BEST PRACTICES: Multichannel Integration

Learn what the experts say about the benefits and challenges of multichannel retail integration.

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Key lessons in multichannel integration

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Why multichannel integration matters

Retailers are increasingly multiplying their channels, adding Web platforms and call centers to brick-and-mortar stores to reach more and more customers. Interestingly, however, customers do not use one channel exclusively to complete their purchases anymore; as a matter of convenience, many customers use the multiple channels a retailers makes available to complete the purchase process. Consumers also are mixing different channels for different activities. For example, a multichannel customer might research a product at home by visiting a retailer's online store, doing comparisons and reading reviews about the product. If this user has specific queries that are not answered online, he may then call the retailer's call center. After completing his research, he may go back to his computer, place an order online and then track the order status or shipping details. Or he may place the order online and then pick up the product from a nearby store instead of having it shipped from a warehouse.

A Gartner survey released in March found that 66 percent of consumers believe consistency across channels is important, and they expect to be provided "one view of the retailer."

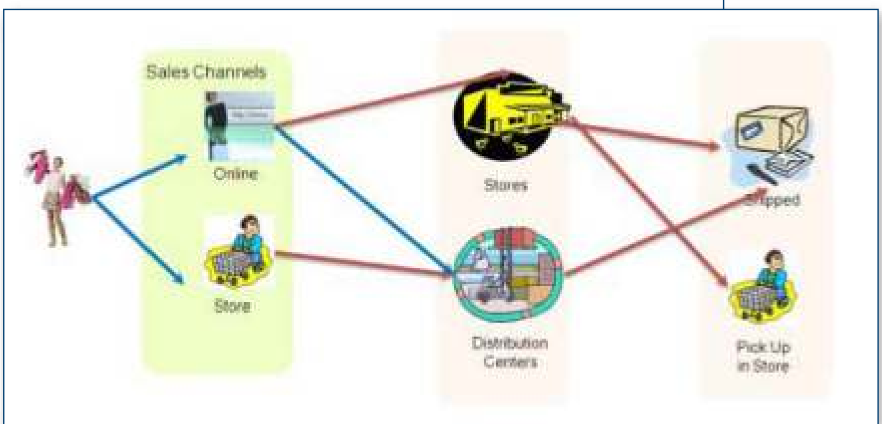

Figure 1: *Multichannel customer behavior (Singh, 2010)*

Multichannel integration challenges

The behavior of multichannel consumers outlined in Figure 1 is driving the need for multichannel integration. While many retailers add different channels one-by-one to respond to rapid changes in the marketplace and in customer expectations, disparate channels are no longer able to drive customer satisfaction or revenue.

But integrating multiple channels poses several challenges, due to different systems that work using different technologies, organization structuring that already is established and the need to manage inventory across channels. It is important to identify business needs and align integration road maps to satisfy these needs before embarking on a multichannel integration initiative. Making product and pricing information and inventory visibility uniform across channels poses huge challenges that should be dealt with diligently.

Best practices: Key considerations for multichannel integration

1. Catalog consolidation

Catalog consolidation is the first step to integrating channels, since each channel can have its own catalog. While most items may be common to the brick-and-mortar and online stores, some items are sold exclusively at physical stores, and others are exclusively available online, posing a need for different catalogs. Hence, items common to both channels can end up being duplicated across the catalogs.

It is a good step to consolidate all such catalogs into one enterprise-wide catalog. It then enables the catalog to be leveraged across the business units, regardless of which channel had originally carried that item.

Business rules should be used to sell items exclusively on the website or in the stores as needed.

Consider the following when consolidating catalogs:

- Once the cross-channel fulfillment solution is implemented, it becomes necessary to search for items across the channels using item classifications such as style, size and color.
- When an item is being added to the order, validation of that item is performed, and it can be very intensive as each and every catalog is searched until the right match is found. This would be simpler if only one catalog were maintained for the entire solution.
- It is recommended that each channel ensures that its item numbers are unique with respect to all channels.

2. Inventory consolidation and visibility across channels

A distributed order-management system is an important enabler to achieving multichannel integration. This system can address processes owned and managed by retailers, as well as those owned by the retailer's suppliers and third-party logistics for the products and services bundled by retailers.

The retailer saw one in-store sale saved each day for a year, making for a very high return on investment and a proven business case for implementing the system.

All the orders captured through various channels are aggregated in a distributed order-management system, and a real-time complete demand picture is made available.. The system also provides global visibility of inventory, inventory available in fulfillment nodes, in-transit inventory and inventory on purchase orders. A distributed order-management system is capable of matching aggregated demand with inventory available at various points in the best possible way.

A distributed order-management system also can help retailers manage capabilities offered to its customers, such as store pick-up for products purchased or reserved online.

3. In-store — save the sale

If an item is not available in a physical store, but the retailer has an integrated order-management system, a store associate can search the inventory of the item, place a special order and ship it from its distribution center. This allows store personnel to save an in-store sale that might have been lost otherwise. Typically, distribution centers are the same facilities that are used for e-commerce and call-center fulfillment, resulting in an extended virtual supply chain. Saving in-store sales increases total revenue, and the virtual supply chain helps keep operating costs down, making for a rapid return on investment and a perfect business case for implementing this functionality.

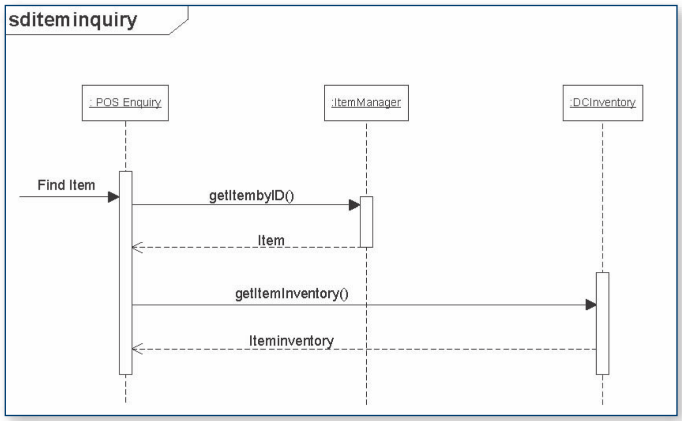

Figure 2: *Sequence diagram for inquiring item at distribution center from point of sale*

4. Business considerations for multichannel integration

- After integrating multiple channels, planning for each channel in isolation is no longer recommended. Isolated planning may put pressure on another channel, and may lead to the cannibalization of sales at other channel.
- Different channels may have different profitability for the same item. If an item is not profitable at one channel, it should not be offered at that channel.
- A channel's performance may be impacted due to cross-channel returns. A business should take this impact into account while reviewing channel performance. A tolerance for this effect may be built into the key performance metric of a channel.

5. A case study in multichannel integration

A leading specialty retailer of fashionable, attractively priced women's apparel and accessories sells its merchandise thorough brick-and-mortar stores and its online store in the United States.

This company had a separate distribution center to fulfill its Web store orders, while stores were replenished from a different warehouse. If a store ran out of inventory for a particular item, such as a particular size or color of a dress, the sale was lost and the customer was left dissatisfied, despite the availability of the item at the online channel or even in another brick-and-mortar store.

When the company embarked on multichannel integration, it achieved inventory integration across channels by implementing an order-management system. The system extended the virtual supply chain, hence directly lowering the operating cost.

Inventory available at the company's e-commerce distribution center was made available to sell at the point of sale in the physical store, thus providing a store associate with the ability to convert an in-store customer sale that might have been lost otherwise.

The retailer saw one in-store sale saved each day for a year, making for a very high return on investment and a proven business case for implementing the system.

Conclusion

Customer behavior is guiding retailers to integrate their multiple channels. It is a good idea to analyze customer behavior to prioritize focus areas of channel consistency before integrating channels. A good multichannel experience is not just an option anymore; given the adoption by customers and retailers alike, it has become imperative to success at retail. Proven increased efficiencies and high return on investment further encourage retailers to invest in this area.