desirable to share inventory between your wholesale and retail businesses?
- How does your wholesale business handle surplus inventory? Do you use the retail side of the business to sell it?
- Into what retail formats or other distribution channels does the wholesale business sell?

One individual or group in your company should be responsible for managing the relationship with your customers across all channels—and possibly across multiple brands.

- Does the wholesale side of the business provide vendor-managed inventory (or VMI) services to key retail accounts?
- To what extent do your wholesale and retail business share common assortments? To what extent do you offer exclusives to department stores or other key accounts?
- Do the retail and wholesale sides of your business use the same accounting method?
- Do you use the same planning methodologies, reporting metrics, business processes, and systems for both the wholesale and the retail business? Can you? Should you?

Manage international business as a market, not a channel

If you've focused most of your efforts on growing your business in a single country, expansion to international markets can pose new dilemmas. Our experience leads us to recommend that you treat your international business as a new market rather than a new channel.

Treat your international business as a new market rather than a new channel.

Don't expect to eliminate all tensions and conflicts

Nearly every organization structure will cause tensions and conflicts among business units or functions that have different missions or goals.

The success of any one group in your organization may tend to frustrate or compromise the success of others. Some business units or functions are natural allies, and others are natural adversaries. In the context of your transition to omni-channel retailing, it's important to minimize any such dynamics that work against the brand experiences of your customers.

Ask the right questions

Considering the diversity of situations we've just covered, what general principles might apply to all? How might other retailers design the right organization to facilitate their move to omni-channel retailing?

As with other elements of your transition, we're reluctant to generalize. In thinking about your organization structure, we suggest you carefully answer these questions:

- ***How do your customers view your organization? And how do they interact with it?***

  Your customers probably know your company through one or more of your brands. For each brand, your customers shop their preferred channels. So it's probably most effective to organize your business first by brand and then by channel. If your customers often shop multiple channels of the same brand, it makes sense to establish strong working relationships across these channels.

- ***Who should be responsible for your company's relationship with your customers?***

  One individual or group in your company should be responsible for managing the relationship with your customers across all channels—and possibly across multiple brands. Marketing is often the strongest candidate for this responsibility.

  If your customers expect to experience your brands consistently across their preferred shopping channels—and research indicates that most do—you can make a strong argument that brand-oriented marketing teams should own and manage the relationship with customers.

  In contrast, some retailers still have a separate marketing team for each channel, and the teams don't necessarily coordinate across channels—even within the same brand. Such an organization structure is likely to cause problems.

  Some prominent retailers have appointed a head of the omni-channel customer experience. That person, who reports to marketing, is responsible for ensuring that all channels work together from the customer's standpoint.

- ***Which skills, competencies, knowledge and experience in your organization are most important to your success?***

  Once you've identified these factors, build an organization structure that protects them and enables them to flourish.

- ***How much does the knowledge and expertise in your organization vary by channel?***

  The mechanics of running each sales channel may require a lot of knowledge or experience that's specific to the channel. The closer you get to customer-facing activities, the more likely this is to be true.

  For example, to run a successful catalog business you must know about print production, mail-list selection and segmentation, direct-mail regulations, product photography, and catalog copywriting. To run an e-commerce business, you need to understand web traffic and conversions. You must know about information architecture and search-engine optimization. You must know how to create effective web pages and offers. To run successful stores, you must understand staffing and scheduling, visual merchandising, and interpersonal selling. You have to understand the mechanics of inventory control, checkout, and other processes. It makes sense to have specialized teams with the skills needed for each channel.

- ***How much do your business processes vary by channel?***

  In contrast to the customer-facing elements of your business, many other back-office functions don't vary much by channel. For example supply-chain operations—including warehousing and fulfillment operations—are not very different from one sales channel to another.

  Can you make a strong argument that the business processes or skills for planning, allocation, replenishment, warehousing, accounting, finance, and IT functions are fundamentally different for each sales channel? If not, you should probably consolidate these functions across channels. You can achieve significant benefits with respect to revenue and margin when you share inventory across channels.

- ***What organization structure will enable your best growth opportunities to flourish?***

  Are you giving the fastest-growing parts of your business all the resources and attention they need to grow even faster?

- ***What parts of your organization conflict in ways that block your most important goals?***

  Do parts of your organization compete with each other in ways that harm your customers' shopping experience?

- ***Which parts of your organization are redundant in ways that don't add value for your customers?***

  By ferreting out redundancies, you'll probably reduce operating costs and free up resources to focus on better ways to deliver value. Try not to be bound by the way you've done things in the past. Focus instead on the best way forward.

You can achieve significant benefits with respect to revenue and margin when you share inventory across channels.

6. Adapt your financial metrics, incentives, and compensation programs accordingly

After you've tuned your organization to reduce obvious conflicts, redundancies, and inefficiencies, you'll find that sources of conflict still arise. When this happens, look for zero-sum games where one important part of your business can gain only at the expense of another.

For example, do your current business metrics encourage the growth of individual channels over the growth of your brand or brands? How might your current business metrics encourage behavior that harms your higher corporate goals?

If your retail company began its operations as a brick-and-mortar business, you may remember when online sales were a novelty. They probably represented less than a few percentage points of your total revenue. In those days it made sense to report your company's revenue growth as comparable-store (or comp-store) sales. But now, after years of double-digit growth for e-commerce, online sales now represent a much bigger share of total company revenue.

Comp-store sales. Does it still make sense to report your revenue to analysts and shareholders only as comp-store sales growth? Would it make more sense to report total revenue growth by brand rather than by channel?

It will almost certainly pay for you to re-evaluate the metrics by which you measure performance internally.

If your company's stock is publicly held, you may be limited in how you report your company's performance externally. Regardless of what you may tell shareholders, it will almost certainly pay for you to re-evaluate the metrics by which you measure performance internally.

Profit and loss. In the omni-channel world, how valid is it to evaluate your business through separate profit-and-loss (or P&L) statements for each channel? Does it still make sense to use separate measures for units you want to operate in close cooperation? How do separate P&Ls affect the decisions your managers make? Under your current systems, do your managers' decisions tend to support the new omni-channel behaviors you're trying to encourage?

Credit for sales. To reduce conflict across your channels, it may pay to rethink the way you assign credit for sales.

Each sale consists of two elements—the transaction, which occurs when the customer decides to buy, and fulfillment of the order. In the omni-channel world, the transaction may occur in one channel and fulfillment in another. These two-part transactions create a new problem for retailers: How do you accurately measure true customer demand to support effective merchandise plans, assortment plans, and allocations for each channel?

If you consolidate merchandising and planning across channels, you eliminate one source of internal competition. After you make the change, planning and merchandising share common purposes across channels.

Competition among channels. You'll probably still need new ways to measure and reward the performance of store operations and e-commerce, which will remain committed to growing as separate channels.

Current bonus and incentive plans were often designed to reward behavior that speeds the growth of individual sales channels. For example, associates get a bonus for achieving comp-store sales growth. Now you must also consider broader strategies to encourage the right behavior for omni-channel success. As you do so, take care that your grandfathered incentive plans don't conflict with your new goals.

The growth of any sales channel benefits the total brand. As any brand increases its revenue and profit, the entire company benefits. Share values increase, and investors are happier. So why not reward all channels when a brand grows, even if one channel grows at the expense of another?

We recommend that your compensation and rewards plans be simple and straightforward: Align your employees' compensation with your most important business goals. Financially reward behavior that you want to encourage, and penalize behavior you want to discourage. Apparently this advice isn't as obvious as it appears, because so many retailers seem to ignore it as they move to omni-channel operations.

Summary

Now you've read the details of a six-step process that will improve your company's success in transitioning to omni-channel retail operations. To recap, here are the steps:

1. Understand your customers.
2. Know your organization.
3. Rethink your business from your customers' perspective.
4. Get the execution right.
5. Structure your organization appropriately.
6. Adapt your financial metrics, incentives, and compensation programs accordingly.

As you go through these steps in order, you'll find that the insights you gain in each will help you complete the next.

It's best to go through this process iteratively. First go through all six steps, making estimates and approximations. Then, go through them all again, informed by what you learned on your first pass.

With each iteration, refine your thinking and make your estimates more precise. Your executive committee and your board of directors will expect accurate projections of cost, return on investment, and payback analysis. You may have to work through three or more iterations on paper before you have enough detail to present to them with confidence.

Conclusion

As we've said elsewhere in this document, we think there's no best path to omni-channel retailing. Each retail format will likely have a different set of imperatives, and every retailer starts from a different point of departure.

Nevertheless, we think the six-step planning process is valid for all retailers.

Steps five and six in this process are most important to your success: You absolutely must get your organization right, and you must adapt your financial metrics, incentives, and compensation programs accordingly.

We emphasize this point because experience suggests that retailers are most likely to ignore our advice: In transitioning to omni-channel, pay close attention to your organization structure, your business metrics, and your financial incentives for employees.

If you have the right organization structure and if you've eliminated conflict in your business metrics and your rewards systems, your people will find ways to improve your omni-channel operations—even if other elements of your plan aren't quite right. Your team will have a clear idea of what you're trying to achieve, and they'd be organized in an effective way to achieve it.

Your organization needs an invigorated sense of entrepreneurship. You must to be prepared to make mistakes. You have to learn quickly and adapt.

Even with perfect plans, you're unlikely to get things right the first time. You'll discover that you've overlooked some important consideration. You may uncover some unresolved organizational conflicts, or employee compensation may still be slightly misaligned with business goals.

To work through these inevitable disappointments and setbacks, your organization needs an invigorated sense of entrepreneurship. You must to be prepared to make mistakes. You have to learn quickly and adapt. In the process, you'll become a more agile retailer. And your agility will serve you well in all aspects of your business.

Suggested next steps

This is the first in a series of reports from Columbus Consulting. If you'd like to be informed as future reports become available, please sign up to receive notification here: http://bit.ly/14xKc7O.

If you have questions or comments or would like to suggest topics for inclusion in future reports, please go here: http://svy.mk/15JDue7.

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About the authors

Richard Pedott is a principal with Columbus Consulting International. He has more than 25 years of experience across multiple functional disciplines, including planning, allocation, sourcing, supply chain management, and store operations. Rich has led initiatives focused on strategy, processes, and systems development at leading US and International retailers. His additional areas of expertise include omni-channel retailing, assortment planning, merchandise planning, and product lifecycle management. Before joining Columbus, Rich held senior leadership positions at several leading retailers.

David Vranicar is a writer and consultant who has worked with the retail industry for more than 25 years. He writes about retailing, supply chain, energy management, sustainability, innovation, and marketing.

About Columbus Consulting International

Founded by retailers to serve retailers, Columbus provides the best business and technical expertise in retail, e-commerce, and wholesale. They specialize in defining world-class business processes, operating models and organizational structures, and implementing technology to support them.

Columbus has served more than 100 retail clients in its 12-year history.

Columbus Consulting International
4200 Regent Street
Suite 200
Columbus, OH 43219
USA

Phone: +1 (614) 944-5190
Fax: +1 (614) 775-0081
Email: info@ColumbusConsulting.com

Website: http://www.ColumbusConsulting.com

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