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Increase Sales and Fulfillment Across Multiple Channels Through Inventory Optimization

Five Foundation Blocks for Successful Inventory Optimization

Executive Summary

The soul of a retailer lies in its stores. It can be seen and felt. It is what makes the brand an exciting place with a distinctive atmosphere. The eyes to the soul are the store windows – or the retailer's website. The retailer's heart is the buying and planning division, which pumps merchandise through the system and into stores or orders from many channels.

The most important part of this living system is its lifeblood, or **inventory**. If a retailer does not have the right merchandise at the right price, in the right place, at the right time, and in the right quantities, it will very quickly become irrelevant in this fast-moving consumer world. If the inventory is not in line with the retailer's goals and objectives, and not purchased in line with planned demand, the business will become bloated.

Sales used to be relatively simple. Customers walked into your store, made a purchase, and if they had a problem, they came back to you for service or returns. Things got more complicated once retailers started using catalogues, which, with the help of technology, evolved into online sales.

As they progressed, each of these channels presented new opportunities, new challenges, and new demand. As a result, retailers traditionally developed separate and independent order management and fulfillment models. Brick and mortar anticipate customer demand and then "push" adequate inventory to store shelves through a fixed distribution network. Conversely, catalogue, e-commerce, and wholesale typically wait for orders to come in and then immediately send merchandise directly to customers, more of a "pull model."

Today, however, customers expect (and customer loyalty demands) a free-flowing, **buy anywhere, fulfill anywhere, return anywhere** marketplace in which purchases may originate in one channel, be completed in another, and returns are handled in a third.

To successfully transition to **fully-optimized inventory** and deliver **exceptional customer service and convenience**, retailers must focus on "one version of the truth" by evaluating their capabilities, assessing customer data points, and creating a plan for this single vision. This white paper presents five considerations to help build a strategy for your retail organization:

1. **Make inventory visible**
2. **Focus on customer convenience & experience**
3. **Don't start small, start simple**
4. **Make it easy to maximize customer experience and personalization**
5. **Aligning KPIs to the retailer's strategy**

1 Make Inventory Visible

Ira Neimark, the former chairman and CEO of New York's famed luxury goods specialty store Bergdorf Goodman, knew better than most that inventory was the lifeblood of his business. His view was that '**tight inventory**' was the key. "If something is not selling, it is like a dead fish in a barrel. It stinks after a while."

The days when retailers could get away with items being out of stock in the size or color desired by the customer are over. If a customer doesn't find the product he or she wants, where and when he or she wants to shop, they can easily go elsewhere. All it takes is a tap of a smartphone or click of a mouse.

For leading retailers, it is therefore key to focus on reducing costs, managing stock levels efficiently, and having **total visibility of their inventory**. Their processes, people, and technology ensure that there is a good balance between having enough stock that customers can always get what they need, but not so much that it becomes an overstock.

Inventory is the lifeblood, the driving force behind generating **revenue, profit, and the correct level of inventory investment**. If inventory is not carefully controlled, a retailer will spiral out of control and into irrelevance very quickly. You cannot deliver effective inventory management if you don't have clear and full inventory visibility.

The challenge is moving away from a siloed approach towards an omni-channel approach that delivers one version of the truth at any point in time, across all sales channels. This inventory accuracy is required both internally for the retailer as well as externally to the customer. It simply isn't acceptable to invite a customer to a store to pick up an item, or to recommend an item to an in-store shopper, only to discover that the product isn't actually available or can't be located.

Research by Ampersand on the best retailers to provide store stock check online shows that 70% of customers expect to view in-store inventory online, with only 1 out of 3 customers being likely to visit a store if they do not have this visibility.

Ampersand's Multi Channel Retail Report 2019 UK edition stated that there has been an increase in stock check functionality online. In their survey of 200 retailers, **35% of retailers now offer this online**, an increase from 27% in 2017. It's also interesting to see that 19 out of the top 20 performing multichannel retailers have stock check (with only Superdry not embracing stock check online).

In-Store Stock Check Online
Retailers who offer in-store stock check online

35% of Retailers **offer** in-store stock check online

65% of Retailers **do not offer** in-store stock check online
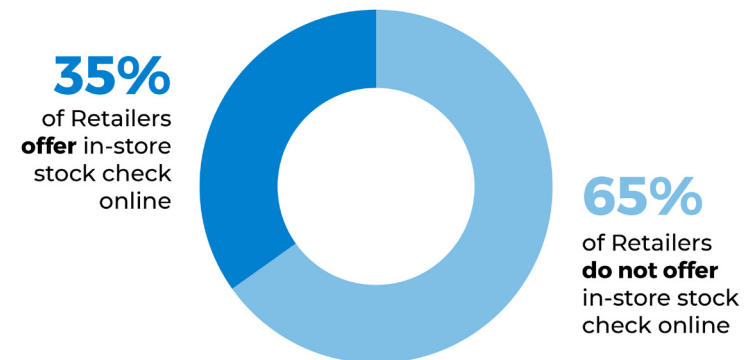
Getting inventory visibility and, ultimately, inventory management right involves everybody in the business, including finance, HR, store, supply chain, and logistics. This sets a great base for developing a program for ongoing improvements in speed to market and cost reduction and sets the stage to adapt with agility to changes in the marketplace.

2 Focus On Consumer Convenience & Experience

Customers are wiser than ever before. They know what a good customer experience is. They expect it from the companies they do business with. And here's the important part: they no longer compare a company to its direct competitor. They compare every experience to the best experience they've ever had — from anyone and any company. And many of those companies aren't just providing a good service experience, they're also easier to do business with. Today, we call this ideal experience throughout the whole process "frictionless".

A key element of taking the customer experience to another level is **convenience**. Think of companies that are easy to do business with, like Amazon, Uber, and others. They disrupt their competition and even entire industries. These rock star customer experience companies are setting the bar higher, and this is what customers expect from every company that they do business with.

As a result, convenience is the **ultimate currency**. Convenience is becoming a leading customer expectation — and is giving companies a competitive advantage that often makes price less relevant. Delivering this required convenience is very complex as many factors have to come together. This is not achievable without the right technology as a foundation. Those retailers that are succeeding in providing this convenience to their customers have realized that technology has to play a key role in this dynamic.

Retailers need to migrate closer to the end consumer. You have to be fast to win the sale. Therefore, you need to start using stores as fulfillment centers for online sales (if not doing so already). This would also help justify the cost of operating physical stores and reduce time to the customer and bring your inventory closer to where the end consumer requires it.

Hybrid fulfillment networks are emerging to unlock the inventory in the chain and sell products at full price rather than mark down the inventory. Retailers are offering click and collect in non-store locations (such as a locker, convenience store, or petrol station), utilizing services provided by Collect+, myHermes, Doddle, and HubBox. This service is offered by 32% of retailers, a rise from 24% in 2017, and we expect this to continue to increase throughout 2019.

Source: Ampersand Multi Channel Report 2019

3 Don't Start Small, Start Simple

Albert Einstein said, "Everything should be made as simple as possible, but not simpler."

When embarking on this type of shift, retailers need to start simple, don't let the best (fully automated) be the enemy of the good.

One of the key steps to rolling out any successful inventory optimization transformation program is to get key **stakeholders** engaged. If retailers are going to provide ship from store effectively and efficiently, then the whole business needs to sign up to this strategy. **Stores** are among the key stakeholders if you are going to give full visibility of inventory across the enterprise.

Once you have inventory visibility across your enterprise, you can then decide the order in which you expose these **stores' inventory to the web**.

Well-planned technology can support a streamlined roll-out of new fulfillment methods. The graphic below shows a first example of how you can move on this journey. **Phase 1** - Retailers might want to start with delivering warehouse stock to stores for click and collect with a 2-3-day delivery window with limited in store ordering. **Phase 2**, move to fulfilling customer orders from store stock in just a few stores with next day delivery. Deploy training and tablets in store to allow assisted selling of current stores assortments and extended assortments that are not stocked in that store. The final **Phase 3** end point might be 30-minute click and collect from any store, full clienteling capabilities and enhanced in store customer service to name but a few.

Order Management Technology has developed so dramatically in these areas over the last 5 years to let you seamlessly orchestrate the fulfillment of products and services across virtually all customer touchpoints. They simplify the incorporation of real-time information into retail processes, such as purchasing, replenishment, allocation, distribution, price management, and warehouse management. Retailers benefit from comprehensive inventory management capabilities, including receiving, returns to vendors, transfers, adjustments, vendor markdown allowances, and physical inventory.

As we said at the beginning, the heart pumps merchandise through the system and into stores or orders from many channels. Order management allows you to make the heart as efficient as possible. By equipping you to think beyond the inventory on hand and focus on what's available to promise to your customers. It eliminates costly and **rigid inventory segmentation** across channels and business units with a single, real-time, consolidated view of inventory across the enterprise, from your suppliers and manufacturing facilities to your warehouse and stores.

As the title of this section states though, it is imperative to start simple. To deliver in an agile manner those services that your customers are now demanding around personalization and convenience.

Start Small with a Phased Approach to Buy Anywhere, Fulfill Anywhere

Phase 1
- Deliver to store for click and collect
- Limited in store ordering

Phase 2
- Mobile POS / queue-based
- Assisted selling (online stock)
- Tablet enabled order collection
- In-store services

Phase 3
- 30-minute click and collect
- Clienteling capability on store tablets
- In-store customer service on tablet
- Sell from anywhere to anywhere
- Pick and dispatch from store

4 Make it Easy to Maximize Customer Experience & Personalization

The soul of any retailer lies in the ambiance of its stores. It can be seen and felt. It is what makes the brand an exciting place with a distinctive atmosphere. Therefore, it is critical that you get the experience right in the store to protect the essence of the brand's soul.

Stores are staffed with associates who possess varying levels of ability and experience, from the casual "Saturday person" to the store and regional managers. Getting the people and process right gives a retailer a whole new opportunity to ensure resources are allocated most effectively – for example, your experienced store staff are best placed to engage with customers, whereas your more junior staff might be best placed to pick and pack items to fulfill online orders from customers.

Again, **simplicity combined with intelligent technology** is the answer. Store associates all learned how to use a smartphone without an instruction manual, so hide the complexity! Make whatever devices and processes they need to use intuitive and easy to grasp; from receiving orders to checking inventory, confirming they can complete the order, picking, and dispatch.

Firstly, employees will need to learn picking and packing procedures and understand how to balance the needs of shoppers in the store with the need to pack and ship quickly. Managers will have to decide how to adapt schedules within their store to allow for times to pick store stock.

Secondly, retailers can use this training to broaden the in-store service approach by helping customers to "shop-the-look," check if their size and color are available, and other phygital (digital and physical) activities to further enhance the in-store shopping experience. Shipping from stores and using stores to fulfill online orders is another strategy to simplify and expedite the last mile and increase the convenience factor for shoppers.

The good news is that, once again, the rollout of new workflows and procedures can be phased. Not all store associates have to be trained at the same time. Retailers can decide when and how they expose store stock to the web. Also, certain stores with high traffic might never perform ship from store. Stores can also be turned off at certain points in the day or when they have received and confirmed a certain number of orders. All these scenarios are possible if the right processes and tools are in place.

One other consideration is **physical space**; physical stores are not warehouses. Nonetheless, retailers will need to find room for packing tables, packing materials, and everything else that goes with fulfilling online orders.

5 Align KPIs to the Retailer's Strategy

Retailers need to align key metrics to motivate store staff to deliver online fulfillment from store stock. What's key is giving **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 customer transaction 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?

Competition among channels. You will likely need to come up with new ways to measure and reward the performance of both store operations and e-commerce, which will grow as separate, yet closely intertwined channels. Current bonus and incentive plans are 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.

It will almost certainly pay for you to re-evaluate the metrics by which you measure performance internally. The growth of any sales channel benefits the **total brand**. As any brand increases its revenue and profit, the entire company benefits. Shared value increases 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

So how do you deliver these five foundation blocks for successful inventory optimization? Our recommendations are summarized below.

1 **Make inventory visible:** Inventory accuracy is required both internally for the retailer as well as externally to the customer. Move towards an omni-channel approach that delivers one version of the truth at any point in time, across all sales channels.

2 **Focus on convenience and experience:** Retailers wanting to stay ahead of the curve should ensure that customers know about their cross-channel capabilities and promote these. Customers want and expect a frictionless experience and so it needs to be easy to shop.

3 **Don't start small, start simple:** Under promise and over deliver.

4 **Make it easy to maximize customer experience and personalization:** People and processes are the key drivers to change. Focus on the change management strategy and how you will make this easy to adopt internally. Don't lose sight of how changes will impact customers' ease of shopping and enjoyment.

5 **Aligning KPIs to the retailer's strategy:** Adapt key metrics according to organizational objectives to drive the behavior that will ultimately deliver increased sales, additional profit, and happy customers that become brand advocates.

About the Author

Charlotte Kula-Przezwanski has more than 20 years of experience working with retail, wholesale, and manufacturing companies. She has focused on improving corporate performance through better planning, execution, and analysis. Her background includes merchandising and buying, space planning, inventory management, supply-chain management, sourcing and procurement, and merchandise information systems. Charlotte has held senior positions in large UK retailers and in software companies that specializes in merchandise planning solutions. She now heads CCI's practice for Europe, the Middle East, and Africa.

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