Retailers Invest to Efficiently Fulfill Cross-Channel Customer Demand

by Robert Garf and Fenella Sirkisoon

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Retailers will invest significantly in cross-channel inventory visibility and customer order fulfillment technology in the next two years to increase shopper conversion rates and operational efficiency.

The
Bottom
Line

Executive Summary

The evolving relationship between a retailer and its suppliers and consumers is driving change. Because retailers are expanding their offerings and tapping into global resources, the supply chain has become more complex. Merchandising organizations are dealing with more items, localized assortments, and reduced inventory. At the same time, retailers must focus on creating a consistent and superior shopping experience for the lucrative cross-channel consumer. In light of this dynamic backdrop, they are forced to consider innovative technology that creates data transparency and process automation among each point of customer interaction and the entire supply network.

To better understand how retailers will address cross-channel opportunities, AMR Research interviewed more than 50 Tier 1 retailers across segments on how they plan to leverage cross-channel inventory visibility and customer order fulfillment software. This Report provides a detailed look at current retailer capabilities, future technology investment plans, the importance of visibility and order management to the business, and the expected benefits.

Retailers must cater to the cross-channel shopper

Cross-channel consumers are extremely valuable, with many retailers striving to create a superior shopping experience for them. Our surveys have shown that these shoppers typically spend nearly 30% more than their single-channel counterparts. Customers that order online and pick up in the store will increase their market basket by 58%, on average, once in the store. Other industry data underlines the significant benefits from coordinating highly complex visibility and fulfillment processes among stores, online, catalog channels, and network of suppliers, warehouses, and partners:

- **REI** reports that customers who pick up online purchases in store spend an incremental $90 on average.

- **Sears** announced that 40% of online hardline sales are picked up in store.

- **Best Buy** sees 40% to 50% of its in-store purchases influenced by research online.

- **Coldwater Creek** reports that its triple-channel business strategy resulted in net income growth of nearly 94%, as well as higher net sales and a solid, double-digit increase in same-store sales.

- At a specialty office supply retailer, a cross-channel shopper is worth 4.5 times as much as a single-channel shopper.

- 9% of overall sales at an apparel retailer are derived from customers purchasing products that weren't physically stocked in that particular location.
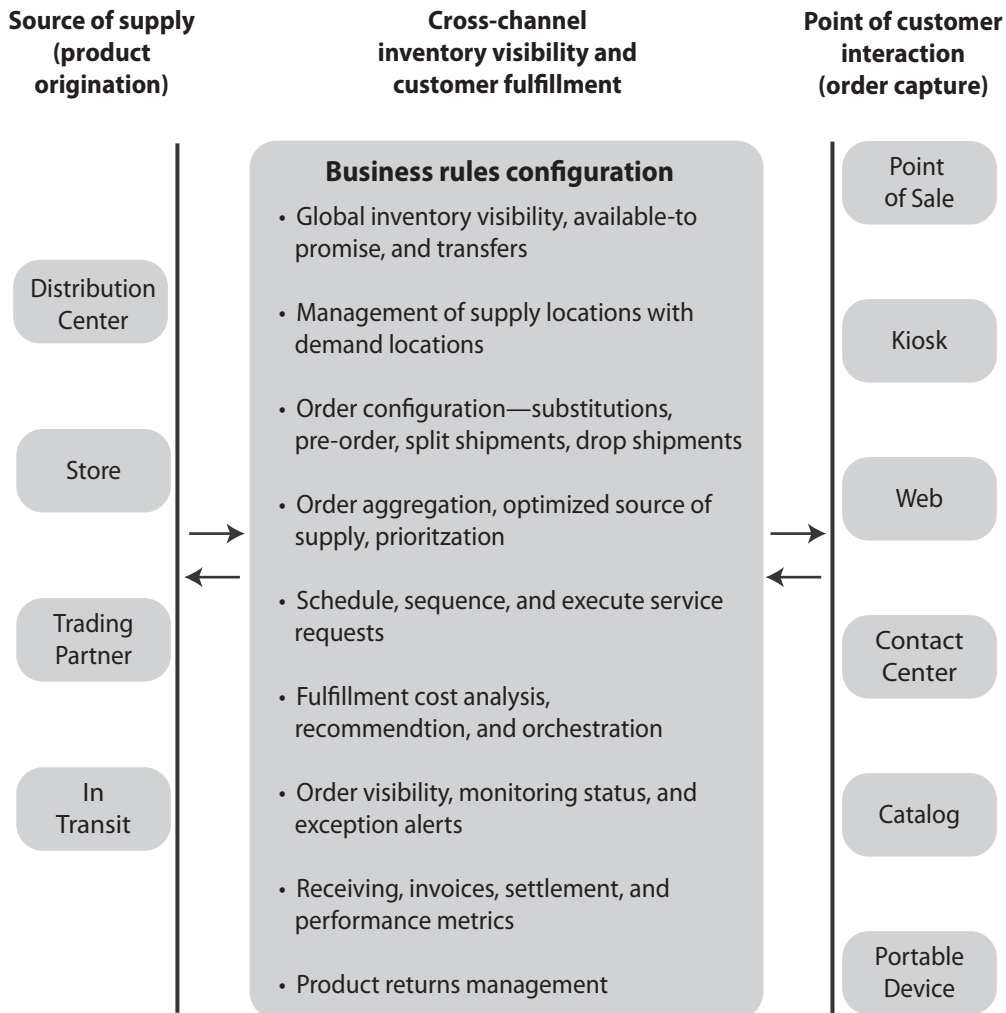
Defining the software category

Cross-channel inventory visibility and customer order fulfillment software enables a retailer to efficiently manage the full lifecycle of an order by doing the following:

- Providing access to product availability across multiple channels, locations, and suppliers

- Cost-effectively managing the aggregation, prioritization, status, and delivery of orders to any point of customer interaction (see Figure 1)

A relatively new breed of packaged software applications is available to achieve integrated fulfillment execution from source to consumption that will allow retailers to replace custom-built applications, hard-coded integration among disparate technologies, or cumbersome manual processes. These platforms include robust and configurable business rules that enable retailers to manage the entire inventory and customer-ordering processes in a virtually automated fashion.

Figure 1: Cross-channel inventory visibility and customer order fulfullment

| Source of supply (product origination)	Cross-channel inventory visibility and customer fulfillment	Point of customer interaction (order capture)
Distribution Center	**Business rules configuration** • Global inventory visibility, available-to promise, and transfers • Management of supply locations with demand locations • Order configuration—substitutions, pre-order, split shipments, drop shipments • Order aggregation, optimized source of supply, prioritzation • Schedule, sequence, and execute service requests • Fulfillment cost analysis, recommendtion, and orchestration • Order visibility, monitoring status, and exception alerts • Receiving, invoices, settlement, and performance metrics • Product returns management	Point of Sale
Store		Kiosk
Trading Partner		Web
In Transit		Contact Center
		Catalog
		Portable Device

Source: AMR Research, 2006

Retailers are not living up to their potential

Retailers indicated inventory visibility and customer order management as business imperatives. However, there is a significant gap between their importance and companies' abilities to execute at a high level. 71% of participants rated the process for managing cross-channel inventory as important, but only 37% feel like their organization is performing well. For customer order fulfillment capabilities, 67% of respondents cited this activity as important, but only 39% believe their organizations are executing at a desirable state (see Figure 2). The gap is caused by the many retailers playing catch up from their historically siloed channel operations as well as the processes in place that are not performing efficiently.

Figure 2: Importance versus performance of cross-channel inventory management and customer fulfillment

Top 3 box rating on a 10-point scale
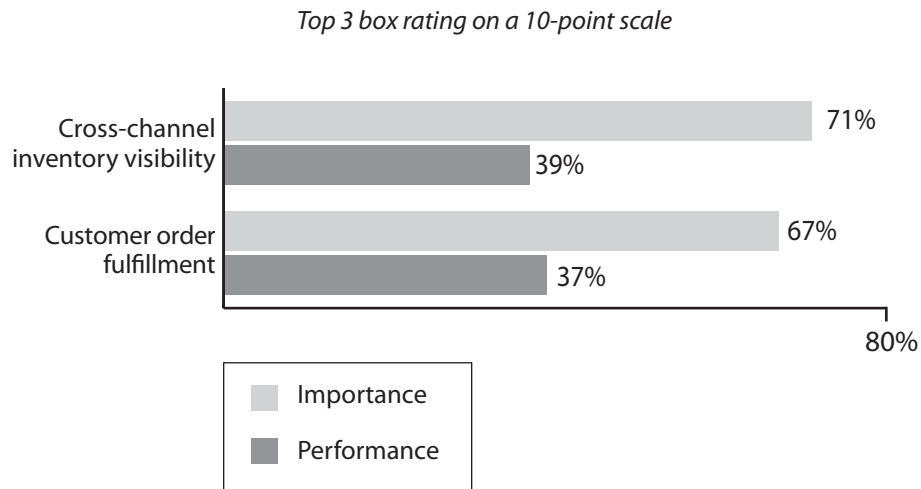
Because of the ease with which an increasing amount of retailers are allowing consumers to interact with them across channels, consumers are developing extremely high expectations. As a result, there are operational challenges that have serious competitive implications for retailers and their suppliers. Retailers must close the gap between importance and performance in order to improve the overall customer experience.
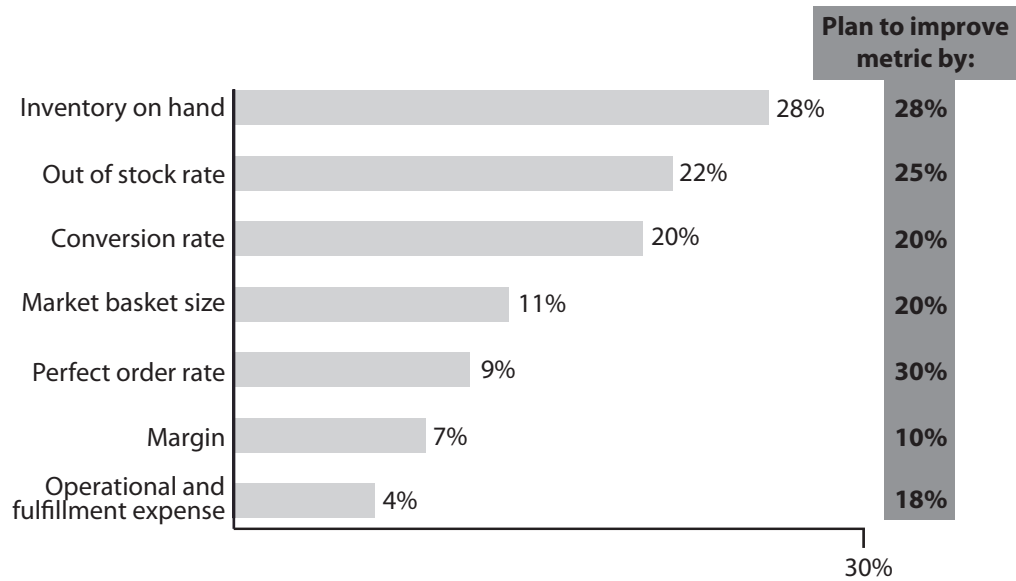
Investments will optimize inventory and increase conversion rates

Retailer respondents cited that inventory on hand, out-of-stock rate, and shopper conversion rate are the top three metrics used to gauge success for inventory visibility and order management functions (see Figure 3 and Figure 4). While the order of importance among these three metrics differs slightly for inventory visibility versus order management, the message is consistent. Retailers never want to walk a sale. At the same time, increasing competition is driving them to expand product and service assortments. However, space constraints on the sales floor and economical constraints in the supply chain demand that retailers find innovative ways to satisfy the consumer by linking resources through the extended enterprise. This environment is causing retailers to focus on optimizing their inventory to ensure that every time a customer searches for a product, whether that be virtually or in a store, they can find it and purchase it.

Survey results support the need for mature cross-channel inventory visibility and customer order fulfillment. Respondents plan to improve inventory on hand, out-of-stock rate, and conversion rate by more than 20%.

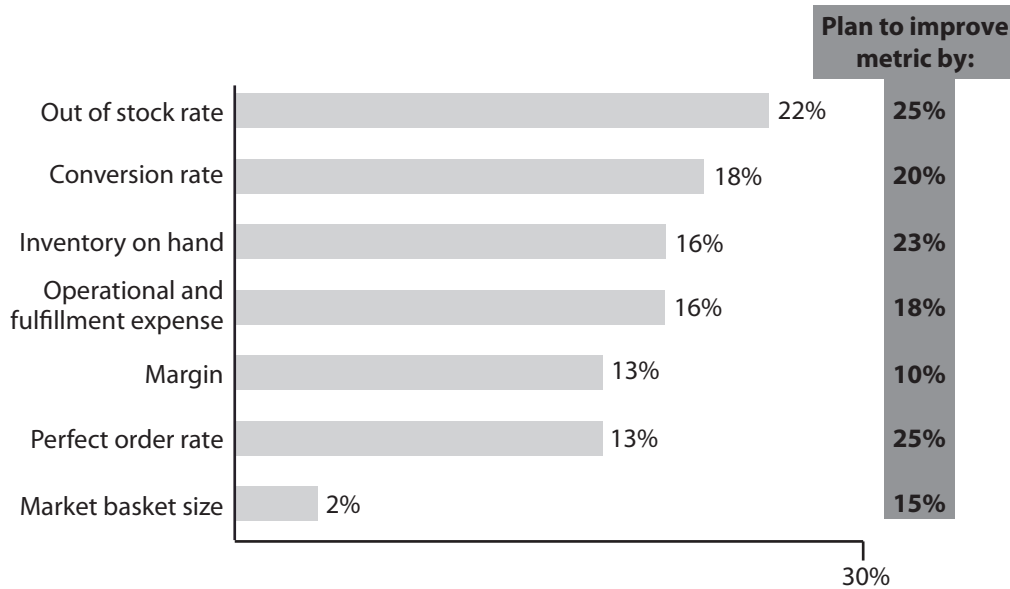**Figure 3:** Expected benefits from cross-channel inventory visibility

*What's the most important metric to gauge success and the
expected improvement within first 12 months of implementation?*

Metric		Plan to improve metric by:
Inventory on hand	28%	**28%**
Out of stock rate	22%	**25%**
Conversion rate	20%	**20%**
Market basket size	11%	**20%**
Perfect order rate	9%	**30%**
Margin	7%	**10%**
Operational and fulfillment expense	4%	**18%**

30%

Source: AMR Research, 2006

Figure 4: Expected benefits from customer order fulfillment

*What's the most important metric to gauge success and the
expected improvement within first 12 months of implementation?*

Metric		Plan to improve metric by:
Out of stock rate	22%	**25%**
Conversion rate	18%	**20%**
Inventory on hand	16%	**23%**
Operational and fulfillment expense	16%	**18%**
Margin	13%	**10%**
Perfect order rate	13%	**25%**
Market basket size	2%	**15%**

30%

Source: AMR Research, 2006

Increased capabilities will enable flexible fulfillment options

As retailers balance their desires to expand product selections with attempts to optimize inventory and increase conversions, they will invest heavily in capabilities to streamline and automate cross-channel data and process integration. Here are three primary ways retailers are creating customer order fulfillment agility:

- **Pick up in store**—While 24% of participants stated the process to allow customers to order online and pick up in store is automated with software, another 25% cited they offer this service, but the process is manual and cumbersome (see Figure 5).

- **Endless aisle**—While 31% of retailers offer in-store customers the ability to place an order for product not in stock at that location by using software to automate the process, 27% have manual and cumbersome methods (see Figure 6).

- **Cross-channel returns**—While 25% of participants allow customers to return merchandise from catalog or online purchases in any store via automated processes, 34% use manual and cumbersome procedures (see Figure 7).

Of those retailers that don't have agile fulfillment capabilities in the three aforementioned areas, approximately one-third plan to implement software within the next 18 months.
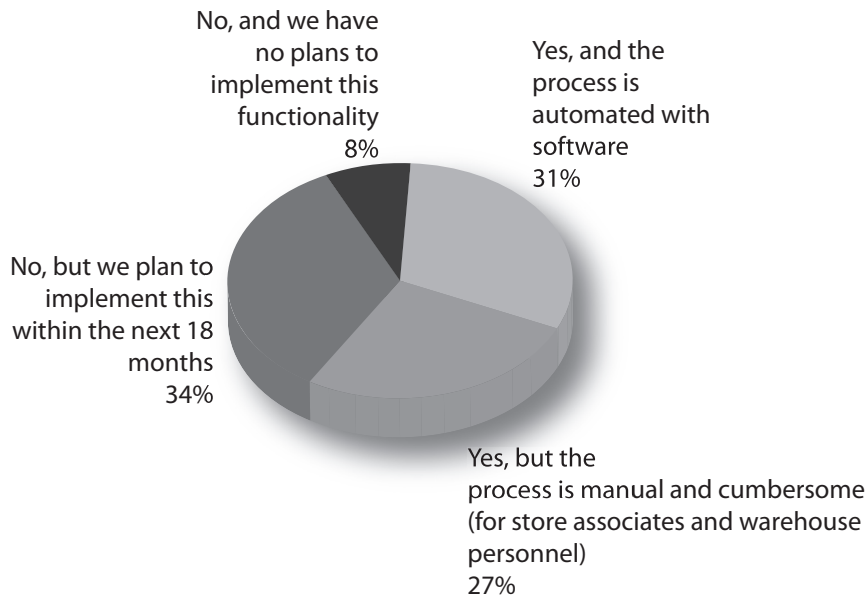
Figure 5: Customer order fulfillment agility—pick up in store

Can a customer order online and pick up at store?

No, and we have no plans to implement this functionality
16%

Yes, and the process is automated with software
24%

No, but we plan to implement this within the next 18 months
35%

Yes, but the process is manual and cumbersome (for store associates and warehouse personnel)
25%

Source: AMR Research, 2006

Figure 6: Customer order fulfillment agility—endless aisle

Can an in-store customer place an order for product not in stock at that location?

No, and we have
no plans to
implement this
functionality
8%

Yes, and the
process is
automated with
software
31%

No, but we plan to
implement this
within the next 18
months
34%

Yes, but the
process is manual and cumbersome
(for store associates and warehouse
personnel)
27%

Source: AMR Research, 2006

Figure 7: Agility with returns process

Can a customer return merchandise from catalogue or online purchases in any store?

No, and we have no plans to
implement this functionality
8%

Yes, and the process is
automated with
software—inventory is
automatically transferred
and accounted for
25%

No, but we plan to
implement this within
the next 18 months
33%

Yes, but the process is
manual and cumbersome
(for store associates, financial
employees, and warehouse
personnel)
34%
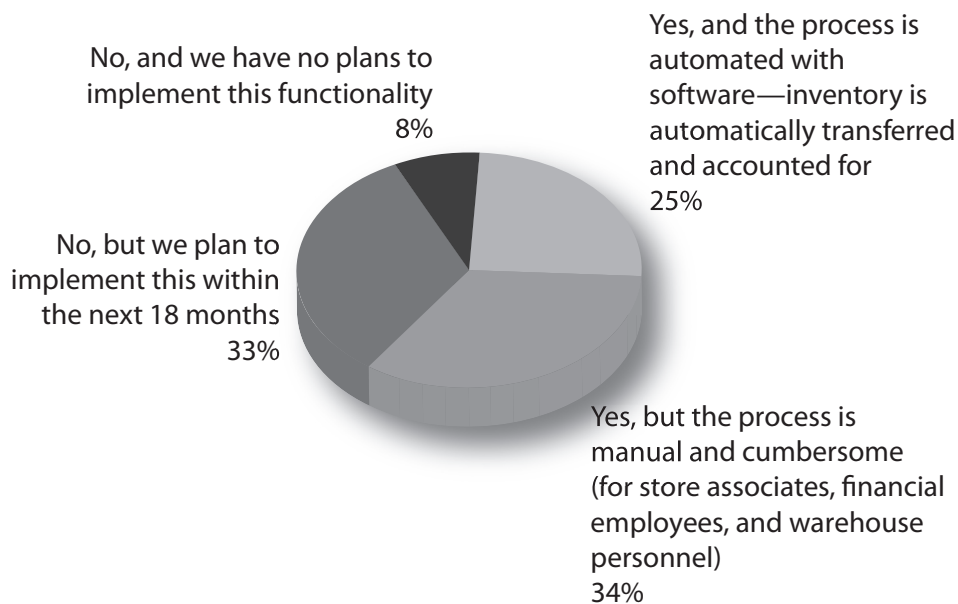
Source: AMR Research, 2006

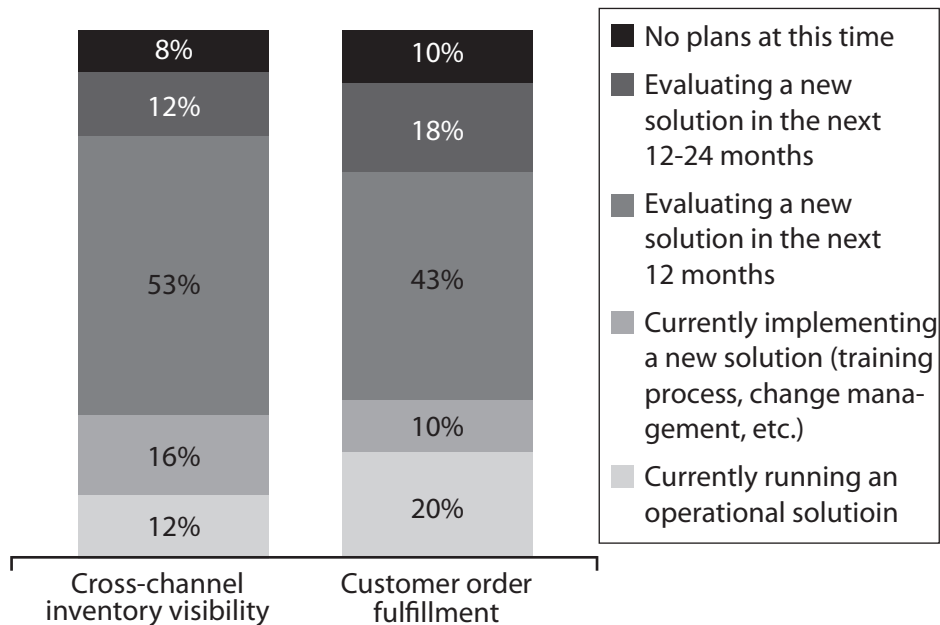# Significant technology investments are planned

Only 12% of organizations are running an operational system for cross-channel inventory visibility, and 20% for customer order fulfillment. Although the current state of technology usage is low, investments in technology that enables more automated and streamlined cross-channel processes is expected to soar. 65% of respondents will evaluate new inventory applications and 61% new order management applications within the next 24 months.

Retailers that participated in the study plan to grow their spending in cross-channel inventory visibility technology by 63% between 2006 and 2007. In 2006, the average spend is $662K, with budgets for 2007 booming to $1.1M. For customer order fulfillment, retailers plan to grow their spending by 112% between 2006 and 2007. In 2006, the average spend is $792K, with budgets for 2007 skyrocketing to $1.7M.

Technology spend is focused on replacing legacy systems with commercial software and infrastructure. In the emerging cross-channel inventory visibility and customer order fulfillment technology category, respondents are looking to a mix of best-of-breed, ERP, e-commerce, data warehouse, and point-of-sale (POS) applications to enhance the cross-channel customer experience.

Figure 8: Current status and future investments in cross-channel inventory visibility and customer order fulfillment
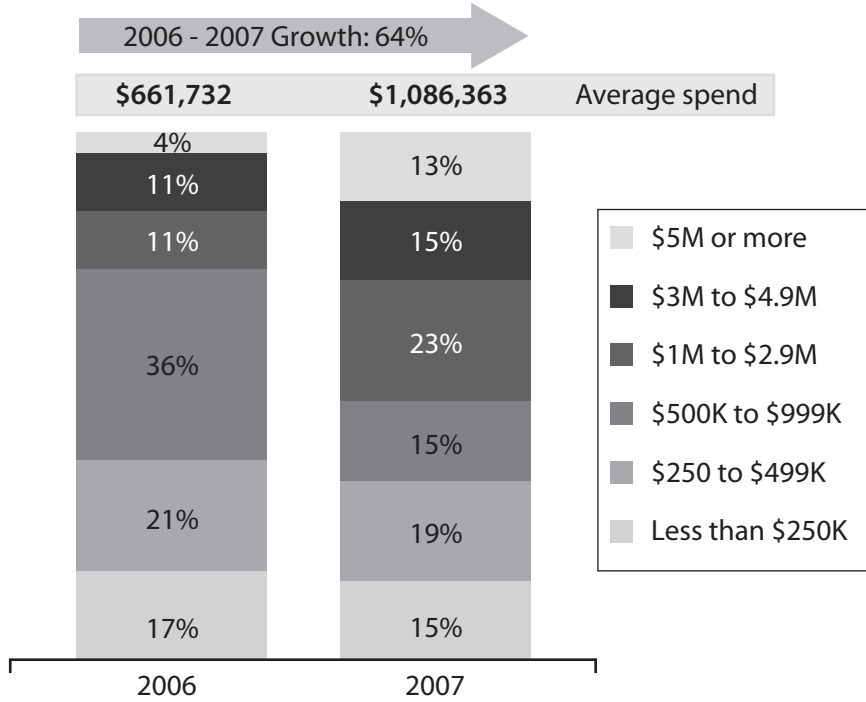
Which best describes your company's current state of the following software?

	Cross-channel inventory visibility	Customer order fulfillment
No plans at this time	8%	10%
Evaluating a new solution in the next 12-24 months	12%	18%
Evaluating a new solution in the next 12 months	53%	43%
Currently implementing a new solution (training process, change management, etc.)	16%	10%
Currently running an operational solutioin	12%	20%

Source: AMR Research, 2006

Figure 9: Cross-channel inventory management budgets

How much do you plan to spend on cross-channel inventory visibility in 2006/2007?

2006 - 2007 Growth: 64%

| $661,732 | $1,086,363 | Average spend |

2006
- 4%
- 11%
- 11%
- 36%
- 21%
- 17%

2007
- 13%
- 15%
- 23%
- 15%
- 19%
- 15%

Legend:
- $5M or more
- $3M to $4.9M
- $1M to $2.9M
- $500K to $999K
- $250 to $499K
- Less than $250K

2006   2007

Source: AMR Research, 2006

Figure 10: Customer order fulfillment budgets

How much do you plan to spend on customer order fulfillment in 2006/2007?

2006 - 2007 Growth: 112%

| $791,608 | $1,678,578 | Average spend |

2006
- 4%
- 15%
- 20%
- 26%
- 21%
- 11%

2007
- 17%
- 13%
- 30%
- 7%
- 26%
- 7%

Legend:
- $5M or more
- $3M to $4.9M
- $1M to $2.9M
- $500K to $999K
- $250 to $499K
- Less than $250K

2006   2007
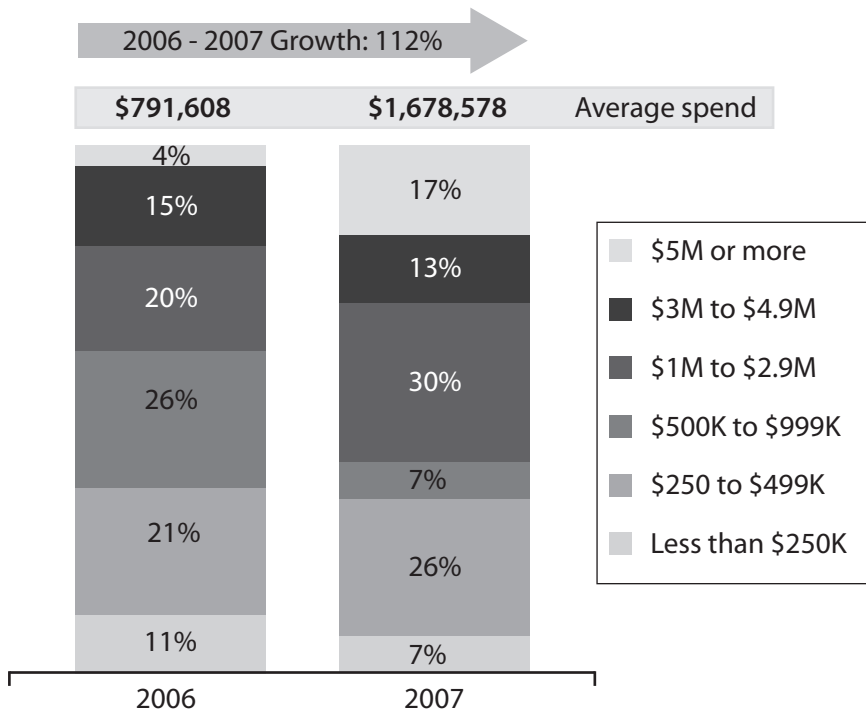
Source: AMR Research, 2006

Conclusion

It's not enough for retailers to just operate multiple channels anymore. They must provide seamless cross-channel capabilities, enabling consumers to buy, inquire, receive, and return anywhere in the extended retailer enterprise. This survey shows that retailers know that it is important to improve cross-channel inventory visibility and customer order fulfillment capabilities, and those that can execute will be declared winners by the most valuable critic—the cross-channel shopper.

Respondent demographics

What's your company's primary business?

Retail: fast-moving
consumer goods
31%

Retail: speciality hard lines and
consumer electronics
33%

Retail:
department stores
18%

Retail:
speciality soft lines
18%
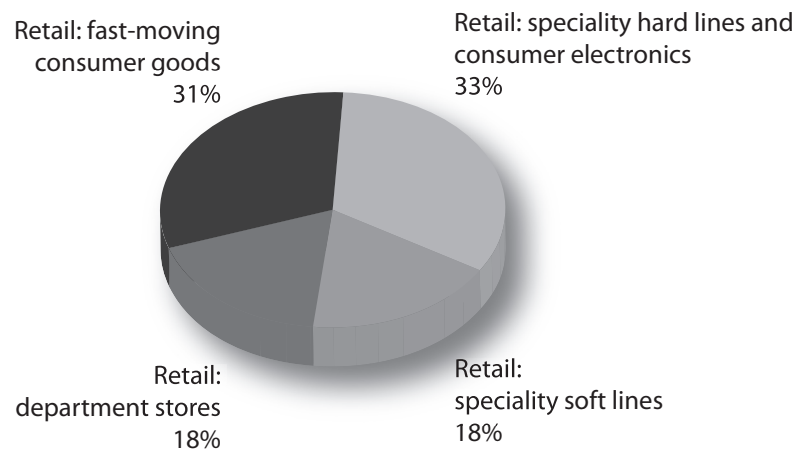
Base: total respondents, n=51

Source: AMR Research, 2006

Figure 12: Respondent profile—total annual revenue

Please indicate your company's total annual revenue for the last fiscal year?
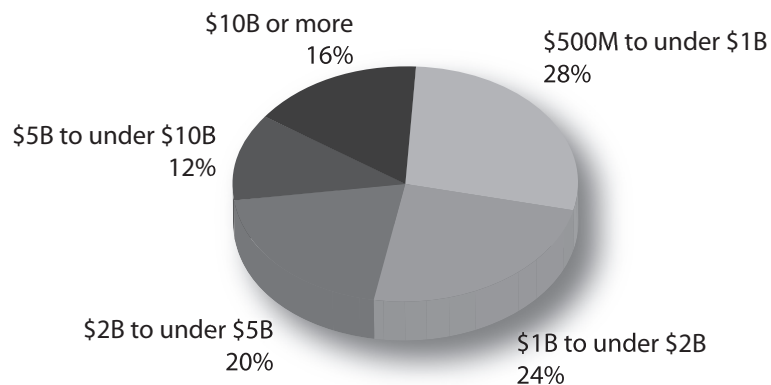
$10B or more
16%

$500M to under $1B
28%

$5B to under $10B
12%

$2B to under $5B
20%

$1B to under $2B
24%

Base: total respondents, n=51

Source: AMR Research, 2006

*Which of the following best describes your involvement in your company's
purchase of enterprise applications and related technology?*

Member of a group
responsible for
decisions
44%

Solely responsible
27%

Leader of a group
responsible for
decisions
29%
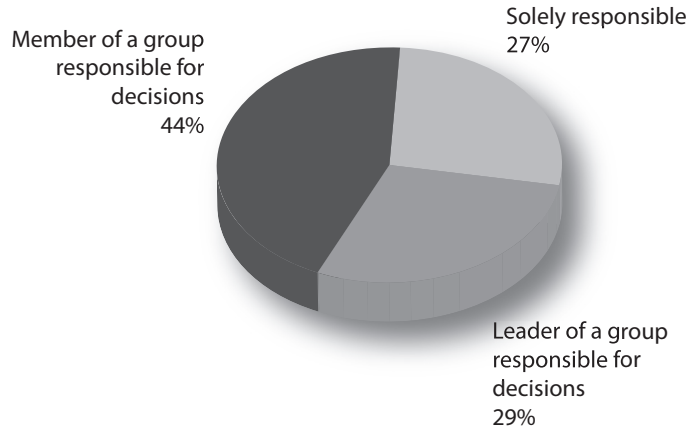
Base: total respondents, n=51

Source: AMR Research, 2006

Figure 14: Respondent profile—job title

What is your job title?

IT
29%
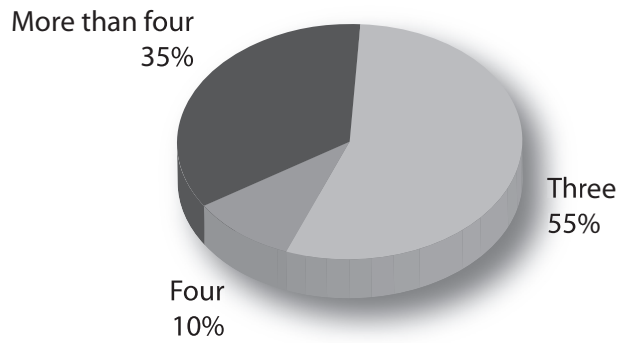
Executive
20%

Line of Business
51%
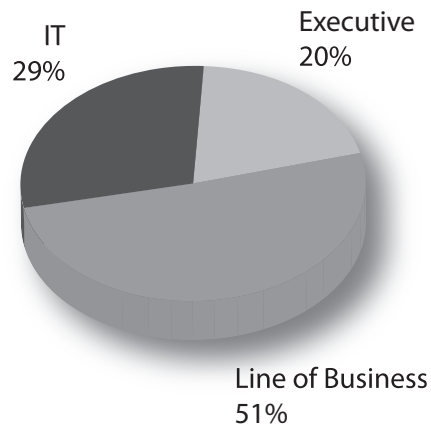
Base: total respondents, n=51

Source: AMR Research, 2006

Figure 15: Respondent profile—number of order channels operated

How many different order channels does your organization operate?

More than four
35%

Three
55%

Four
10%

Base: total respondents, n=51

Source: AMR Research, 2006

Acronyms and Initialisms

ERP   Enterprise resource planning

POS   Point of sale

AMR-R-19716