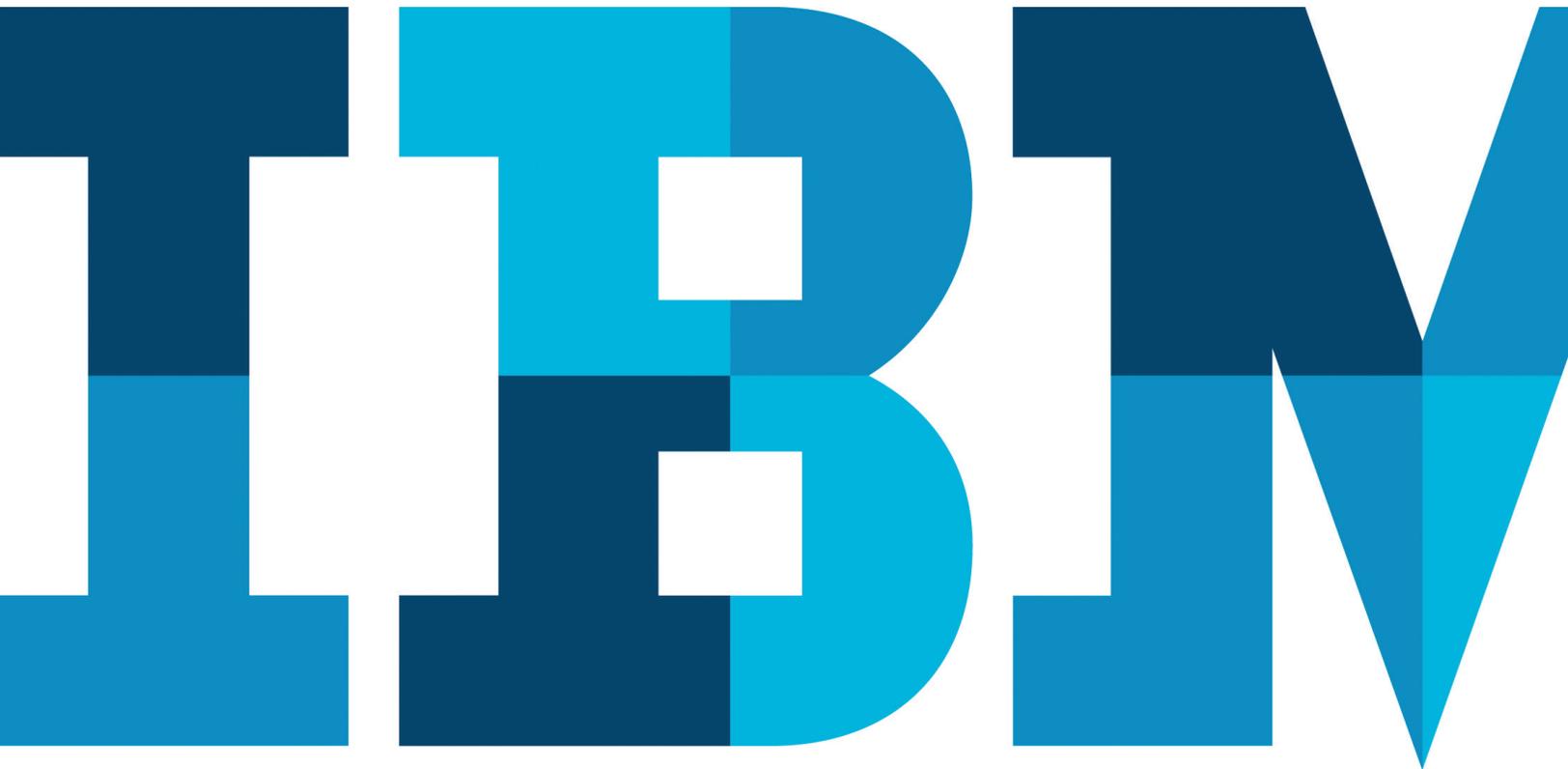# Fulfilling the promise of omnichannel retailing

IBM

Enabling the consumer-facing journey

The retail industry has spent considerable time and resources making the transformation into the omnichannel world. Best-in-class retailers have typically experienced higher growth rates that will likely continue as they reap the benefits of early adoption of omnichannel retail processes. These companies are at the forefront of integrating the consumer journey over multiple sales channels, such as in store, web, mobile, call center, social and more. They are re-engineering their marketing and supply chain processes to provide a consistent experience, deliver relevant promotions to maximize sales, and reduce operational costs of fulfillment and returns.

However, while the journey into the consumer-facing aspect of omnichannel retailing is well underway, there are considerable challenges remaining. Fulfilling orders, meeting delivery dates and consistently offering personalized service—and doing so profitably—can be compromised by the very complexity that is driving this successful consumer experience. Complexity can impact the fulfillment side of omnichannel retailing when inefficient processes remain in place. This can significantly reduce the profitability expectations companies have for their omnichannel initiatives, as well as potentially deliver a poor consumer experience.

Omnichannel retailing: It's a whole new world

What's often hidden from the transformation to omnichannel retailing is the substantial impact it can have on the operational processes of the company. While retailers have gone to great lengths to expand sales channels and the accompanying consumer journey, most now have a back-end operation they are struggling to integrate with the new and improved consumer-facing front end. While retailers see the obvious benefits of offering multiple channel choices for purchases, adding more pickup and delivery options, using sales-boosting promotions, and incorporating flexible return policies, the implementation remains complicated. The impact to all the back-end operational processes is an unknown for many retailers even though it is key to delivering a successful front end.

Operational challenges created by front-end implementations

This new world of omnichannel retailing is reflected in the following operational changes retailers are facing. Here are a few of the concerns being driven by front-end transformation.

- Smaller per-order quantities, but an increase in the total volume of orders
- The need for real-time inventory visibility and availability
  - You need to know what inventory you have, where it's located, its status and whether you can commit it to an order, depending on the channel, or risk losing the sale.
- Accurate sharing of inventory availability with consumers
- Consumer expectations for the delivery of an online order
  - Buyers expect delivery in hours in some cases and retailers with brick-and-mortar stores may also offer in-store pickup or free delivery as a competitive differentiator.
- The need to become multifunctional fulfillment centers when consumers order online for in-store pickup
- The ability to become more creative in product promotion offers by adding more personalized services

The impact to the back end

The back end, meanwhile, has to deal with the following consumer-facing front-end changes.

- Brick-and-mortar stores often carry less or different inventory than the online store
- Stores are now expected to act as fulfillment centers for online orders and for other nearby stores that are out of stock of the customer's items
- Sophisticated demand-planning systems are the norm and drive real-time demand signals back through the retailer's supply chain
- Increased demand for value-added services to properly package the order in support of promotional offerings, which frequently change

- Rising consumer expectations for faster cycle times that put new stress on both fulfillment and supply chain processes
- Evaluating the location of the closest inventory to coordinate a drop-ship with suppliers when appropriate

According to a study by ARC Advisory Group and DC Velocity, "in keeping with omnichannel's focus on flexibility, respondents are taking multiple approaches. Sixty-eight percent said e-commerce orders were both picked and shipped from the store, while 64 percent said orders were picked at the store and then held for customer pickup. A smaller percentage—46 percent—said they shipped e-commerce orders from a distribution center to the store for customer pickup."[1]

As a result, retailers are aggressively working to re-engineer their back-end fulfillment operations using a variety of strategies.

- Deploying regional distribution centers to stage inventory closer to the consumer
- Segregating online and brick-and-mortar store inventory in the warehouse which, in some respects, is contrary to a strategy to have all inventory available for fulfillment regardless of channel
- Integrating brick-and-mortar store inventory into their fulfillment processes
- Expanding value-added services to support increased demands for promotional packaging

- Accommodating flexible return options regardless of the channel used for purchase
- Increasing the reliance on partnerships with logistics service providers and third-party logistics operators to outsource fulfillment operations

In the same ARC Advisory Group and DC Velocity study, "companies are not locking themselves into one method of fulfilling omnichannel orders. Nearly two-thirds— 63 percent—of respondents said they fulfilled orders through a traditional distribution channel [DC] that also handles e-commerce. Forty-seven percent used an internet-only DC, 43 percent fulfilled orders from the store, and 36 percent said they filled e-commerce orders directly from the manufacturer or supplier."[2]

As you can see, a tremendous amount of change is taking place on the operations side of many retailers as they struggle to link the consumer engagement back through their supplier engagement. At the heart of all this transformation are the business documents and transactions that must be exchanged with the retailer's business-to-business (B2B) community to sustain these operations.

The role of B2B integration

Underlying the business operations that manage and support the omnichannel value chain is a retailer's B2B integration and electronic data interchange (EDI) platform. They enable retailers to exchange documents, transactions and data, both internally and externally. Confirming its widespread adoption, 74 percent of

retailers who responded to a Vanson Bourne study indicated they employ on-premises B2B integration to enable those exchanges.[3] Retailers recognize the B2B integration requirement as these use case examples demonstrate.

- Exchanging merchandising, pricing and point-of-sale data between headquarters and stores
- Taking consumer orders and passing them to back-end fulfillment applications, such as order, warehouse or transportation management
- Sending orders to third-party logistics operators and logistics service providers who operate the retailer's fulfillment and delivery operations
- Sending demand-driven purchase orders back through the retailer's supplier community and processing the resulting inbound transactions, such as acknowledgements, receipts and advanced ship notices
- Providing an inventory status of items, where they are located and whether the items are available to promise
- Exchanging all the ancillary transactions necessary to run the business with financial institutions, insurance providers, payroll processors and others in the retailer's B2B community

However, retailers find themselves with a proliferation of platforms for many reasons. Finding effective, cost-efficient ways of coping with the complexity they create is one of the biggest challenges facing retailers today.

The challenges of B2B integration

In addition to the operational challenges of omnichannel retailing, retailers, like other industries, have a large number of challenges to address with their B2B integration platform. Unlike the consumer-facing omnichannel experience, the supply side of

a retailers business must still contend with many technically challenged suppliers and other trading partners. For this reason, retailers are often forced to use faxes, phones and spreadsheets to exchange business documents with these companies.

In addition, there are certain suppliers the retailer cannot connect with due to the limited communication protocols the supplier supports. In other cases, the documents and transactions received do not conform to an industry standard, complicating efficient integration into the retailer's operations.

Retailers responding to a 2015 Vanson Bourne study indicated that 81 percent still exchange documents using email, 53 percent by fax or mail, and 43 percent by phone.[4]

While the industry has focused on the supply side of a retailer's operation, there are also other B2B integration challenges that must be addressed.

- Reconciling multiple B2B and managed file transfer (MFT) platforms due to acquisitions, mergers or point solution deployments
- Exposing real-time store inventory, which requires tight integration across multiple systems
- Securing B2B networks and data from breaches
- Relying on outdated B2B integration capabilities that cannot satisfy the operational requirements of the business
- Handling disruptions to 24x7 business operations due to planned or unplanned downtime to the B2B integration platform
- Managing the onboarding requirements of a diverse and rapidly changing B2B community
- Staying current with ever-evolving industry data standards

Collectively, these challenges highlight why retailers are struggling with their back-end transformation. A retailer's B2B platform can impede productivity and growth in a variety of ways.

- Limiting improvements to cycle times
- Exposing the brand to the risk of a security breach
- Introducing the potential for downtime to back-end operations
- Preventing retailers from staying current with relevant industry data standards

With all these challenges, it's easy to see the retailer's B2B platform represents much more than just IT infrastructure. Until now, most of the attention has been focused on improving and transforming the consumer-facing front end. It is becoming clear that retailers now need to invest in back-end transformation as well if they expect to sustain or grow the consumer satisfaction of the omnichannel experience they have worked so hard to attain.

Leveraging B2B integration as a competitive differentiator

One thing that helps differentiate best-in-class retailers from their competitors is that these top retailers view their B2B integration platform as a competitive differentiator, not simply IT infrastructure, starting at the very top levels of management. Not only have these retailers invested in the omnichannel front end, they have also made the necessary investments to modernize their B2B integration platform in support of the back-end transformation they undertook. As a result, both IT departments and the lines-of-business have capitalized on this investment.

The benefits of a modernized B2B platform

For IT, the benefits can manifest themselves in a number of areas.

- Consolidating on a single B2B platform to lower operational costs
- Avoiding having to say "no" to an onboarding request because a partner's technical requirements cannot be supported
- Enabling high-availability business operations and disaster recovery, resulting in near-zero downtime, whether caused by a planned or unplanned outage to the B2B platform
- Enabling the external and internal real-time integration of business documents and transactions to synchronize operational processes across multiple enterprises
- Easily accommodating updates to industry data standards
- Deploying best-of-breed network and data security to authenticate identities and protect data at rest and data in motion

By 2018, 40 percent of the top 100 global retailers will encrypt all customer data in flight and at rest, declaring "Trusted Data Certification," with a 25 percent gain in competitive wallet share.[5]

Best-in-class retailers look beyond the IT benefits of a modernized B2B platform; they should and do expect a return on that investment to the business. For the line-of-business, B2B integration can deliver value in many ways.

- Reacting quickly to new service offerings and any resulting operational changes
- Accommodating the onboarding requirements of a complex B2B community and improving time to revenue from the relationships

- Enabling faster cycle times by leveraging more real-time exchanges of business documents and transactions
- Reducing costs by automating end-to-end processes and providing visibility to all the stakeholders involved
- Helping protect the retailer's brand from the risk of a security breach

Perhaps the most important benefit is the ability to synchronize the consumer-facing front end with all the back-end processes. When integrated well, you can commit inventory to an order, the order can get drop-shipped if necessary, and the consumer gets the shipment as promised and is satisfied with the complete omnichannel experience.

Synchronizing consumer and supplier engagements

Figure 1 is an example of how a retailer might create a B2B integration platform that helps synchronize consumer engagement with supplier engagement. As Figure 1 depicts, the orders received through the retailer's omnichannel front end drive both the fulfillment and complete order-to-cash cycle. In addition, transactions can also drive demand through the back-end operations to suppliers along with the supporting procure-to-pay process. As a further benefit, the operational data, which includes store inventory, flows between the retailer's point of sale (POS) and the main headquarters-based planning systems. This offers retailers the opportunity to consolidate operational processes on a single B2B integration platform with the flexibility to adapt to changing operational requirements and scale as the business grows.
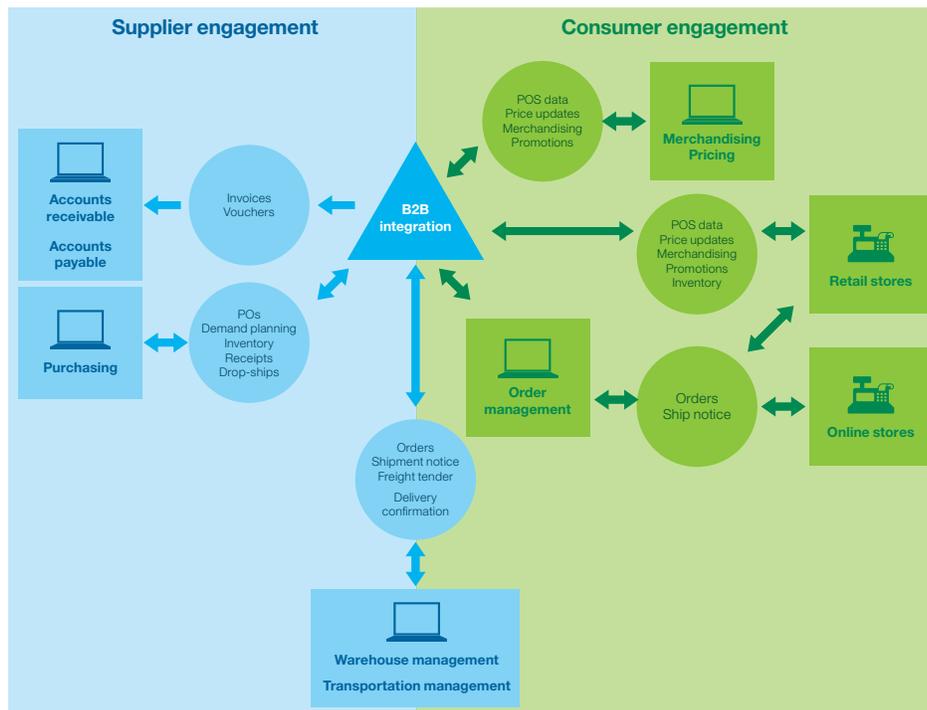

Figure 1. Synchronizing consumer and supplier engagement

Extending the value of a retailer's B2B platform

For those retailers who deployed a new, modernized B2B platform and have achieved the desired synchronization from the consumer engagement back through their supplier engagement, is that it? Can they can sit back, so to speak, and leverage the benefits of a competitive B2B integration platform?

The best-in-class retailers do not sit still. They recognize there is a wealth of data flowing through their B2B integration platform they can leverage to improve customer engagement and build loyalty. These retailers also recognize that integration with all types of devices comprising the Internet of Things (IoT) is mandatory, that the deployment of cloud-based applications is inevitable and, with the introduction of the Cognitive Era™, that cognitive analytics will produce the insights which can help them sustain and expand their competitive advantage.

By 2017, the next wave of omnichannel retailers invest in fulfillment "your" way, driving dozens of tier 1 and 2 retailers to make new supply chain analytics, planning and execution investments.[6]

This is not the future. It is reality and the retailers who have deployed a modernized B2B platform are positioning themselves to fulfill the promise of omnichannel retailing.

When it comes to B2B integration, retailers should look for a vendor that can help them consolidate all their B2B use cases onto a single platform, enable the integration between consumer and supplier engagement, minimize downtime to their operations, offer the flexibility to rapidly adapt to changing operational requirements and protect their brand. IBM can help.

Learn more

Using a panel discussion format, IBM's I.T. Architects offer a point of view on the challenges of B2B integration. Listen to them discuss 9 specific challenges, and provide insight on what they have learned from your peers.

You'll learn:

- About consolidating multiple platforms and reducing your reliance on outdated capabilities
- Ways to support business demands such as global expansion, rapid onboarding, high-speed file transfer, and integration with cloud deployments
- How to secure your network and data, stay current with industry standards, and ensure compliance

Watch panel discussion now.

[1] ARC Advisory Group and *DC Velocity* magazine, 2015 Omnichannel Study,
Web, April 2016. http://www.supplychainquarterly.com/topics/Strategy/
20151228-pursuing-the-promise-of-omnichannel-retailing

[2] ARC Advisory Group and *DC Velocity* magazine, 2015 Omnichannel Study,
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[3] 2015 Vanson Bourne B2B Integration and MFT Global Study for IBM.

[4] 2015 Vanson Bourne B2B Integration and MFT Global Study for IBM.

[5] IDC, FutureScape Webinar, "Worldwide Retail 2016 Predictions,"
November 4, 2015.

[6] IDC, FutureScape Webinar, "Worldwide Retail 2016 Predictions,"
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