

# Develop An Omnichannel Competitive Advantage

## How An Integrated Platform Drives Supply Chain Excellence



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Most retail business are set up to serve yesterday's customers: the ones who used only one channel, patiently waited for a catalog order to arrive, and were often aware only of those products offered by their favorite retailer.

Today's customers are drastically different: They are well-informed, impatient and regularly use several channels, sometimes for the same transaction. They expect every shopping experience to be the same as their best shopping experience.

Shifting the business to support this new consumer requires adopting an omnichannel approach. But making that shift is challenging — particularly with a merchandising and supply chain infrastructure that is siloed and lacks data transparency.

This white paper outlines the benefits of a broad integrated technology platform and the need to reevaluate organizational structures and processes so retailers can create the flexible, customer-centric, omnichannel-capable supply chains required to serve today's empowered consumers. In an era when speed and responsiveness are table stakes, an integrated platform is a business basic for any retail organization that calls itself truly omnichannel.



## Upping The Omnichannel Ante

As online pure plays continue to create even higher consumer expectations, retailers with legacy, channel-focused supply chains struggle to optimize their inventory to sense and respond to demand quickly and efficiently.

The need for an integrated platform is essential to answer the omnichannel demand today and as it evolves. In fact:

- Retailers' top cross-channel fulfillment challenges are: unpredictable consumer demand (43%) and competitive pressures to fulfill faster (41%).<sup>1</sup>
- 62% of retail winners cite lack of inventory and order management integration across channels as an inhibitor vs. 47% of other retailers.<sup>2</sup>

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## How An Integrated Platform Overcomes Barriers To Omnichannel

Many retailers' omnichannel challenges stem from their channel-centric, inflexible back-end infrastructure.

"Fortunately, there are technology tools available in the marketplace to support advanced planning that incorporates customer insights and trends, cross-channel integration, competitive information, and real-time data," explained Boston Retail Partners in its *2015 Merchandise Planning Survey*. "However, technology is only a part of the solution — to truly offer customers a seamless experience across all channels requires alignment of the organization and processes to support the technology solution."

Transitioning to an integrated platform and realigning the organization and associated processes removes significant barriers to omnichannel:

### **I** Stranded Inventory To Pooled Inventory

One of the fundamental flaws of traditional systems stems from the way they treat inventory. When each sales channel operates with its own merchandising team and software, inventory "belongs" to that channel and is maintained in a separate data store. Other channels cannot access this merchandise to fulfill demand. Each channel also tends to build in its own safety stock.

<sup>1</sup> RSR Research, *Profitable Customer Engagement: The Unmet Promise*, May 2016

<sup>2</sup> *Ibid*

As a result, inventory may sit and ultimately need markdowns in one spot when it could have sold sooner at full price in another channel. Retailers hesitate to send excess inventory to a store, since they can't access it easily to move elsewhere, and it's more difficult and costly to fulfill online orders from the store.

Further adding to the problem, often this siloed data is stored in spreadsheets. In addition to being disconnected from any business repository, spreadsheets are highly error prone and each tends to be managed differently from the next.

By creating a virtual warehouse, retailers can see all inventory, balancing the need to reserve inventory by channel with the capability to shift that stock to keep up with changing demand patterns. A virtual warehouse also allows stores to stock a less-than-full presentation of an item, then rapidly order and receive the out-of-stock size, cuts or fabric by a promised date, or direct ship it to the customer.

Best of all, an aggregated inventory reduces the retailer's total inventory investment.

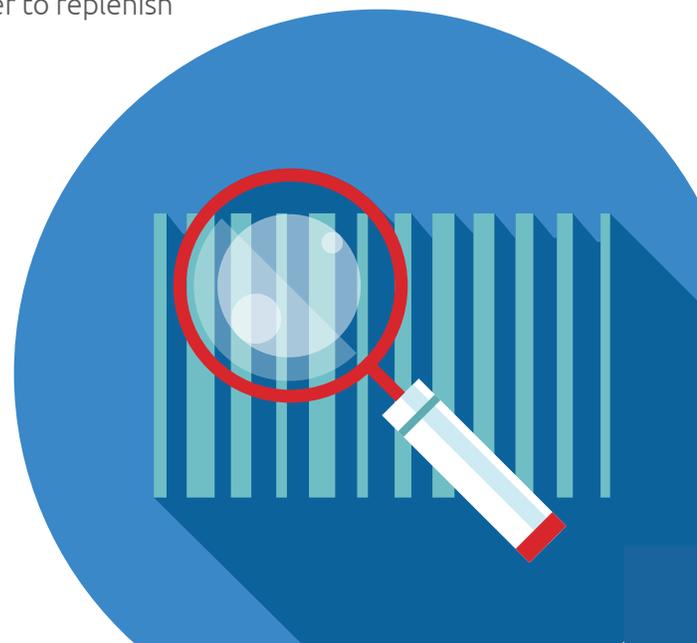
## II Siloed Orders To Consolidated Orders

When channel-specific teams acquire goods independently, retailers are unable to roll up orders into a single purchase to streamline the supply chain and access best prices.

A well-designed, integrated platform enables retailers to plan, allocate and replenish goods using the practices and metrics that make sense for that channel, but then consolidate the retailer's buying power into a single purchase order.

**Case in point:** One luxury retail brand with strong e-Commerce, catalog and brick-and-mortar channels as well as wholesale was able to take advantage of a centralized view of inventory and demand. Through Logility Voyager Solutions™, the brand can now forecast store inventory demand daily down to the SKU level, then expose those needs to central PO processing and issue a single purchase order to replenish all channels.

An integrated platform enables retailers to plan, allocate and replenish goods using channel-specific practices and metrics.



### III Limited Visibility To Extended Visibility

Many retailers claim supply chain visibility, but in reality can see only one level up the supply chain. That can directly impact customer service, from preventing retailers from promising a delivery date to delaying response to shifts in demand.

“Lack of inventory visibility plagues a majority of retailers,” explained Retail Systems Research in *Profitable Customer Engagement*. “At RSR, we have seen this in every omnichannel study we’ve undertaken: in some studies, retailers report they don’t even have visibility into inventory at their own distribution centers!” The study found retail winners more interested in flexible enabling technologies (56% vs. 45%) and better inventory visibility (38% vs. 31%) than their peers.

When retailers can see all the way up the supply chain, they can perform more meaningful evaluations of trends, test what-if scenarios, affirm their merchandising intuition and identify the root cause of problems. A powerful, integrated platform enables retailers to replicate what the best planners can do by building their insights into the planning model.

### IV Planning In A Vacuum To Rapid, Business-Aware Merchandise Planning

Using legacy tools to plan separately by channel drives up inventory costs and markdowns and makes it harder to satisfy today’s demanding customer.

For example, some retailers have configured these solutions to treat online or kiosks as just another store, which prevents them from being planned according to their own unique properties, requirements and metrics.

Legacy systems also require many weeks of item history to predict demand. That no longer works in today’s rigorous omnichannel retail environment.

A well-designed, integrated planning platform is flexible enough to allow the retailer to plan each channel according to its own unique business processes and easily aggregate them to get a picture of the total business. This is key to respond to changes and keep plans in sync across channels. For example, when a hurricane is forecast to impact a particular region, merchandisers can get a complete picture of inventory positions and how sales by channel may be affected, and respond accordingly, all the way back through pending orders.

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At the core of all these capabilities is the ability to revise projections quickly with much less data than what's required by legacy tools. Today's advanced algorithms can dynamically update projections very quickly by, for example, relating the style and color of an item to a class trend. Modern solutions also enable retailers to automate many replenishment tasks, freeing merchandisers to focus on more challenging items. Redundant tasks can lead to increased employee turn, forcing retailers to hire entry-level talent. Through automation, retailers are able to retain and improve the efficiency of their staff, and allow merchandisers to grow in their roles and increase their expertise.

Planners can use these more powerful tools to create presentations highly tailored to the needs of each store — even combine multiple store profiles for a temporary site such as a kiosk. They can also create alternate hierarchies or attribute-based plans to respond to demand in a way the consumer may see as relevant, such as lifestyle or event buying.

## **V** Static Allocation And Replenishment To Dynamic Allocation And Replenishment

Another issue stemming from siloed systems is the inability to position inventory correctly according to demand.

Inventory may sit in a distribution center (DC), inaccessible to other channels, or be pushed out to stores according to static, aged forecasts that don't bear out. To avoid the high cost of transfer, they mark it down instead.

Older systems also typically take a static approach to distribution: Stores assigned one DC cannot be supplied from another, even if that is the most efficient decision for a particular order.

A well-designed, integrated platform enables retailers to take a more dynamic, intelligent approach to allocation and replenishment tasks.

**Case in point:** One fast fashion retailer's SKUs sell for just eight weeks before the first markdown. Previously, the retailer would initially ship 70% of a new SKU to stores, but that made it much harder for other channels to access and more costly to transfer.

After deploying Logility Voyager Solutions, the retailer now initially ships 40% to 50% of a new item to stores. Using the integrated platform from Logility, it monitors sell-through and replenishes based on actual demand-pull, delivering just what is needed multiple times a week. Projections are highly granular and store-specific, driving better sell-through and reduced markdowns.

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## VI Product-Centric Organization To Flexible, Customer-Centric Organization

Many retailers set up their businesses not just around channels, but around products. Today's retail model is all about customers: sensing what they like, where and how they want to buy, and making sure retailers can meet their fluctuating expectations.

This means retailers need to redesign their processes, organizational structure and technology platform with consumers in mind.

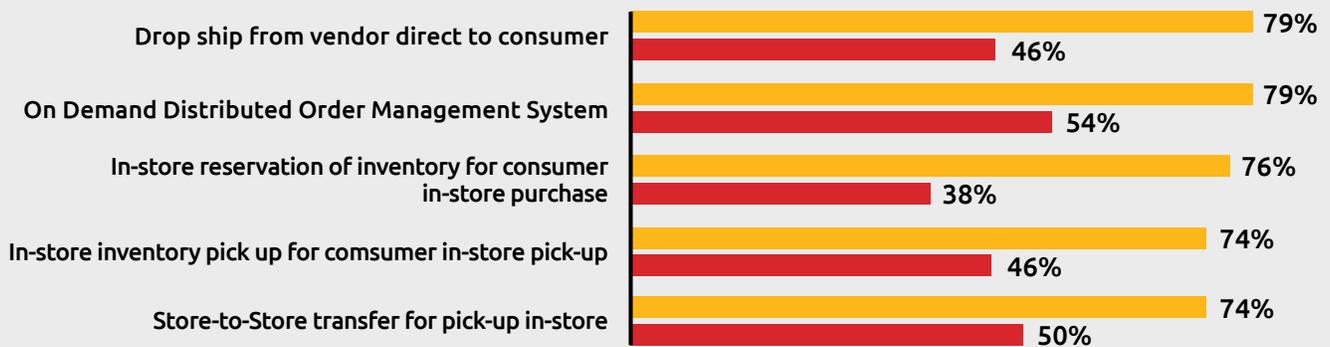
### Key questions include:

- *What is the best way to serve the consumer and ensure the quick availability of goods?*
- *What is the most cost-effective purchasing and positioning of merchandise to accommodate consumer preference for where and how they want to buy?*

Making this shift is difficult, but essential. "Winners stay focused on consumer behaviors while other retailers focus on the competition, to prioritize 'next steps,'" explained RSR Research in *Retailers' Omnichannel Blind Spot: Digital*, August 2016.

## Top Five Omnichannel Processes Processes With "A Lot Of Value"

■ Retail Winners ■ All Others



Source: RSR Research, May 2016

## VII Markdowns To Early Sell-Through And Higher Margins

When demand does not meet forecasts, redistributing inventory is costly and takes time. Sometimes it's less costly to take the markdown, but this does not satisfy the demand surfacing in other channels.

Retailers that can fulfill from anywhere in the supply chain, including the store, can serve customers fastest and make the most efficient use of inventory, which typically equates to higher margins.

"The ability to intelligently position inventory represents an untapped opportunity to maintain margin," revealed RSR in its *Profitable Customer Engagement* report. "Almost no respondents believe that the objective of their cross-channel fulfillment strategy is to mitigate out-of-stocks, or to keep product margin high. This points to a potential blind spot in retailers' omnichannel strategies. While it is admirable that retailers remain fixated on customers...retailers appear to be ignoring operational issues almost to their detriment."

## VIII Arms-Length Interaction With Vendors To True Collaboration

Retailers are not the only parties impacted by limited visibility; vendors also must hedge their bets to ensure they have the right production plans and inventory levels to support all of their customers.

When retailers gain better supply chain visibility, they also improve their ability to collaborate with vendors. When vendors can access consumer demand information more quickly, they can more likely fulfill those needs. Vendors tend to supply retailers that collaborate with them better than those that do not.

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– RSR, *Profitable Customer Engagement*



## **IX** Internal Competition To Cross-Department Collaboration

When each channel is managed by different teams with different compensation structures, the retailer's processes often drive them to compete rather than cooperate when faced with an omnichannel customer. *Who gets credit for a sale? Who gets stuck with the excess?*

"Historically, planning teams have been aligned around product categories by channel," observed Boston Retail Partners in its *2015 Merchandise Planning Survey*. "Unfortunately, this does not work with the omnichannel model of retail in which sales are planned across the enterprise. It also creates misaligned goals where a planner puts the success of his or her channel ahead of the success of the company as a whole. Further, valuable lessons learned in one channel may not be shared with, and benefit, another. In order to achieve the synergies of omnichannel retail, planning organizations must be realigned, and sometimes consolidated, in order to create a more proactive and nimble organization."

A retailer that successfully adopts a fully integrated omnichannel platform also shifts its organization so one group manages and is rewarded for the sale of an item no matter which channel it is sold in, eliminating competition for inventory.

A well-designed platform also makes merchandisers' jobs more interesting and fulfilling. By applying established business rules via automated replenishment, merchandisers can focus on higher-stakes SKUs. The fast fashion retailer cited previously found enhanced job satisfaction just as important as high accuracy, good quality and fast product flow in attaining its omnichannel goals.

"Historically, planning teams have been aligned around product categories by channel."

- Boston Retail Partners,  
*2015 Merchandise Planning Survey*



## Case Study: Sizing Allocation And Replenishment Gets Granular For Sports Brand

Spreadsheets made it too cumbersome for a leading sports brand to customize size assortments for 500+ apparel SKUs across 150 stores. So the brand was forced to allocate and replenish using target stocks, revisited just twice a year, which resulted in stale inventory in some locations and excesses in others.

By integrating the size assortment tools in Logility Voyager Solutions, the retailer's allocations staff can customize sizing assortments down to the individual store level. Daily data on what's moving enables the team to readjust levels in real time based on store requests, events and the like, to drive the next day's replenishments.

"We were kind of blind before on target stocks," said the line's allocations manager. Now, "We can go in and play with the data and know that each size and each store level will be taken care of automatically," with spot checks confirming the data.

The Logility solution also enables the brand to optimize store clusters and maintain proper fill sizing.

"It helped our accuracy tremendously," she added.

"We're not flooding the stores with inventory anymore, and we can evaluate the numbers to make sure our inventory is optimized at all times."

## Conclusion: An Integrated Platform Is An Omnichannel Enabler

In the fast-evolving era of omnichannel, many retailers fear they are not moving fast enough. Consumers are educated about products, have instant access to information and will be drawn to merchants that offer the best experience. But legacy infrastructure, processes and organizations are holding back retailers.

"The retailers who persist in shielding their legacy systems from the requirements of the new environment are only delaying the inevitable," reasoned RSR in *Blind Spot*. "And in the meantime, their peers become faster and more flexible — and more able to maintain competitive advantage over time."

Only by moving to an integrated platform and realigning their organizations around a true omnichannel framework can retailers attain the flexibility and visibility they need to respond nimbly to constantly changing customer demand. The right platform enables retailers to replace inventory with information, reduce overall inventory levels, preserve margins and provide a satisfying omnichannel brand experience to their customers.

## Want To Learn More?

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With more than 1,250 customers worldwide, Logility is a leading provider of collaborative supply chain optimization and advanced retail planning solutions that help small, medium, large, and *Fortune 500* companies realize substantial bottom-line results in record time. Logility Voyager Solutions is a complete supply chain management and retail optimization solution that features a performance monitoring architecture and provides supply chain visibility; demand, inventory and replenishment planning; Sales and Operations Planning (S&OP); Integrated Business Planning (IBP); supply and inventory optimization; manufacturing planning and scheduling; retail merchandise planning, assortment and allocation; and transportation planning and management.

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