

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

Many of today's retailers 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 omnichannel retailing.

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



Integrating people, process and IT

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Traditional Cross-Channel Retailer

A traditional cross-channel retailer operates separate information systems for each sales channel that do not communicate and operate together. The retailer has distinct processes in place for each sales channel that can create duplication of efforts. This process 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.

Information is not shared between each of the sales channels, including:

- Customer information
- Item information
- Pricing strategies
- Inventory availability
- Forecast and planning
- Transactional and sales information

Fully Integrated Omnichannel Retailer

An omnichannel retailer operates integrated information systems for all sales channel that communicate and operate together. There are more efficient, non-redundant business processes incorporated across all sales channels. This enables the customer to buy in one sales channel and pick up/return in another.

Information is shared providing a seamless communication between each of the sales channels, including:

- Customer information
- Item information
- Pricing strategies
- Inventory availability
- 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 strategy fully integrate all sales channels, or is it operating in silos?" A cross-channel retailer that does not integrate their data and technology creates the sales channel silo effect.

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 omnichannel 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. So why should retailers choose to become a fully integrated omnichannel 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 omnichannel retailers.

The retailer must understand the importance of operational and strategic reasons for shifting their cross-channel organization toward a fully integrated enterprise:

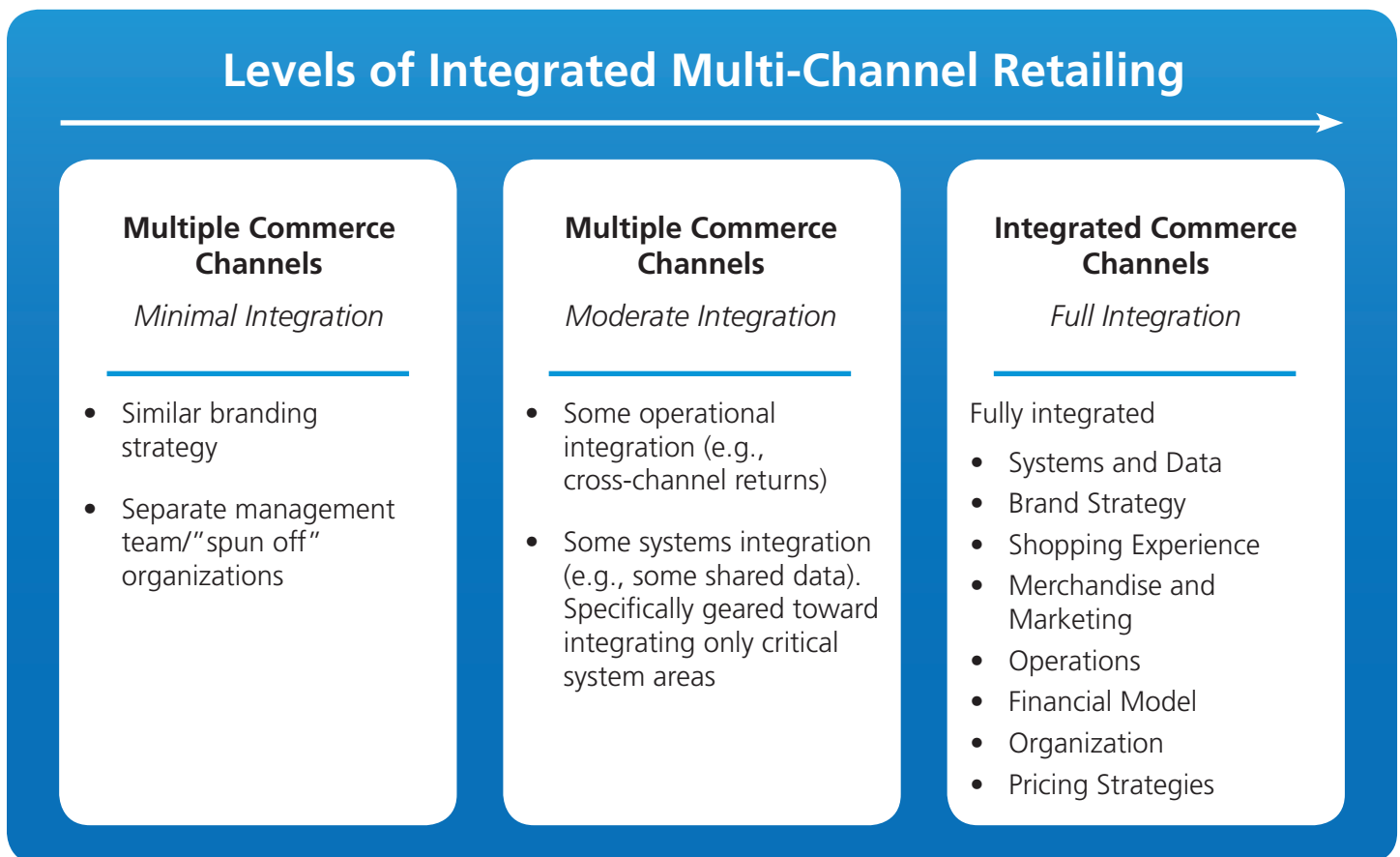
Operational

- 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

- Increases sales and customer satisfaction by providing a seamless sales experience across all channels
- Enables the retailer to position itself for further channel expansion
- 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 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 online 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 silos 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 retailer's store channel vs. other sales channels (i.e., online, 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.