

**MEETING CONSUMER EXPECTATIONS:**

# Understanding the Need for Omni-Channel Capability



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# Introduction

If your business has yet to incorporate any omni-channel retail capabilities, then the good news is that you are not alone. Research conducted by Forrester Consulting on behalf of [Accenture](#), found that only about one-third of retailers have introduced “basic” omni-channel offerings such as store pickup, cross-channel inventory visibility, and store-based fulfillment.” So businesses that have yet to take the leap into the world of omni-channel retailing, might find comfort in knowing they are not alone.

But the not so good news? Consumers expect the convenience and flexibility of omni-channel options, and have increasingly little tolerance for retailers who cannot meet their expectations.

When it comes to setting the standards for purchasing, fulfillment and product returns, consumers are very much in the driver's seat. Savvy customers are very attuned to current retail trends and delivery capabilities, and have high expectations that retailers will be in sync with those expectations. To [quote](#) one logistics professional: “It's omni-channel or go home.” And, a possible addition to this statement could be: “Make sure you get it right.”

Professor Dale Rogers of New Jersey's Rutgers University cites a leading global fashion merchandiser as an example of a retailer that has not integrated its omni-channel components. The retailer operates a network of retail stores, outlet stores, call centers and a website. “The problem, is that while each unit operates under the same name, they are likely located in different geographic places, with little interaction, and the returns policies are separate.”

As a result, there is no synergy across the different channels. An employee at a retail store cannot assist a customer by checking to see if an out-of-stock product can be located either online or at a different store. Online purchases can not be returned to physical stores—at least not without having to endure a complicated process

Consider language from the retailer's website as it relates to product returns: *“Please note that returning merchandise [purchased online] at our retail stores can be a time-consuming process. Returns made to [retail] stores will not be credited until they are processed at our warehouse. We strongly recommend that you make returns using our online process and the postage-paid return label provided with your original package.”*

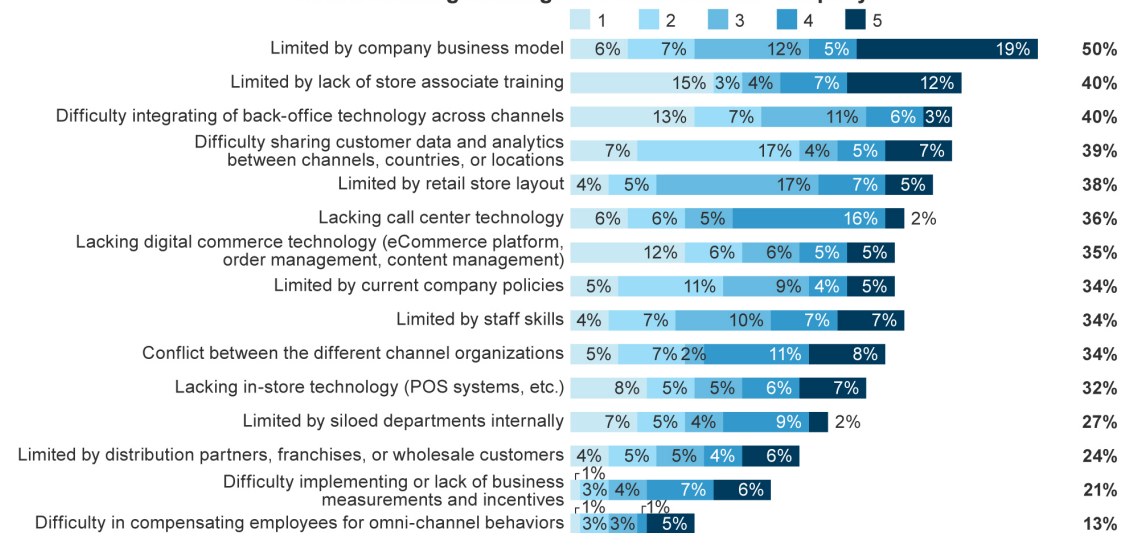
This type of policy, which works for the retailer, is not in sync with the consumer-driven demands that are driving today's omni-channel expectations. As Professor Rogers notes: "They are trying to tell customers how they have to interact with them. But it's a consumer driven world now, in which customers are dictating the terms."

With all signs indicating that omni-channel is here to stay, the question becomes why so many retailers have yet to jump on board. Forrester's research found that retailers generally cite business model limitations, lack of store associate training, and difficulty with integrating back-office technology and other data across channels as top reasons for not pursuing an omni-channel strategy.

As the following discussion will make clear, none of these issues is insurmountable. Incorporating an omni-channel strategy can seem overwhelming, but with the right plan, and the right logistics partner to help lead the way, an "all of the above" strategy can bring a retailer to the next level in terms of meeting customer preferences and maintaining a competitive edge.

## NUMEROUS CHALLENGES LURK ON THE JOURNEY TO OMNI-CHANNEL MATURITY

**"In your opinion, what are the top barriers/challenges preventing your organization from becoming an integrated omni-channel company?"**



Base: 256 US and European retail and manufacturing decision-makers involved in digital commerce initiatives

Source: A commissioned study conducted by Forrester Consulting on behalf of Accenture and hybris software, November 2013

Source: Forrester Consulting

# Understanding the Importance of an Omni-Channel Strategy

Before addressing *why* an omni-channel strategy is important, it's necessary to understand *what* it actually encompasses. In its simplest form, omni-channel retailing refers to a seamless, integrated retail experience in which a customer has access to products through all available shopping channels including brick-and-mortar stores, channel partners, smartphones, tablet computers, desktop computers, direct mail, catalog, telephone, and the list goes on. In a perfect "omni-channel world, consumers can seamlessly move between venues, taking advantage of purchasing, delivery and returns options that best meet their specific needs, at any given time.

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It's also worth noting what omni-channel is not. "Omni-channel is not just about having a website, a physical presence, a call center. Omni-channel is fundamentally based on the back-end systems," Arash Fasihi, President and CEO of Canada-based furniture retailer Cymax said in a [Retail Council of Canada](#) study of omni-channel attitudes.

To that end, integral to a successful omni-channel platform, is the synchronization of all parts. A customer who places an order via a smartphone may opt to pick up that order at a local retail establishment—and will expect to have the shipment packaged and ready, with the sales associate fully trained and aware of the process. Or, a consumer who makes an online purchase may expect to return that package, hassle free, to a local brick-and-mortar store.

In the world of omni-channel, the customer sets the expectations, and the retailer does what is necessary to satisfy the customer. A customer has little concern, for example, of the tremendous logistics plan that is triggered in order to ensure an on-time delivery of a shipment. The customer just expects the shipment to arrive on time, and will make his/her displeasure known if there are any delays.

Research of consumer attitudes about online shopping conducted by [comScore](#), reveal just how far the pendulum has swung with regard to expectations. Consumers cited the following as key factors influencing their decision to shop with a retailer:

Ability to buy online and then make returns at the store	62 percent
Push of a coupon/promotion to my smartphone when I'm in the store or close by	47 percent
Ability to buy online and pickup in store	44 percent

Availability of application designed for a tablet	41 percent
Option to conduct one-click checkout online	40 percent
Ability to complete a purchase using a mobile device	37 percent

Much of the omni-channel tidal wave can be traced to the tremendous impact Amazon and other online giants have had on consumer shopping attitudes. Amazon introduced levels of convenience, flexibility and customer service that were previously unthinkable in the retail world. An article in the [Harvard Business Review](#) describes this type of disruption as something that happens "every 50 years or so" in the retail world: First came urban department stores; then with the mass-produced automobile came suburban shopping malls; the 1960s and 70s brought discount chains and now, the era of omni-channel commerce.

And with omni-channel, has come the ability for retailers to interact with their customers in a multitude of ways—retail stores, websites, mobile devices, social media, direct mail, kiosks, and the list goes on. The effect of omni-channel has been so seismic, and so all encompassing, that a retailer will have little choice but to embrace the need to retool its retail strategy.

As the Harvard Business Review article warns: "Unless conventional merchants adopt an entirely new perspective—one that allows them to integrate disparate channels into a

seamless omni-channel experience—they are likely to be swept away."

Many businesses recognized early on that not only was omni-channel going to revolutionize the retail environment, but also, the tremendous opportunities it presented for more connections with consumers. Research by [Forrester](#) found that 62 percent of businesses that offer omni-channel capabilities do so because of customer expectations, while 55 percent see omni-channel as a way to keep pace with competitors.

When asked to rank different omni-channel capabilities in terms of strategic importance to their businesses, top mentions included:

Buy online, pick-up in store	56 percent
Buy in-store, ship to customer (from a distribution center or another store)	49 percent
Making real-time in-store inventory information available online	46 percent
Buy online, ship from store	44 percent
Next Day Delivery	38 percent

The good news is that top retailer priorities closely align with top consumer preferences. And more good news—the bulk of omni-channel solutions revolve around a key asset retailer's already have in place—their physical stores. As

global consultant [AT Kearney](#) found in its "2014 Omnichannel Shopping Preferences Study," stores play a crucial role in online purchases, with two-thirds of customers using a store either before or after the transaction.



Source: AT Kearney

The goal for retailers then, is to adapt to the “new normal” of omni-channel, by creating a unique experience that meets customer expectations, but that also allows a retailer to maximize existing assets and processes, thereby achieving dual goals: Increased customer satisfaction and increased operational efficiency.



# Omni-Channel and Your Supply Chain

Once retailers realize the importance, and the inevitability of embracing an omni-channel, customer-centric sales experience, the logical question becomes: “Now what?”

Indeed. Many businesses have found themselves flummoxed by the reality that customer-preferences are now driving transactions, but that traditional supply chains have not necessarily kept pace. “If you’re a supply chain executive, you’re working in an environment that’s a total flip flop,” is how Doug Ceva, of industrial real estate developer Prologis said in a [World Trade 100](#) article. “Do I put a separate ecommerce supply chain in?,” he continued. “Do I work with my current supply chain and service both my brick-and-mortar assets and ecommerce from there?” “Should I break off parts of my existing infrastructure and move ecommerce out of there?”

“That’s the kind of soul-searching we’ve been seeing,” Ceva added.

These sentiments seem to typify supply chain managers’ initial reactions as the realization sets in that a major supply chain overhaul will be needed to adapt to a new omni-channel platform. Fortunately, these questions and uncertainties can gradually be alleviated, as managers realize that solutions are available; that an experienced logistics provider can help smooth the transition; and that the pain of revamping their supply chain will pay off in the long run with satisfied customers and improved efficiency.

## Inventory Management

For the most part, buyers appreciate the ability to purchase, and then take delivery of products across any number of convenient venues. But for sellers, making this possible is among the greatest headaches. How do you manage inventory so that it is where it needs to be at the exact right time? And how do you make inventory available across all channels, without incurring excessive carrying costs? And perhaps most important, how do you fulfill customer orders in the least expensive, least disruptive way possible?

## Inventory visibility

The answer to these questions, depends on the degree of visibility a business has in its supply chain. A highly visible supply chain will allow a retailer to know—with exact precision—where a product is located. Easier said than done for many businesses. This is because many businesses maintain parallel fulfillment operations for retail stores and ecommerce operations, with separate distribution centers, replenishment processes, and sometimes even separate inventories.

“With separate systems and separate inventory stocks in place,” notes research by [Chain Link Research](#), “stores have no visibility to the inventory in the other channels and vice versa. Each store usually has visibility to only the inventory at [its] own location. If they are out of stock in the store, the store associate does not have the visibility or tools to check available

inventory at other stores, or across the network of other stocking locations—distribution centers, logistics providers, or inventory at the manufacturer that is available to fulfill an order.”

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Source: [Chain Link Research](#)

The key is finding a way to integrate all systems so that employees—and customers—have visibility into inventory levels and locations. And like so much in today’s modern supply chains, visibility is possible through technology.

Businesses have a plethora of technology solutions to choose from, at a variety of price points. Many businesses are satisfied with off-the-shelf software, or cloud-based offerings, while other businesses may opt for a customized solution. While each business will have unique needs, visibility goals must include:

- Real-time data updates with regard to merchandising systems
- Create and ship transfers to store
- Facilitate movement of products to meet consumer needs
- Inventory updates from point-of-sale systems
- Advance notifications of all inbound merchandise
- 24/7 stock counts
- Initiate in-store stock replenishment
- Process “return to vendor” orders for product returns, both those eligible for resale, and those that are unsellable.

### Ship-from-Store

Many retailers are leveraging perhaps their greatest assets—physical location and close proximity to customers—and turning them into mini-fulfillment centers. The concept is known as “ship-from-store” and [EKN Research](#) predicts that nearly three-quarters of all retailers will soon be using their stores as “delivery hubs.”

The concept is actually very simple. A retailer will use inventory from its physical stores to fill eCommerce orders. An online order will be routed to a local store, where inventory records indicate the desired item is available. Retail store employees wear the added hat of “fulfillment agent,” and pick the purchased item from the store shelves, pack it up and send it on its way.

75%

of the retailers will use their store as a delivery hub for online orders by 2015

Source: [EKN Research](#)

Source: [EKN Research](#)



But, a process must be in place to ensure that merchandise used to fill online orders does not deplete inventory for store customers. Striking the right balance involves a highly accurate forecasting capability, trained employees who are meticulous about capturing inventory data, and an appropriate technology solution.

"We're still in the early days of this retail tug-of-war," one industry expert wrote in a [Daily Finance](#) analysis. "Some of the big names in retail have adopted ship from store, although many are still relatively new to the game. And again, dealing with inventory is tricky, so it'll probably take some time for even the most grizzled retail veterans to find the fulfillment center/store warehouse mix that works for them."

Ship-from-store was initially embraced by leading fashion retailers including Macy's, Nordstrom, Gap, Saks and Ann Taylor. But a growing number of non-apparel chains—Canadian Tire, Best Buy, [ToysRUs](#), and [Walmart](#)—have implemented the concept.

### Ship-to-Store

Not only are retail stores being called into duty as ecommerce fulfillment centers, but they are serving as delivery hubs as well. The option appeals to both buyers and retailers: Buyers not interested in paying shipping fees can opt to pick up their products at a local retail store, and retailers not willing or able to offer free shipping, can instead allow customers the convenience of having their package packed and ready at a local physical store. Retailers also benefit from upsell

opportunities, since consumers may choose to do additional shopping while in a store to pick up their online purchase.

Any omni-channel fulfillment strategy will trigger numerous questions and considerations that must be addressed:

- Will you share inventory across channels?  
How will you purchase inventory and determine demand for each distribution center or channel?
- How will you promise available inventory?  
Will you fulfill an order from anywhere (distribution center, store, etc.)? Can your point-of-sale system support a ship-from-store strategy? Do you have the labor and space in your retail store to execute in-store fulfillment?
- Can your customers return products anywhere?
- How will supply chain services be performed including picking, packing, labeling?

### Distribution/Transportation Considerations

Omni-channel, and its emphasis on fluid inventory and flexible shipping and delivery options, will necessarily force deep analysis of existing distribution and transportation processes.

Top considerations include:

- Ecommerce-driven surge in multiple small package shipments, each in need of delivery to a private residence or small business, often located in remote regions;

- Challenge of having “just enough” inventory in the right place at the right moment, to meet in-store sales, as well as “ship-to-store” and “ship-from-store” commitments.
- Pressure to adapt to the new world order in which customer preferences are driving businesses’ supply chains. Key customer expectations? Namely, fast and *free* delivery service, with little tolerance for late arrivals.
- Pressure for retailers, who often do not have enough distribution centers or the bandwidth to absorb the costs of offering free shipping.

The challenge then, is for businesses, operating on razor thin margins, to offer Cadillac levels of service, for very little cost to their customers. “Most retailers are trying to figure out the ecommerce model,” [says](#) Huw Thomas, CEO of Alberta-based mall developer Calloway REIT. “There are very few significant-size retailers that have profitable eCommerce businesses. The delivery component of the eCommerce equation is a very, very expensive piece of the puzzle because, in essence, you’re matching the prices that you have in a physical store, but you’re delivering for free sometimes very substantially-sized products to a consumer.”

The good news? It can be done. Among the current “best practices” businesses are using to meet today’s transportation/distribution challenges:

### Rethinking the TMS

Flexibility, scalability and adaptability—three words that are often used to describe critical components of an omni-channel transportation management system (TMS). Today’s successful supply chain allows a business to schedule transportation based on its needs, rather than be locked into a rigid “one size fits all” service schedule dictated by its traditional service provider. Instead, today’s TMS has many moving parts, with technology being the glue that holds everything together. One industry [expert](#) defines today’s TMS as a “holistic” system that “allows retailers and manufacturers to gather facts about current and future orders, and then make the best possible judgment that combines low price with high service. As business conditions change, this process is repeated to ensure that shippers are always making the right choice for the current environment.”

### Shared Assets

Once unthinkable, a growing number of businesses are taking control of transportation costs by reaching agreements with companies with similar supply chain needs—usually competitors—to share distribution centers, truck space and other assets. The practice, known as “horizontal collaboration” or “collaborative shipping,” allows companies to reduce costs on distribution, delivery and even backhauling costs. Among the companies currently collaborating: [French](#) food giant Danone and probiotic drink manufacturer Yakult have shared a Tokyo distribution center since 2011. Another [example](#):

U.S. chocolate manufacturers, the Hershey Co. and The Ferrero Group in North America have shared warehousing, transportation and distribution processes and assets, also since 2011.

Businesses interested in integrating horizontal collaboration solutions into their supply chains should be forewarned though. It's not for everyone, and it's hard work. According to the "[North American Horizontal Collaboration in the Supply Chain Report](#)," produced by supply chain research group [Eyefortransport](#), top concerns for businesses include:

- Fear of information disclosure;
- Lack of clarity over who's in charge;
- Lack of widespread acceptance of ideas;
- Difficulty finding appropriate partners; and
- Difficulty starting trusting relationships.

### **Last Mile**

With ecommerce requiring delivery to consumers' homes and local business addresses, critical last mile delivery capabilities have been in the spotlight. According to the Financial Times, last mile services can account for [75 percent](#) of total logistics costs. In Canada, last mile services are exacerbated by the difficulty in reaching outer-province addresses, especially in very sparsely settled areas. And, once an address is identified, it may be necessary to make multiple delivery attempts, if no one is available when the initial attempt is made.

# Bringing it all Together—Choosing the Right Logistics Provider

Retooling a supply chain to meet the realities of the omni-channel market can be a daunting undertaking. Businesses are literally bombarded with emails, trade publications and direct solicitations from vendors offering to supply “superior” insight about how best to upgrade supply chain functionality.

So how do you know? With so many options from which to choose, how can a business possibly decide which solution is best, and which logistics provider can provide the top-level service it needs?

Following are a few considerations to keep in mind when considering the best logistics partner to add to your supply chain team:

## Single Source/ Comprehensive Solution Provider

Given the complexities of an omni-channel supply chain, it is imperative to have a logistics partner that can offer complete management of the entire process. A qualified logistics provider will offer comprehensive services ranging from order management, inventory management, warehousing, kitting, picking, labeling/shipment preparation, transportation, delivery, and all backend functions including recordkeeping and compliance mandates. And, a comprehensive provider should also provide reverse logistics services, to process merchandise returns.

A single source provider will have 360-degree insight into all processes, and ability to ramp up or scale back services as needed. This is especially helpful for businesses with seasonal sales fluctuations.

## Experience

There is no substitute for experience. And with so many providers from which to choose, it's essential for a business to carefully research a logistics provider before signing on the dotted line. An experienced provider will have documented experience in planning and executing omni-channel logistics plans for other businesses. Unless a provider has been through the process, and knows firsthand what to expect, any claims of “expertise” should be met with skepticism.

## Customization and Collaboration

It's essential to view your logistics provider as a partner. You want to build a relationship based on mutual understanding of your business objectives, priorities and needs. This information sharing can only happen through many, many direct conversations, and ongoing open lines of communication. A qualified logistics provider will use this information to create a customized solution to meet your specific needs.

## Customer Service

Equally important is a high level of customer service. Services should include a dedicated representative with whom you have a personal relationship and direct contact information. Your customer service representative should be fully aware of your supply chain, provide you with regular updates, and know about—and resolve—any snafus or changes before they become problematic.

## Scope of Service

Today's logistics providers are able to offer a range of service options that can be customized to fit a business' precise needs. If you find that a logistics provider is forcing you to adapt your needs to meet its capabilities, it's a good sign that the carrier is not up to the job.

## Technology

Many logistics providers have their own customized technology solutions that integrate with their customers' internal systems. This allows for a seamless on boarding, and allows several critical functions to share data, generate reports, and provide tracking/visibility.

## Conclusion

A retailer considering an omni-channel strategy might consider the following [assessment](#) offered by Martin Priest, eCommerce manager at Lowes Canada. Priest was discussing current omni-channel capabilities and expectations across Canada, and addressed the question: “Why does it exist?,” to which he responded: “It’s complicated, and expensive. But going beyond the complication and expenses, it’s still profitable. . . . You will lose a customer for good if they can’t find what they are looking for.”

And that is pretty much the nut of omni-channel: “. . . You will lose a customer for good if they can’t find what they are looking for. . . .”

A well-managed omni-channel strategy will truly be a win-win for consumers and retailers. Consumers will benefit from the flexibility and convenience of 24/7 shopping capability, and the ability to take delivery of those purchases on their terms. Consumers also benefit from the ability to return an online purchase to a retail store.

But retailers benefit as well. Aside from the obvious opportunity to meet customer expectations, retailers can achieve greater efficiency from heightened visibility and through more streamlined inventory management and distribution processes that are vital to omni-channel success.

And while overall retailer capacity has yet to match consumer enthusiasm, it is clear that omni-channel is here to stay. With the right logistics partner to help lead the way, a retailer can embrace the opportunity, and set itself apart from competitors.

## Purolator. We deliver Canada.

Purolator is the best-kept secret among leading U.S. companies who need reliable, efficient, and cost-effective shipping to Canada. We deliver unsurpassed Canadian expertise because of our Canadian roots, U.S. reach, and exclusive focus on cross-border shipping.

Every day, Purolator delivers more than 1,000,000 packages. With the largest dedicated air fleet and ground network, including hybrid vehicles, and more guaranteed delivery points in Canada than anyone else, we are part of the fifth largest postal organization in the world.

But size alone doesn't make Purolator different. We also understand that the needs of no two customers are the same. We can design the right mix of proprietary services that will make your shipments to Canada hassle free at every point in the supply chain.

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### For more information:

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