Omni-Channel Retailing 2013: The Quest for the Holy Grail

According to Aberdeen’s 2012 Omni-Channel data set, leading retail and consumer markets organizations are making the move to align the brand, product offerings, and marketing messages with the goal of a uniform customer experience across all channels. While these organizations are focused on aligning the experience across channels, there is still a significant gap facing consumers. This gap goes beyond the alignment and integration of business processes and technologies; it comes down to a fundamental disconnect on the part of organizations to fully understand the importance of a connected experience, which begins with inventory, and includes ensuring that customers have access to products across all channels.

Between March and April 2013, Aberdeen investigated omni-channel strategies and initiatives among 65 retail and consumer markets organizations. This report will look at how leading retailers put product availability at the forefront of their omni-channel strategy, and identify the key differentiating strategies, capabilities, and technologies that drive their success.

Omni-Channel Market Pressures

The top omni-channel pressures facing retailers today can be broken down into two categories: customer-facing and business-facing (Figure 1 below). From a customer standpoint, 55% of retail respondents identified the fact that customers expect a similar experience regardless of channel. This poses many problems for retailers as they struggle to define what the “omni-channel experience” truly is, especially as the channels of engagement continue to expand. Retail respondents indicated the top five channels of engagement are online (87%), brick and mortar (70%), mobile (56%), call center (56%), and social media (52%). As customers use each of these channels as interaction touch-points, retailers need to determine how they allow the customer to flow between these channels without losing sight of the core brand identity.

From a business standpoint, 33% of respondents cited the need to increase revenue growth as their top omni-channel pressure, and an additional 28% cited lost sales opportunity costs. These two business pressures represent an operational barrier to omni-channel success. The retail industry has become hyper-competitive, with fewer barriers of entry for new businesses, and a proliferation of additional selling channels. These two pressures are connected, as a key to increasing revenue is to avoid lost sales, whether that...
is due to inadequate inventory levels, customer service issues, or technology failures. The increased competitive landscape means that retailers need to figure out how they can differentiate themselves, and provide the best possible omni-channel experience. The subsequent sections of this report will outline how Leaders set themselves apart, and get closer to a truly omni-channel environment.

**Figure 1: Key Omni-Channel Pressures**

![Figure 1: Key Omni-Channel Pressures](image)

**Defining the Leaders**

When looked at as a unified set of performance, the Key Performance Indicators (KPIs) shown in Table 1 are the basis from which to understand how top performers improve or enhance their omni-channel strategies and initiatives.

**Table 1: Defining the Leaders**

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
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| Leaders: Top 30% of aggregate performance scorers | ▪ Current Customer Satisfaction (CSAT): 93%  
▪ Year-over-year increase in average order value: 24%  
▪ Year-over-year increase in revenue: 26% |
| Followers: Remaining 70% of aggregate performance scorers | ▪ Current Customer Satisfaction (CSAT): 85%  
▪ Year-over-year decrease in revenue: -2%  
▪ Year-over-year increase in revenue: 2% |

Source: Aberdeen Group, April 2013
Strategic Actions

To combat the pressures outlined above, leading retailers have identified two key strategic growth areas to define their omni-channel success (Figure 2). First, 44% of Leaders, compared to 34% of Followers, ensure product availability across channels. This strategy directly impacts the customer’s desire for a similar experience regardless of channel. Inventory availability is at the heart of an omni-channel strategy; without inventory availability and visibility, retailers only have a single channel-centric approach to the business. In the ever-evolving omni-channel environment, a single-channel approach is a recipe for failure. By aligning their inventory needs, retailers ensure that customers can find the product they need in their preferred channel. This approach alleviates the stress of lost sales costs due to channel-specific inventory allocation. As part of this strategy, retailers must ensure they can fulfill orders from the desired channel quickly and efficiently. For example, 77% of Leaders identified responsiveness for order delivery across all channels as a crucial part of their omni-channel strategy, compared to 68% of Followers.

Figure 2: Strategic Response to Market Pressures

The second key strategic action identified by Leaders is to develop a multi-channel, multi-touch marketing plan. The marketing side of the equation must be directly tied to product availability, but cannot be the leading strategy. For example, a retailer can develop the most sophisticated and seamless multi-channel marketing campaign. But, if the inventory is not available for fulfillment, the marketing program is essentially useless. In fact, it may be a critical driver for cart abandonment. Instead, once the inventory strategy is in place, a collaborative and concise marketing plan must be developed. Currently 44% of Leaders take advantage of this strategy, compared to 30% of Followers. What these savvy retailers understand, however, is that the multi-channel, multi-touch campaign needs to reach the customer in their preferred channel, and enable the retailer to move away from a single-channel approach to the business. Channel marketing teams

“Customer choice and convenience can drive shop gains. Exceeding the customer expectation and always delivering on the customer promise can drive brand loyalty, and personalizing the customer experience enhances both. Omni channel allows retailers to bring it all together in one or many, or any channel. The use of innovative digital services online or in-store provides the initial engagement. When well executed, this can increase customer satisfaction and sales. Retailers cannot however lose sight of the basics of operational efficiency and product availability.”

~ IT Manager, Tier 1 Fashion Retailer, UK
must come together to develop a holistic marketing campaign that accounts for the customer’s journey through multiple channels in all stages of the buying cycle.

**Omni-Channel Capabilities**

To execute on the strategic actions identified above, organizations need a core set of business capabilities in place. Leading retailers have identified two key sets of capabilities that enable their established strategic actions identified above: product availability and marketing effectiveness. Figure 3 below highlights the key omni-channel capabilities identified by Leaders.

**Product Visibility Capabilities**

Leading retailers have established more sophisticated capabilities for sharing information within the organization and across channels and departments.

**Figure 3: Omni-Product Visibility Capabilities**

![Image of Figure 3]

Sixty-two percent (62%) of Leaders, compared to 37% of Followers, share up-to-date order management information across channels, and 50% of Leaders, compared to 43% of Followers, do the same with up-to-date product information. These two capabilities help establish a consistent brand presence across channels. The sharing of order management information promotes a higher level of visibility in the order process, from the transaction through fulfillment. It also enables retailers to fulfill merchandise through the customer’s channel of choice, and adjust the merchandise mix accordingly. Sharing product information establishes a single version of the truth for product attributes and descriptions regardless of channels. Leaders share this information with relevant stakeholders throughout the customer experience lifecycle to enable a seamless experience across channels. A single version of the truth allows the
customer to identify products, and understand what they are looking at in any channel. It is one of the foundational elements of establishing an “anywhere, anytime” retail strategy.

Fifty-four percent (54%) of Leaders, compared to 38% of Followers, possess the ability to ship online orders from the store. Retailers need to allow the customer to purchase products through their channel of choice. As a result, Leaders align their fulfillment strategies across channels. This capability allows retailers to pull an online order from a physical store if the distribution center or warehouse is out of stock. The key to achieving this level of visibility is complete transparency, and accuracy of on-hand inventory levels. Leading retailers have aligned channels and departments to make order fulfillment an enterprise-wide function, rather than a channel-centric operation.

Leading retailers have kept a keen eye on the importance that customer feedback and insights play in the omni-channel environment. As a result, 54% of Leaders, compared to 22% of Followers, incorporate customer insights into their supply chain plans. Supply chain planning, and the associated inventory and merchandising strategies, is impacted by how the customer views the source to consumer process. In this hyper-aware age, sourcing becomes very important, and retailers need to understand how their products are sourced or fulfilled make an impact on sales. Consumer insights bridge this knowledge gap, and allow retailers to ensure their supply chain plans are aligned to their customer’s desires.

**Marketing Effectiveness Capabilities**

Leading organizations have identified three key marketing-related capabilities that drive their omni-channel strategies (Figure 4). As outlined in the strategy section above, Leaders develop multi-channel, multi-touch marketing campaigns to grow their omni-channel initiatives. A key part to delivering an effective campaign is to understand the customer. To this point, Leaders have established two key internal capabilities to make better use of customer data and the information they possess. First, 46% of Leaders, compared to 36% of Followers, provide job-role based access to customer behavior and purchase trends. Retailers struggle with the enormity of customer data that is available, and making sense of the data they have collected has become a burden. According to the June 2012 *Big Data in Retail* report, 59% of survey respondents indicated that a lack of consumer insights is their top data-related pain point. Leading retailers, however, see the opportunity at hand, and provide customer data to the appropriate stakeholders in the form of behavioral and purchase analysis to develop the appropriate marketing campaign. This allows the retailer to personalize the content to a specific segment, profile, or even individual customer. The result is a more focused and attractive offer that is relevant to consumers, creating a call to action.

“Successful growth and profit strategies will always be anchored around customers, with a continued need to ensure relevance and contest. The omni-channel customer experience needs to align accordingly.”

~ HR Director, Tier 2 Specialty Retailer, Canada
The second customer data related capability is the incorporation of daily or weekly consumer insights into the promotions plan. Customer feedback loops help to drive innovation and fix potential problems. Leading retailers use customer intelligence to understand which promotions are working and which are not. Using these insights, the retailer can make more informed decisions regarding their marketing mix and promotional calendar. Additionally, retailers are able to monitor customer chatter to gain insight into product preferences, and apply these to the intersection of their marketing and merchandising strategies.

Forty-two percent (42%) of Leaders, compared to 24% of Followers, enable a seamless customer experience across all channels. While this applies to all facets of the business, it is critical from a marketing standpoint. It allows the retailer to market the same product in every channel, without worrying about product availability or product information. Additionally, retailers can use the existence of a seamless experience as a key marketing differentiator. This one capability answers the customer demand to have a true brand experience, rather than a series of channel experiences. Leading retailers use this knowledge to their advantage and promote a culture of channel fluidity.

Enabling Technologies
Leading retailers achieve omni-channel success by focusing their technology adoption on two key areas: the supply chain and marketing effectiveness.

Supply Chain Technology
Leading retailers have identified three key areas of supply technology to drive their omni-channel initiatives: inventory management, order management, and logistics (Figure 5). These key components control the

“There is a compelling case that omni-channel operations reduce customer irritation, errors, and inconsistencies which in turn increases the satisfaction of both customers and customer-facing employees. It also reduces operating costs. The result is increased sales, customer tenure, and lifetime value as well as improved workforce motivation.”

~ IT Manager, Tier 2 Financial Services Retailer, UK
flow of inventory for retailers, and enable organizations to ensure inventory availability across channels.

Sixty-two percent (62%) of Leaders currently use an inventory management module, compared to 46% of Followers. This technology provides visibility into the on-hand supply and placement of merchandise within the store or distribution channel. A key component to the integrated supply chain, inventory management modules allow retailers to effectively manage their inventory allocation and ensure that orders are fulfilled through any available channel to best serve the customer.

Figure 5: Supply Chain Technology

Fifty-four percent (54%) of Leaders, compared to 33% of Followers, use a distributed order management system. A distributed order management system provides companies with visibility into incoming and pending orders to quickly and accurately plan fulfillment. This technology ensures the smooth transition from selling to fulfilling inventory, and has a fundamental impact on the ability of an organization to fulfill orders on time and accurately, as it is required to share real-time order management information and real-time fulfillment planning and execution information across channels and relevant departments. Leaders leverage these systems to reach 98% on-time order delivery.

The third area of supply chain focus for Leaders is on the logistics side, both inbound and outbound. Inbound logistics refers to the process of purchasing and moving inventory from suppliers and distributors to the warehouse, distribution center, or retail store. Outbound logistics refers to the processes involved in storing and moving inventory from a warehouse or distribution center to the end consumer, whether that is by delivering merchandise to a store or directly to the customer. The coordination of inbound and outbound logistics requires cross-departmental and cross-
channel collaboration and visibility, and enables retailers to control the flow of inventory to the appropriate channels. It alleviates the negative impact of lost sales due to out-of-stock situations.

**Marketing Enablers**

The final piece of the omni-channel puzzle is the technology associated with delivering a multi-channel, multi-touch marketing plan (Figure 6). Leading retailers are nearly three times as likely to use a cross-channel loyalty application as Followers. A cross-channel loyalty application encompasses consumer insights, offer creation, offer redemption, and performance metrics reporting. This tool allows the retailer to aggregate all loyalty information across all channels of operation, with a single view of the customer and their purchase and interaction behavior. This is used to create tailored loyalty offers depending on the type of the customer the retailer is targeting; lapsed, high spending threshold, high discount percent, etc.

The cross-channel loyalty application is tightly tied to an enterprise-wide customer relationship management (CRM) application. CRM allows the retailer to collect and analyze customer behavior and purchasing information and data across all channels of commerce. The data collected can be used for a predictive modeling forecast, which will enable the retailer to create segmented offers based on the customer’s behavior and prior spending limits. This information is used by retailers in the decision-making process around offer creation. The end result is a personalized offer, which as stated earlier, is a driving force in improving year-over-year customer retention, response, and frequency rates.

*Figure 6: Marketing Technology*

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<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-channel loyalty application</td>
<td>69% 27%</td>
</tr>
<tr>
<td>Promotion and marketing management solution</td>
<td>62% 40%</td>
</tr>
<tr>
<td>Customer relationship management (CRM)</td>
<td>62% 44%</td>
</tr>
<tr>
<td>Cross-channel product information management system</td>
<td>54% 44%</td>
</tr>
</tbody>
</table>
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Source: Aberdeen Group, April 2013

Sixty-two percent (62%) of Leaders, compared to 40% of Followers, employ a cross-channel promotion and marketing management solution. This

“A seamless omni-channel done right will allow the customer to be reached by many touchpoints, and can provide a personalized experience. This leads to increased basket size and repeat visitors.”

~ Research Analyst, Tier 2 Specialty Retailer, US
technology is one of the first steps for retailers to align their multi-channel, multi-touch messages. The end consumer needs to receive consistent marketing content throughout the buying journey. The marketing management solution allows the retailer to standardize processes for offer creation while keeping consistent brand guidelines regardless of the channel. This is important for maintaining a single voice of the brand. It also serves to ensure that the customer stays engaged throughout the customer experience lifecycle, and that disparate marketing communications and offers will not confuse the customer.

Finally, Aberdeen's data is also showing that Leaders are more likely to use a cross-channel product information management application (PIM). A PIM application allows retailers to collect, centralize, and publish product information updates in real-time. This eliminates inconsistent branding, product descriptions, and price discrepancies across channels. Today’s consumer uses multiple channels to research products before making a purchase decision, and disjointed product information can play a big role in a lost sale. PIM enables the retailer to convey a seamless experience and brand regardless of channel, while allowing the marketing team to align the message across all channels.

**Key Takeaways**

Retailers must put the needs of their customers first when planning an omni-channel strategy. To achieve this goal, Leaders place an increased focus on ensuring product availability across channels. This requires the sharing of real-time order, fulfillment, and product information across channels and departments. Increased collaboration and visibility allow retailers to satisfy an “anytime, anywhere” retail philosophy, and begins to break down the siloed nature of traditional retail operations. Additionally, Leaders build out a multi-channel, multi-touch marketing plan through the use of customer data and insights to drive their marketing campaigns and ensure a consistent brand experience regardless of channel. The end results of these two strategies are higher customer satisfaction scores, increased average basket size, and increased revenue.

For retailers and consumer markets organizations that are re-thinking, re-launching, or just developing an omni-channel strategy, the following are Aberdeen’s recommendations:

- Share order management information across channels to increase visibility throughout the entire order process, from the transaction through fulfillment;
- Ensure real-time collection, centralization, and publication of product data across channels;
- Incorporate customer data and insights into business operations plans including supply, pricing, and promotions;
- Establish customer data collection guidelines for all channels to enable a 360 degree view of the customer;

### Demographics

Demographics of the 65 responding retail organizations include:

- **Job title:** Senior Management (27%); EVP / SVP / VP (10%); Director (15%); Manager (19%); Consultant (17%); Other (13%)
- **Department / function:** Sales and Marketing (60%); IT (12%); Business Management (10%); Operations (8%); Other (10%)
- **Segment:** Apparel (8%); Specialty (14%); Grocery (13%); Hospitality (10%); Consumer Electronics (10%); General Merchandise (8%); Leisure / Entertainment (12%); Consumer Products (17%); Other (8%)
- **Geography:** North America (57%); APAC region (24%) and EMEA (19%)
- **Company size:**
  - Large enterprises (annual revenues above US $1 billion) – 31%; midsize enterprises (annual revenues between $50 million and $1 billion) – 24%; and small businesses (annual revenues of $50 million or less) – 45%
Establish executive-level buy-in for an omni-channel customer experience management strategy.

For more information on this or other research topics, please visit www.aberdeen.com

Related Research

| Customer Loyalty 2012: Enabling Technologies for Customer Engagement, Conversion, and Retention; June 2012 | Best-in-Class Strategies to Overcome the Disconnected Customer Experience; April 2012 |

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