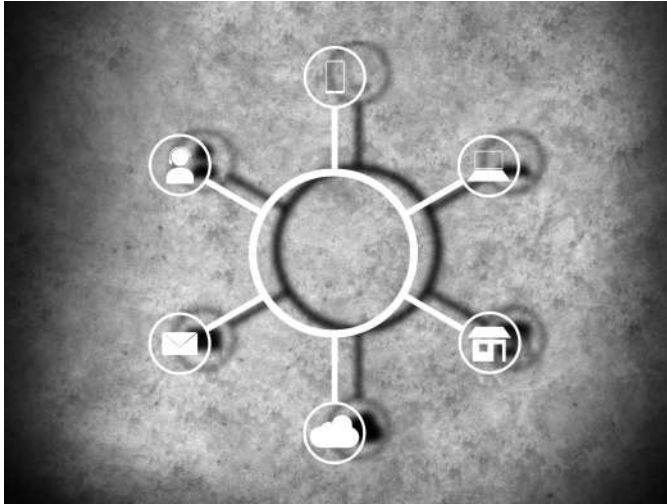


The Dark Side of Omni



The so-called “Retail Apocalypse” is over and Omni-channel Retailing (a.k.a. Unified Commerce) remains a hot topic. Brick & Mortar stores are once again the single most important brand touchpoint a Retailer has. Digitally native brands have opened physical stores to compete more effectively for the hearts and wallets of the Consumer, while traditional Retailers work to reinvent themselves and stay relevant in this new world. Specialty Retailers are working it hard to delight the Customer, regardless of

which channel they use for purchase, recognizing that their B&M and digital (E-com) channels are co-dependent. Once-fresh terms like “endless aisle” and “BOPIS” are commonplace. So the future of Retail must be bright once more, right?

Omni-channel Retailing: the downside



by Dave Loat
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Omni-channel retailing has a dark side that has the potential to destroy the very thing that it was intended to address in the first place – namely to drive consistency in Customer Experience across channels. What is this dark side? Simple – while most Retailers now have common offers across channels, very few have a common approach to how they incentivize across those channels.

Every transaction in the Omni-channel universe has two stages: demand generation and order fulfillment. In the past, both stages of each transaction were limited to a single channel. 10-years ago, a customer entering a store would work with an Associate to identify what they wanted to buy (demand generation) then take it to the cash to pay for it (order fulfillment). The Store would receive credit for the purchase and the store management and staff would be compensated accordingly. Store sales would be used to forecast sales for the next year, and that sales forecast would be used to fund the labor spend.

Demand

In today's world, demand can be generated online and fulfilled from a store either via BOPIS or shipped from a store. Demand can also be generated in-store and fulfilled from a DC or from another store. In these cases, both demand generation and order fulfillment require store labor. So who gets credit for the sale? How is the labor funded?

Available capacity

Specialty Retailers believe stores have some level of Available Capacity to perform some of these Omni-channel tasks without being given additional labor. But how much? When digital represented 3-5% of a Retailers' sales, any related in-store activity was absorbed without much thought. In today's world, digital can represent 20-30% of sales. The in-store tasking related to those sales exceeds whatever Available Capacity might exist in stores.

Returns

Add returns from digital channels to this mess and you complete the picture. More than 85% of all digital returns for a Specialty Retailer are completed in-store. Even today, many Retailers lack the ability to separate these returns from B&M returns. The result? The store's net sales include digital channel returns. And because historical net sales are used to forecast future sales and fund future labor spend, the impact of not isolating digital returns from B&M sales is a double-edged sword.

More often than not, the net impact of Omni-channel activities on stores is:

- Stores spend labor processing digital returns but are rarely funded for this activity. In addition, those returns are netting off from their store sales, which reduces their labor budget in future periods.
- Stores spend labor on both BOPIS and ship from store activities, but neither are funded in their traditional labor budget.
- Stores are incented on net B&M sales – these generally exclude BOPIS and ship from store activities, but often include a negative impact digital return – something the stores have no control over.
- Store management and staff are not given any credit for BOPIS or digital sales, despite a clear link proving that opening a store in a new market will drive digital sales in that market.

The net effect? Store management and staff will view the digital channel as both competition and threat. Ultimately, store management will be reluctant to embrace Omni-channel selling, which will negatively impact the Customer Experience.

If it isn't changing, it's trending

Retail is constantly evolving and solutions to existing problems are being tested every day. While there is no absolute consensus on solutions, the trends we are seeing our clients take in the market include:

- Forecast the Available Capacity for each store and day. Feed that metric to your OMS for use in the decision tree when deciding which store to drop a Pick & Ship order.
- Report on each store as a Market with multiple channels:
 - Geolocate each digital order to the nearest store and report on the digital sales and returns as a channel within each store.
 - Isolate B&M transactions and returns, and report sales and returns as a separate channel.
 - Accumulate both digital and B&M sales into the store's Market sales.
- Allocate Non-sell hours specific to required BOPIS and Pick & Ship activities.
- Consider compensation for store management on Market sales instead of just B&M sales.

To succeed in the future, Retailers must address this last piece of the Omni-channel puzzle. Everyone in your organization must understand and support the goals and objectives of Omni-channel activities (including how they are incentivized) in order to drive a consistent Customer Experience.

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