



Cross-Channel Integration – Is The 21st Century Retailer Fully Integrated?

The concept of selling through multiple channels is not new to the retail industry. In fact, retailers have been doing it for over 100 years. For instance, Sears, Roebuck and Company began mail-order sales in 1886, issuing its first catalog in 1896. In 1925, the company opened its first retail store and eventually expanded into their third sales channel with the launch of Sears Request in 1996, a gift registry kiosk designed to enhance their existing Special Occasions Gift Registry. In 1998, the company again expanded their business by launching their fourth sales channel, sears.com. Through the years, the company has proven to the retail industry that operating through multiple sales channels is possible and can increase customer reach and growth opportunity. Essentially, Sears has created “the everywhere store” by providing their existing and future customers more options to shop no matter where they are.

Many retailers like Sears, Circuit City and Best Buy are focusing on winning customers by communicating and delivering their company’s unique value proposition. In order to provide the capacity to shop anytime, anyplace, and from anywhere, retailers need to provide their customer the ability to transact from any one channel and fulfill (or return) in another channel. In order to realize the ultimate goal of providing a customer-centric shopping experience, retailers that operate using multiple sales channels will need to shift their cross-channel organization toward the retail paradigm known as fully integrated cross-channel retailing.

There is a clear distinction between what a traditional cross-channel retailer is, and what the ideal, fully integrated cross-channel organization should be:

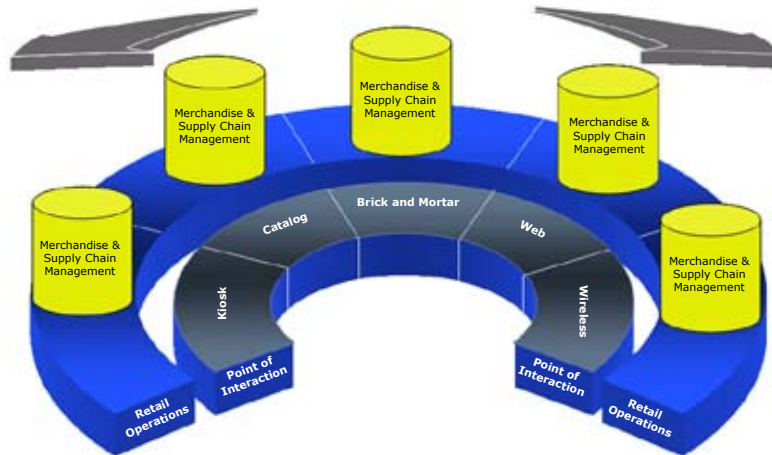
| Traditional Cross-Channel Retailer | Fully Integrated Cross-Channel Retailer |
|--|---|
| <ul style="list-style-type: none"> Operates separate information systems for each sales channel that do not communicate and operate together | <ul style="list-style-type: none"> Operates integrated information systems for all sales channel that communicate and operate together |
| <ul style="list-style-type: none"> Has distinct processes in place for each sales channel that can create duplication of efforts | <ul style="list-style-type: none"> Has more efficient, non-redundant business processes incorporated across all sales channels |
| <ul style="list-style-type: none"> Enables the customer to purchase merchandise from each of its channels, but inability to buy in one sales channel and pick up/return in another | <ul style="list-style-type: none"> Enables the customer to buy in one sales channels and pick up/return in another |
| <ul style="list-style-type: none"> Information is not shared between each of the sales channels, including: <ul style="list-style-type: none"> Customer Information Item information Pricing Strategies Inventory Availability Information Forecast and Planning Transactional and Sales Information | <ul style="list-style-type: none"> Information is shared providing a seamless communication between each of the sales channels, including: <ul style="list-style-type: none"> Customer Information Item information Pricing Strategies Inventory Availability Information Forecast and Planning Transactional and Sales Information |



The Silo Effect

Many retailers provide the ability for the customer to buy merchandise across multiple sales channels, but the underlying question most retailers face is, "Does the cross-channel strategy fully integrate all sales channels, or is it operating in 'Silos'?" As illustrated below, a cross-channel retailer that does not integrate their data and technology creates the sales channel "Silo Effect":

Data and Technology "Silo" for each channel

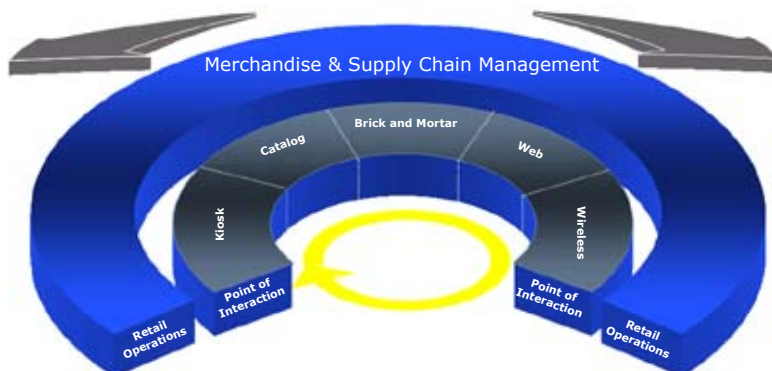


Retailers operating under a "Silo" are often faced with a variety of issues including:

- Duplication of investment and effort
- Managing the same data in multiple applications
- Limitations on strategic advantages
- Data inconsistencies
- Inability to share critical business decision making data across channels
- Poorly managed inventory causing lost sales or margin erosion
- Poor customer satisfaction

The concept of the fully integrated cross-channel retail organization is not new and is designed to eliminate the data and technology "Silo" effect by providing a seamless communication of information across all sales channels:

Data and Technology Integration Across All Channels





So why should retailers choose to become a fully integrated cross-channel retailer? While many of the reasons for moving to full integration of all sales channels revolve around operational efficiencies, the strategic ability to compete on the basis of scale is the “endgame” of cross-channel retailers. The retailer can view two primary reasons for shifting their cross-channel organization toward a fully integrated enterprise:

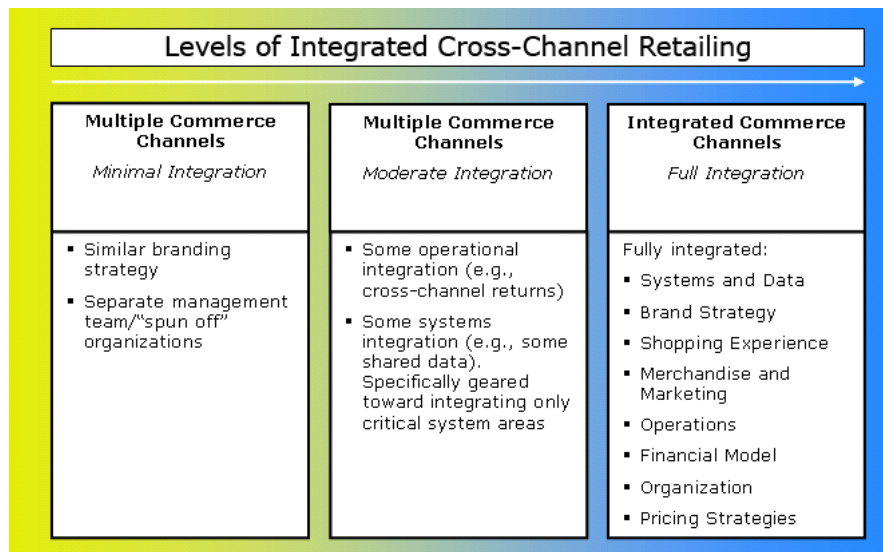
Operational Reasons:

- Provides more efficient data collection and integrity
- Improves return on inventory investment
- Shares critical business decision making data across channels
- Provides economies of scale for merchandise management
- Makes better use of marketing and promotional budgets
- Leverages assets

Strategic Reasons:

- Increases sales and customer satisfaction by providing a seamless sales experience across all channels
- Enables the retailer to position itself for further channel expansion (e.g., wireless)
- Provides a comprehensive, personal view of the customer
- Provides the retailer the ability to meet the customers’ expectations in the future retail economy
- Provides the ability to analyze customer behavior leading to better management of promotional and permanent markdown pricing strategies

Does this mean that cross-channel retailers aspiring to fully integrate their sales channels must do it all at once? The answer is “No.” There are varying degrees of integration as illustrated below, from minimal integration all the way to full channel integration:





Determining what level of integration is right for a particular cross-channel retail organization is a challenge that many decision makers have been facing for years. There are a variety of challenges a retailer must consider when deciding what level of integration should be implemented including:

- **Business Model** – does the business model require full integration, or does some other level of integration make more sense? Some retailers market products for specific sales channel. For instance, an item that may be sold on the web may not be sold or stocked in a store and vice versa. In addition, a retailer may utilize different marketing or pricing strategies depending on the sales channel.
- **Return on Investment** – is the juice worth the squeeze? For some retailers, fully integrating their systems may not yield the return on investment to justify the capital expenditure involved.
- **Budget** – does the IT budget allow for spending? Integration of disparate systems does not come without a cost. The level of integration may be dictated by the size of the IT budget.
- **Infrastructure** – are there any resource constraints? Managing and marketing products within separate sales channel “Silo’s” should be considered. This often requires more resource requirements, duplication of efforts, and higher operating costs. Consolidating these business processes can increase efficiency by reducing redundancy, ultimately reducing labor costs.
- **Perception** – do the customers have differing perceptions of the retailers store channel vs. other sales channels (i.e., web, catalog)? Often this perception causes some disparity when defining an item and the corresponding merchandise hierarchy setup required to integrate.
- **Conflict** – how do you properly track the sale? It is difficult to measure this aspect of the business. For instance, a customer who purchases merchandise online, but opts to pick up the merchandise in a store can lead to the burning question, “Which sales channel ultimately made the sale?” Many have differing opinions or perspectives to where the sale should be recorded.

About RPE

RPE is a leading consulting services provider exclusively focused on the challenging needs of the retail industry providing strategic consulting services, systems management, implementation, integration, modification and system upgrades for retailers worldwide. RPE’s professional services offering is focused on customized retail solutions including the implementation and integration of retail and supply chain business applications. RPE works with retailers implementing a variety of leading software applications including Manhattan Associates, JDA, Island Pacific and most other solutions. Visit www.rpesolutions.com.
