white paper

Success in an Omni-Channel World
Meeting "Anytime & Anywhere" Requirements

We Optimize Your Supply Chain | **DEMATIC**

Success in an Omni-Channel World

Introduction

It is easy to define omni-channel business success by desired outcomes: happy, loyal customers resulting in increased sales and profits. What is considerably more difficult is describing how to get there and making it happen.

From the customer point of view, omni-channel means being the center of the buying experience. No matter how customers interact with a particular brand — whether online, in a store or from a mobile device — they expect the experience to be seamless.

From the retailer point of view, omni-channel is much more complex. It means implementing a system that produces a consistently positive experience for shoppers and buyers. In practice this means providing multiple purchase and delivery options, managing channel expansion, optimizing supply chains, automating order fulfillment, and more.

The real challenge is making this all happen efficiently. It requires a thoughtful plan. The purpose of this white paper is to provide a structure for that plan — a high level description of the steps necessary for meeting the expectations of today's omni-channel customer.

There are three basic steps:

- **Define:** Research and document what the customer experience needs to be.
- **Account:** Identify exactly where inventory is in the supply chain and whether that inventory count is accurate and can meet customer expectations.
- **Execute:** Invest in the solution technology necessary to make it all happen profitably.

After describing these steps, this document will provide some real-world variations of how omni-channel solutions can be successfully implemented.

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Challenges of Supporting Omni-Channel

Omni-channel is not a new concept. Companies in many markets have recognized the wisdom of adapting to customer buying habits to remain relevant and competitive. But even though a company is aware of the trend, it might not fully understand the barriers to developing a successful omni-channel initiative. Consider these challenges:

- **Order Fulfillment Costs:** Omni-channel means delivering inventory in a way most convenient for the customer, which is often not the most cost-effective way for the company. For example, instead of a shirt being shipped from a distribution center (DC), the shirt is pulled from one store and overnighted to another. Much more expensive, but the customer is happy.

- **Margin Pressure:** If new methods are implemented to accommodate customer demand (but without updating back-end processes and support structure), margins will inevitably be squeezed. Every attempt to be more responsive without well-defined supply chain solutions comes with an additional cost, and those costs add up quickly.

- **SKU Proliferation:** Omni-channel is often described as anytime, anywhere, anything I want to buy shopping. The net effect of responsiveness to this is a tendency for a greater variety of inventory to be distributed in more locations.

- **Order Processing Speed:** As next-day or even same-day delivery becomes the norm, customers expect a rapid turnaround for all of their orders. Ever shrinking cutoff times only increase the need for orders to be processed quickly. Competition is fierce. Companies must ensure that inventory is available and controlled across their entire supply chain.

- **Order Processing Accuracy:** Customers also expect their orders to be correct. Even a single wrong direct shipment can cause customers never to order from a company again. And social media can compound that wrong shipment into multiple customers. It is critical for order accuracy to be addressed in omni-channel supply chains.

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- **Available Network:** Even with the best of intentions and planning, any company is potentially limited by their existing infrastructure and geography. Locations of DCs and stores factor heavily into meeting regional, national and global consumer demands, not to mention beating the competition.

- **Inventory Visibility:** To meet customer expectations, companies must know where inventory is in their supply chain and be confident the count is accurate.
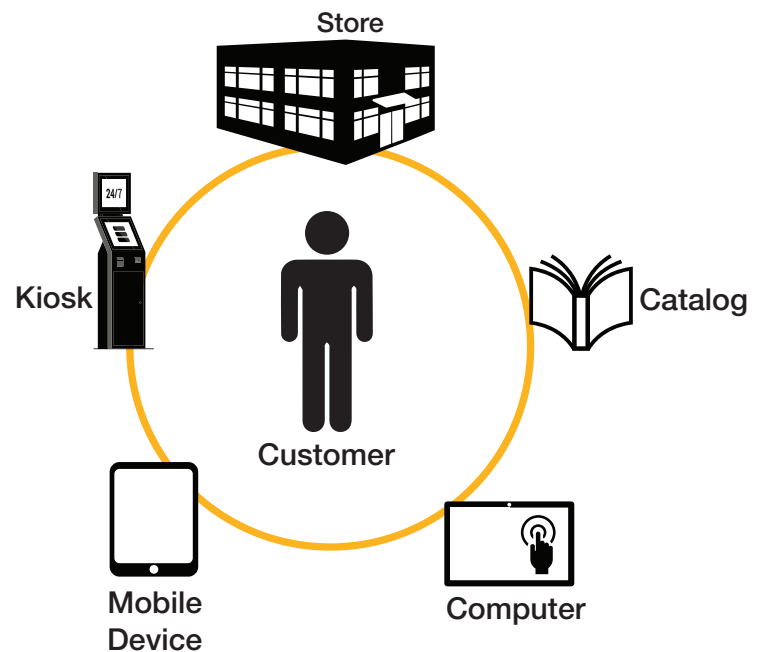
Given these challenges, it is important first to define what customers want. What's their situational experience — in store, on mobile device, at home, etc.? What should their overall experience be? What should be their impression of the company? What protects and reinforces the company's brand image?

Finding the answers to these questions provides a goal to prepare for the next step: accounting for your inventory.

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Strategic Intelligence

In an omni-channel world, to meet the anytime/anywhere shopping demands, companies absolutely need full control of their inventory. The tenuous loyalty of a target demographic can rest on providing an accurate account of the stocking status of product they desire.

After they make a purchase decision, there are the complex calculations necessary to determine the most cost-effective method of delivering a specific item to store, home, office or other location. This is well beyond capabilities of any manual or per location system. It requires strategic intelligence backed up by enterprise software applications and support hardware.

To retailers and wholesalers this means an enterprise resource planning (ERP) or distributed order management (DOM) system as the central processing brain for order fulfillment. Central processing with strategic intelligence enables retailers and wholesalers to measure not only inventory but also performance of stores.

Data from stores can be used to leverage existing information to plan orders, shipments and fulfillment activities. Real-time data, analytics and reports provide the information flow necessary for inventory visibility.

DC

Local
Store

Store

Customer

Store

Mobile
Device

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As an example, a customer orders uses a mobile device to order a shirt for pick up at a local store. It is the ERP or DOM that knows that particular SKU is not in stock at the local store, but available at a DC or two other stores and will determine the optimal way to deliver it.

But even after customer expectations are defined and system inventory logistics are accounted for, the omni-channel puzzle is still not solved. There is still one more vital step, which is addressed in the next section.

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Strategies for Filling Orders

The last (sometimes forgotten but certainly important) step to a successful omni-channel order fulfillment system is actually fulfilling the orders. It sounds obvious, but it is no small consideration. Again, with a goal as aggressive as meeting every customer's shopping whim, modern automated solutions for order fulfillment are not an option; they are a critical component.

Automated order fulfillment solutions include the software and controls to receive, store, pick, put and ship products with absolute efficiency. It is the technology that brings the system to life and maintains the throughput.
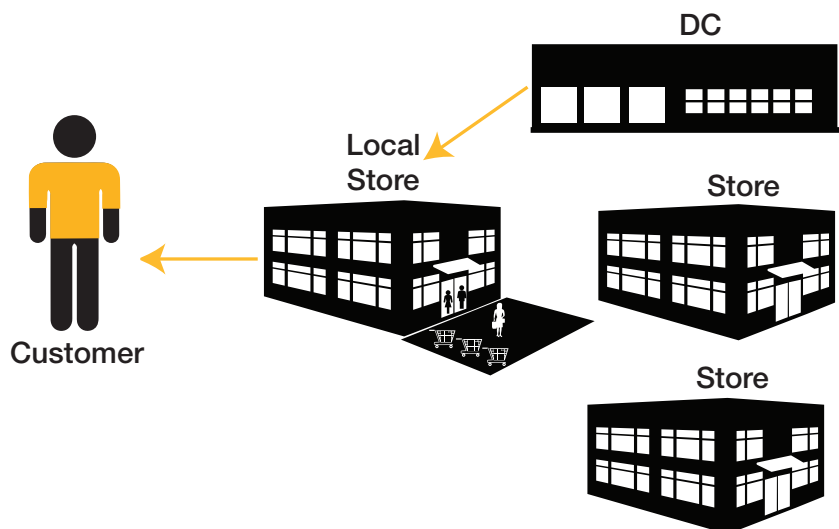
In this example, after the ERP or DOM determines that the DC is the best source for filling this order, it is the automated order fulfillment that picks the shirt, packs it and ships it to the local store where the customer picks it up.

The next section provides general design solutions for automated order fulfillment.

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Case Study Solution Examples

The omni-channel challenge represents an opportunity to re-think how inventory is deployed to optimize labor productivity, order accuracy, inventory accuracy and processing speed. How a company configures its omni-channel order fulfillment operations depends on variations in business volume, geographic constraints and its logistics philosophy. Below are brief descriptions of the design approaches available:

Dedicated E-Commerce DCs, Dedicated Retail Store DCs

- Owners of dedicated fulfillment centers believe that the activity profile and therefore the picking processes are fundamentally different for each channel. Industrial engineering analysis indicates that the order fulfillment system configuration and technology best suited for e-Commerce is different from the configuration for retail store replenishment. Simply stated, assembling orders that consists of one or two line items is a world apart from assembling orders that consist of hundreds of line items with multiple pallets of merchandise.

- Dedicated fulfillment centers are also more appropriate when the inventory is different from what is offered in the retail store version of the brand.

- Dedicated fulfillment centers can be designed to accommodate the peak periods of each channel more effectively. For example, on weekends e-Commerce must accommodate pooled order surges and a wider variation in average-to-peak ratios. Engineers need to consider order accuracy and order processing speeds in the system design — e-Commerce orders must be accurate and timely. On the other hand, if a retail store DC ships too much of a particular SKU, the store could accept the order and sell it without affecting customer goodwill.

Multi-Channel DCs

- Fill orders for e-Commerce, small retail store, and large retail store in a hybrid distribution center. Share inventory and labor across channels.

- Flex labor between channels because each business peaks at different times. Apply labor to retail if it peaks prior to e-Commerce. Then apply same labor to e-Commerce when it peaks later in the cycle.

- Use reserve storage with separate active picking locations for e-Commerce and retail stores. Or use same active pick locations for both channels. An analysis of the activity profile reveals which strategy is best for each application.
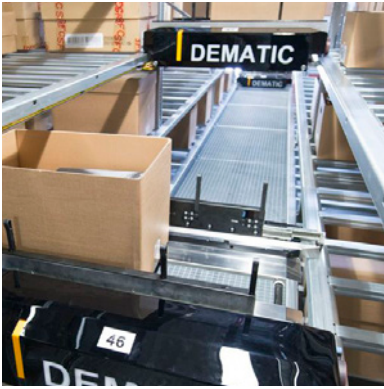
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Consolidating Operations

- To gain efficiencies, some omni-channel retailers have merged multiple distribution centers and brands into one operation. This allows efficiencies of scale and volume to reduce the cost to pick, pack and ship each order. The single inventory storing location reduces the cost of carrying inventory, and there is less need for safety stock throughout the network. In addition, inventory coming from just one location simplifies decision making for the order management software.

- Consolidated operations are more appropriate for automation. Increased volume at a single location can make the business case for order fulfillment technology like sorting automation and label print/apply systems. With automation, the cost to assembly each order is reduced while processing speed, labor ergonomics and order accuracy increase.

Small, Low Volume

- Low volume retailers must be both effective and efficient in supporting omni-channel. Many boutique retailers are implementing pick, pack and ship systems that are pre-engineered and modular. Paper-based picking with hunt and pick methods are clunky, slow and labor intensive.

- Discrete or batch pick methods that use performance optimizing software allow small volume operations to keep up with the highly automated large volume national/global brands, but with a much lower capital expenditure. Pre-engineered, modular solutions are scalable for weekend-pooled order surges as well as other peak periods. Furthermore, these solutions allow fast and easy expansion to accommodate volume growth.

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About Dematic

Dematic is a leading supplier of integrated automated technology, software and services to optimize the supply chain. Dematic employs over 5,000 skilled logistics professionals to serve its customers globally, with engineering centers and manufacturing facilities located across the globe. Dematic has implemented more than 4,500 integrated systems for a customer base that includes small, medium and large companies doing business in a variety of market sectors.

If you are interested in learning more about this topic and how we can help, please contact Dematic at (877) 725-7500 or visit: dematic.com.

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