

Doing More on the Store Floor:

Five Steps to Capture and Keep Cross-Channel Customers



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Executive Summary

With consumers' growing expectations to shop the way they want, traditional brick-and-mortar retailers have overcome their fear of ecommerce cannibalization of store sales, adopting dotcom storefronts and strategies to help ensure a consistent experience across all channels—and ultimately increase sales. However, with these new cross-channel opportunities come new challenges, and perhaps going somewhat unnoticed and unattended is the impact to store operations.

Many retailers initially developed manual store processes to handle the cross-over of ecommerce to brick-and-mortar to support services like buy online/pick up in store, research online/reserve in store, buy anywhere/ship from store to home, and buy online/return to store. However, as multichannel retail has grown, those manual processes have not been able to scale with the business. Many multichannel retailers and their stores find themselves unable to provide the services, or the level of customer service, that they would like.

Similarly, more and more retail executives are recognizing the huge benefit in merging their siloed stores and ecommerce organizations, incorporating a blended approach to inventory management, order management and fulfillment.

Forrester Research expects cross-channel sales to grow 17 percent per year over the next several years, outperforming ecommerce growth, which is positioned to increase more modestly at 13 percent. By 2012, it expects cross-channel sales to reach \$1.1 trillion, or 38 percent of total retail sales.

One key barrier to implementing these cross-channel customer services successfully is a lack of in-store supply chain execution capabilities. Even the smallest retailers today have some form of point-of-sale (POS) and employee time and attendance management system. But many don't have the ability to transform the store location into a fully functional supply chain "node," capable of managing both the in-flow of merchandise as well as the out-flow of goods to customers and other store locations.

Just as the advancement in information technology and the Internet spawned the ecommerce boom, it is also changing the complexion of in-store systems. The replacement of heavy decentralized store systems by light, web-based centralized applications gives stores new tools and the ability (some say mandate) to play an integral role in order, inventory and fulfillment management. If retailers expect to evolve from "victims of the ecommerce boom" to "victors in the marketplace," they must learn to do more on the store floor to capture and keep valuable cross-channel customers by delivering zero disappointment retail.

Cross-Channel Retail Is Here to Stay

According to Internet Retailer's Top 500 Guide (May 2009), more than half of all online sales from the top 500 websites were generated by multi-channel retailers (with retail chains or catalog/call centers) to the tune of \$65 billion in 2008. By the same token, Retail Systems Research, Inc. recently reported that multi-channel customers spend more money than single-channel shoppers.

US Consumers' Spending with Select Retailers, by Channel, 2008 (index)

	Average multichannel shoppers	Average online shoppers	Average offline shoppers
CVS	157	97	100
Walgreens	161	104	100
Costco	161	113	100
Sam's Club	137	115	100
Wal-Mart	138	112	100

Note: * index measures annual spending of multichannel shoppers and online shoppers against offline shoppers so, for example Wal-Mart multichannel shoppers spend 38% more per year than Wal-Mart offline shoppers

Source: Nielsen Online, *Retail Strategies. Pinpointing the Value of Multi-Channel Behavior*, July 23, 2008

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www.eMarketer.com

These types of statistics mean one thing: Cross-channel retail is here to stay.

That is why savvy retailers are marketing to this valuable group of customers and leveraging their ecommerce sites to drive consumers not only to make purchases on the web, but also to make their way back into stores.

Perhaps the most common cross-channel activity among consumers today involves completing research online prior to making a purchase in the store, but a number of other permutations have materialized to keep customers happy—and sales on the books:

- Buy online/pick up in store;
- Buy anywhere/ship from store to home;
- Buy online/transfer to store for pick up;
- Research online/reserve in store;
- Buy online/return to store; and
- Endless aisle buy in store/ship to store or home

But new channels, along with new services, bring new challenges. Retailers need new and improved store systems and processes in place to address this business problem.

New Technology Transforms Stores into Fully Functional Nodes in the Supply Chain

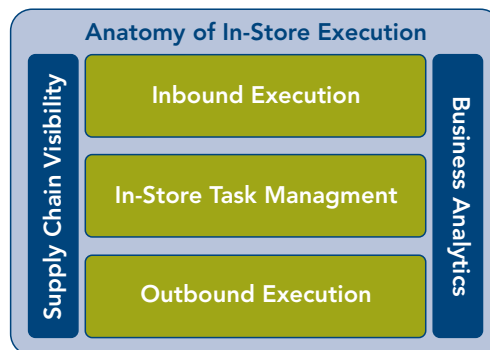
So what does it take to enable a retail store to act as a fully functional point of distribution in the supply chain?

Traditionally, when the industry speaks about retail execution it is referring to application areas such as merchandising, time and attendance management, and point-of-sale (POS). While each of these areas is critical to a successful retail operation, they do not really cover the depth of supply chain capabilities required for a store to be a fully functional supply chain node. These systems were not built to manage supply chain-centric tasks that often reach beyond the four walls of the retail store.

In the past, a typical store operations manager had to worry about getting goods into the store and on the shelf, efficiently handling store resets and special events, managing the day-to-day tasks of store associates and, of course, capturing POS transactions. These were the core operational activities required to run a store.

Today's cross-channel retailer must employ a new range of capabilities in the store to enable the multitude of business processes required to compete and win the loyalty of the cross-channel consumer.

The diagram below illustrates the anatomy of in-store execution.



To transform a store from simply being an end-point in the supply chain and a gateway for the in-store shopper into a fully functional “node” in the supply chain, the following technology capabilities must exist:

- **Inventory Management**

Tightly managing the flow of merchandise into the retail store is the first step in improving inventory accuracy, which is the life-blood of any cross-channel retail enablement initiative. Retailers should look for solutions that offer the ability to receive goods into the store electronically and perform and audit quality inspections. For retailers that receive shipments directly from external vendors, they should also look for the flexibility to print store-specific price tickets at the point of receipt.

- **Order Fulfillment**

Both cross-channel and endless-aisle initiatives involve better leveraging inventory assets residing at the store to fulfill customer orders. This approach ensures sales opportunities are not lost and takes advantage of the most cost-effective fulfillment strategy. Retailers should look for the ability to negotiate and accept orders being fulfilled from their store locations as well as direct store associates to pull merchandise from the retail shelves efficiently and either pack and ship, or hold, depending on the customer-delivery model.

For goods being shipped to other store locations for pick-up or direct to the consumer’s home, retailers will require the ability to leverage common parcel carriers dynamically to perform rate shopping, generate shipping labels and documentation, track the shipments, and possibly capture electronic signatures for proof of delivery.

- **In-Store Task Management**

In addition to the inbound and outbound activity enablement, retailers should look for in-store solutions that make it easy and efficient for store associates to execute tasks key to supporting the overall cross-channel initiative. This could include performing periodic cycle counts as well as quickly performing inventory lookups to find needed merchandise in neighboring locations.

- **Supply Chain Visibility**

To facilitate most of the business processes covered in this paper, store managers need visibility well beyond their own front door. Retailers should look for solutions which give them instant access to information pertaining to inbound shipments (from any point in the supply chain), outbound shipments (to any point in the supply chain), current order status, as well as inventory (both on-hand and in-transit goods). This information should be rendered in easy-to-use and flexible formats, which are purpose built for the in-store operator.

- **Business Analytics**

Finally, once the store is operating as a fully functional distribution point, it is critical to gather key performance measures from each store to monitor efficiency and effectiveness over time. Retailers should look for solutions that automate the collection of these execution-centric metrics and consolidate those across all distribution channels.

Fortunately, with advancements in network connectivity and web design technologies, retailers now have much more cost-effective options for deploying robust and easy-to-use supply chain capabilities across their hundreds and thousands of retail store locations. By leveraging web-based deployment methodologies, retail execution capabilities can now be deployed centrally at the corporate IT location and be fully leveraged by store associates located anywhere in the world.



How do they get started? Here are five practical implementation steps:

Step #1: Improve Store Inventory Accuracy

At a high level, this most basic of cross-channel consumer activities appears to have little impact on day-to-day store operations. But as soon as a customer enters a store and cannot find the item in stock as posted on the website or as they reserved, the store and its employees have a problem—and a frustrated customer—on their hands.

To address this issue, retailers are improving store inventory accuracy with a number of new processes. For example, many stores more closely compare the inbound shipment manifest to its physical contents during the receiving process. In some cases, receivers count or scan each carton, while in others receivers spot-check cartons by scanning each item in the carton.

Store operators capture discrepancies and ensure that inventory posted to the host system is accurate. Some big-box retailers are performing systemic cycle-counting on the store floor with hand-held devices that update inventory position to a centralized host in near real-time.

Accurate in-store inventory matters now more than ever. With people contacting call centers to check product availability in their local areas and ecommerce sites posting in-stock items for all to see, consumers are making conscious decisions to visit stores based on expectations of inventory availability.

MEN'S WEARHOUSE®

The Men's Wearhouse Updates Store Receiving, Gets More Accurate Inventory View

To ensure store inventory accuracy, The Men's Wearhouse is implementing a store receiving project that allows associates to scan individual items or cartons, and to record shortages and overages at the unit level.

The new system will compare the received cartons and items against the expected receipts on the advanced shipping notifications. Associates can correct quantity or item discrepancies to ensure an accurate view of inventory in the store. Store associates can also print item tickets and hang tags, capture inspection results, and issue vendor chargebacks during receiving or floor replenishment tasks.

Step #2: Centralize Enterprise-Wide Available to Promise and Order Capture

Store associates need visibility into item inventory across the network to confirm that the desired item can be purchased, and to determine by what date it can be available for pick-up or delivery. The simplest approach for store associates is to have a system that allows them to enter item information, and then returns an available to promise (ATP) date. Ideally, the system performing the look-up and the ATP calculation sees inventory in other stores as well as inventory reserved for other channels, in transit in the network, and even available at a supplier location for backorder. Handheld mobile devices can let store associates confirm ATP and capture the order on the store floor without having to return to the register.

While retailers are making a business decision not to carry every item in every location and in every channel—and rarely if ever to manage inventory at 100 percent service levels, they should make every effort to save the sale and delight the customer with pinpoint visibility into inventory.

If the consumer decides to make the purchase, then the store associate captures the request in an order entry system. At a minimum, the associate records the customer name, contact information, item or items, quantity and preference for pick up or delivery. The associate may give the consumer delivery options for express shipping, next day, etc. If more than one item is ordered, then the customer may indicate a preference for earliest delivery of individual items separately, or request one delivery of the consolidated order. Depending on store policy, the associate may also take payment or partial payment.

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Mobile commerce is also gaining momentum to help consumers use their phones and other mobile devices to locate merchandise in stores near them. Customers

enter the products they are looking for into the website, and they are sent a list of retailers who carry that item in stock in a nearby store, including pricing and when available, inventory availability.



Retailers are providing their on-hand inventory to these websites to help drive traffic to their stores. At the same time, brand owners are letting customers search their website for the desired products, and are driving customers to the retailer's website or store carrying that item. For example, customers could visit the Widget World website, and see which retail stores are carrying that widget and which retail stores have it in stock. The customer could reserve the inventory with the mobile device and visit the store to complete the purchase.

Customers can also use mobile commerce to complete an order after doing some in-person research in the store, or to save their own sale in a store if they cannot find the item for which they are shopping. There is nothing stopping a consumer from visiting a store to take a look at merchandise, confirm color or fit, and rather than wait in a long check-out line, use their mobile device to order the item for delivery to their home. Alternatively, if the consumer visits the store intending to make a purchase but the store is out of stock, the consumer could use their mobile device to find that item in another store or on the retailer's ecommerce site and save the sale—conceivably without any help from a store associate.

Step #3: Leverage Enterprise Visibility to Orchestrate Order Sourcing

After the order is taken, an order management system determines the optimal way to source the inventory. Inventory source could be selected based on a number of factors depending on the complexity of the supply chain and fulfillment capabilities of the retailer and its partners. For example, the following constraints could play a role in determining the best inventory source:

- **Inventory Proximity:** Selecting inventory in a nearby DC or store could mean less cost to ship the item to the requesting store or to the customer.
- **Labor Capacity to Fulfill the Order:** If the nearest location with inventory availability is a store, but it is nearing Christmas peak and that store is short-handed and does not have resources available to fulfill the order, the inventory could be shipped from another local source.

DAVID'S BRIDAL

David's Bridal Leverages Distributed Order Management, Fulfills Customers' Dreams

When a customer buys a wedding gown at David's Bridal, national bridal retailer with more than 300 stores across the United States, they do so with a strong emotional attachment. If a bride finds a gown she likes, but the gown is not in stock in that store, David's leverages a distributed order management solution that locates that item elsewhere in the supply chain, and facilitates store-to-store transfers and special orders.

Aware of the emotional attachment, David's Bridal associates work to accommodate all customer requests, even those that are time-sensitive. It is not uncommon for a bride to walk into a David's Bridal looking for a dress for a wedding in the next day or two. If the shopper finds the dream dress in the store, but it is allocated to another bride with a wedding in the future, David's order management system will check to see if that dress is available in another store or in transit, and will shuffle the allocation so that both brides will have a dress in time for their wedding.

- **Inventory Position in Source Locations:** Sourcing inventory from a location that itself is constrained could create an out-of-stock situation in that location, so the inventory could be selected from a location exceeding a minimum inventory level.
- **Order Priority:** Inventory often exists in a DC but is fully allocated for future ecommerce orders or store replenishment. In this case if the same item is in transit and will arrive in time to fulfill that existing or planned demand, the current customer order could be prioritized to 'steal' the in-stock inventory to save the sale with the customer in the store.
- **Order Contents:** The customer might order more than one item. In this case, another evaluation takes place to find a location that contains both items. If so, it will compare the cost of fulfilling and shipping that item in one package from one location versus finding those items in two locations and having fulfillment and shipping activities from multiple locations.

Considering the number of possible inventory sources and factors influencing the optimal decision, retailers need to implement distributed order management systems to solve this complex problem of marrying the 'best' source of inventory with the current demand. While store associates might be able to find another location with the item and arrange for it to be shipped, automating that process with an order management system yields a better financial result and leaves the store associate free to greet and assist customers on the store floor.

Stores have yet another responsibility: To acknowledge fulfillment requests and to package and ship them in a timely manner. Store associates need a process to be notified of a pending order and to be able to acknowledge that they have the inventory on hand that meets the demand.



Cabela's Reduces Inventory, Improves Store Stock, Productivity and Exception Management

At Cabela's, the world's largest direct marketer of hunting, fishing, camping and related outdoor merchandise, in-store inventory management and backroom-to-floor replenishment has delivered substantial bottom-line improvements. After implementing new systems in stores and distribution centers, the outdoor specialty retailer was able to reduce inventory significantly while at the same time improving store in-stock, user productivity and exception management.

With the new program came changes to store operations. After a cashier rings a sale, a replenishment order is immediately issued to remove that item from the backroom on to the selling floor. Store associates monitor their tasks and, in real time, execute the replenishment activity. Associates can also cycle count locations if the inventory position on the floor is not as expected. Costly and time-consuming manual replenishment processes have been eliminated and out-of-stocks are substantially reduced.

Typically after determining the inventory source, the order management system will create the systemic signal to the source location to fulfill the order. This signal could be a purchase order to a drop-ship vendor to ship directly to the consumer's home. Or, it could send a warehouse order to the distribution center to pick, pack and ship the merchandise to the store for pick-up or send a store transfer request to ship the item to another store. If the customer ordered more than one item, there could be two different fulfillment signals to two fulfillment points.

The order management system issues these signals and keeps the relationship between the customer order and the fulfillment orders so that store associates, customer care, or the consumers themselves can track the order as it is delivered.

Step #4: Empower Employees to Fulfill and Complete the Order

As mentioned previously, the store itself is a source of inventory and could be selected to fulfill the order. Stores have yet another responsibility: To acknowledge fulfillment requests and to package and ship them in a timely manner.

Store associates need a process to be notified of a pending order and to be able to acknowledge that they have the inventory on hand that meets the demand. In

some cases, between the time an order was placed to the store and the store's attempt to fulfill the order, the item might have ended up in a customer's shopping cart headed to check out. In this scenario, the order management system will receive the 'cannot fulfill' notice for that order and select another source.

Store associates also require a system to help manage the pick, pack and ship process. They need to understand if the order will be shipped to another store, requiring perhaps one process for packing and shipping, versus shipping the order directly to the consumer, dictating a different set of inserts, returns paperwork and shipping documents.

In addition to the physical process of shipping the order, there are systemic financial transactions that need to be completed to transfer inventory in transit or to another store, or to trigger a charge against the consumer's credit card upon shipment. Once again, store associates can manage this process manually, but an execution system in the store to manage the work queue and to create the financial transactions behind the scenes helps to ensure accuracy. It also frees up the store associate to work the floor or attend to other tasks.

At any time during fulfillment and delivery of the item, the customer may call to request a status update. Store associates or customer care, depending on who takes the call, needs to be able to look up the status of the order shipment.

In many scenarios, the store that originally captured the save-the-sale order must complete the transaction. If the customer arranged for the order to be shipped to the store for pick-up, the store will complete a receiving process when the shipment arrives, then confirm the accuracy of the customer order. At that time, the customer is notified automatically via email or text that the order is ready for pick-up, or alternatively the store associate could contact the customer directly. The store associate will hold that order in a location—perhaps in the backroom or behind the register—until the customer arrives. At that point, the store associate needs to be able to find that order quickly.

Sporting Goods Retailer Deploys Vendor Buyback Process, Improves Inventory Productivity

A sporting goods retailer found a way to improve its inventory productivity through deployment of a new vendor buyback process and, once again, the stores got into the game.

Rather than marking down items, the retailer was able to receive nearly 100 percent credit—always placed against an outstanding payable—from the vendor for buyback items. The buyer's open-to-buy improved and the retailer was able to buy and then sell more productive merchandise to improve their margin. The vendors benefited as well. Their branded merchandise could be sold in markets with stronger demand, or marked down through a controlled process in their own factory outlets, rather than having the brand cheapened by slashed prices in retail locations.

The vendor buyback program at this retailer introduced new processes for the buyers and the stores. Buyers review their items in a reverse logistics management solution. After buyers create the buyback plan, a buyback order is released to the stores. Associates receive this signal and PDTs direct them to pull the items from the shelves. Associates then package and ship them back to the distribution center. Although a new process that requires additional work and some new skills, the vendor buyback program has been wildly successful in improving inventory productivity.

At any time during fulfillment and delivery of the item, the customer may call to request a status update. Store associates or customer care, depending on who takes the call, needs to be able to look up the status of the order shipment. The consumer might also check order status online, so similar information needs to be easily accessible.

Updated processes and communications help store associates close the loop and complete the order lifecycle.

Step #5: Validate Legitimacy and Expedite Returns

With the intent of getting lucrative cross-channel customers into their stores, retailers are offering consumers the ability to return items purchased online. But supporting flexible returns processes also has an impact on store operations.

Returns fraud is at an all-time high, costing retailers nearly \$15 billion in 2008, according to a Retail Equations and NRF survey (October 2008). Store systems and processes need to be put in place to validate the legitimacy of the return, either with a receipt, credit card or other purchase identifier. The store associate needs instructions on whether to issue store credit or cash for the return.

Next, the store associate needs to be able to disposition the item depending on any number of factors. If the item is carried at that location, should it be restocked? Should the item be shipped to another store, to the DC, returned to the vendor, or shipped to a returns center for liquidation?

While returns were never clean or easy, they have become even more complicated. In this cross-channel retail world, retailers cannot make returning items a seamless experience for customers and an easy-to-administer activity for store associates if they insist on handling the returns process and disposition manually.



Conclusion: Consumers Will Expect More So Retailers Need to Deliver

According to a 2008 Accenture study, customer service is the most important influencer for purchase decisions—more important than price and quality—and was ranked No. 1 by most survey respondents. Customers are growing to expect more from their shopping experience, whether online, in-store, or a combination of the two. Ironically the rise of ecommerce is putting more pressure on stores to facilitate the services that have grown out of the multi-channel approach to retailing.

Offering customers cross-channel services, like buy online/fulfill in store, endless aisle, and return anywhere will help retailers provide a true blended channel experience while maintaining and building their brand—but only if they execute these services flawlessly. Stores play the pivotal role in ensuring a positive customer experience, whether the purchase originates online or within their four walls.

In addition to the growth of cross-channel retailing, new technology is driving process changes in the stores that are yielding real benefit to retailers today.

- Processing power and efficiency makes real-time inventory visibility across the supply chain a reality for retailers.
- Distributed stores systems are being replaced with web-based applications that provide stores with powerful execution capability.
- Mobile devices and kiosks give store associates the ability to provide quick assistance to customers on the store floor, and to complete operational tasks on the store floor where they are more accessible to customers.
- Distributed order management solutions are evolving and are the black box managing multi-channel sourcing, order orchestration and fulfillment.

In order for retailers to capitalize on this perfect storm of technology advances and multichannel inertia, stores must execute flawlessly and deliver the perfect customer experience. Stores are no longer just another sales channel, or the end point in the brick-and-mortar supply chain. Stores are the renewed retail lever—a lever that is instrumental in delivering the multichannel promise of the brand—and they have new responsibilities.



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Stores play a pivotal role in fulfilling the enterprise benefit from multichannel retailing. As retailers review their store operations and store systems and introduce new processes or automate previously manual ones, they should consider the points below.

- With the high turnover of store associates, retailers need simple solutions that allow new employees to be easily trained.
- Retailers need to avoid implementing disparate systems for store execution tasks and rather look to a single system that stores can use to manage and execute their work, whether it is capturing an order, shipping a store transfer or completing a cycle counting activity on the floor.
- Retailers need to be wary of systems that are force fitted to the store operation, and rather look for purpose-built store execution applications. For example, while a store is acting in some ways like a distribution center, the solution is not to drop a warehouse management system into the stores.
- As much as possible, automate the decision-making behind the scenes. Implement distributed order management, returns and replenishment solutions that solve and optimize the difficult supply chain management problems, and leave the execution of the order, shipment or task to the store associate.
- Store operations need to be represented in the ecommerce organizational structure. With so many ecommerce processes bleeding into the store, it is critical for store operations to be included in planning and executing ecommerce strategies to ensure feasibility and adoption in the store.



With online sales expected to continue to grow in the double digits, it is easy to understand the current focus and spending on gearing up websites, planning online assortments, and building ecommerce supply chains to fulfill the unit of one. However just as important as those building blocks of ecommerce is the stores' ability to execute the multichannel vision. Retailers must ensure that they have the people, systems and processes in place to do more on the store floor.

About Manhattan Associates

Manhattan Associates continues to deliver on its 20-year heritage of providing global supply chain excellence to more than 1,200 customers worldwide that consider supply chain optimization core to their strategic market leadership. The company's supply chain innovations include: Manhattan SCOPE® a portfolio of software solutions and technology that leverages a Supply Chain Process Platform to help organizations

optimize their supply chains from planning through execution; Manhattan SCALE™, a portfolio of distribution management and transportation management solutions built on Microsoft .NET technology; and Manhattan Carrier™, a suite of supply chain solutions specifically addressing the needs of the motor carrier industry. For more information, please visit www.manh.com.



Global Headquarters
2300 Windy Ridge Parkway
Tenth Floor
Atlanta, GA 30339
tel +1 770.955.7070
fax +1 770.955.0302
www.manh.com

Offices in:
Australia Singapore
China The Netherlands
France United Kingdom
India United States
Japan