



Omni-channel point of view 2

The endless aisle: a key capability to serve the omni-channel customer

June 2017

Introduction

The journey towards a successful omni-channel supply chain is a challenging, though very rewarding one. New opportunities allow to better compete in the future marketplace.

The concept of the ecosystem of products and services acts as a differentiator to deliver *what* customers want, *where* they want it and *when* they want it. Agile fulfillment has become an established customer expectation, with benefits in the form of:

- 1 **Saving of a sale**
Fulfilling customer orders from the most efficient point in the ecosystem that has inventory
- 2 **High speed of delivery**
Capitalizing the efficiency of the ecosystem to improve the speed of order fulfillment
- 3 **Offset network capacity constraints**
Involving the entirety of distribution centers, stores, vendors, 3rd party partners, etc. to smartly balance the risk of asset constraints with overcapacity
- 4 **Right level of inventory working capital**
Creating a single view on inventory across the ecosystem to increase availability and service, whilst maintaining the right stock levels
- 5 **Optimal margin management**
Aligning order fulfillment decisions to value and cost

Five strategic core capabilities are important in view of reaching the omni-channel supply chain premise.

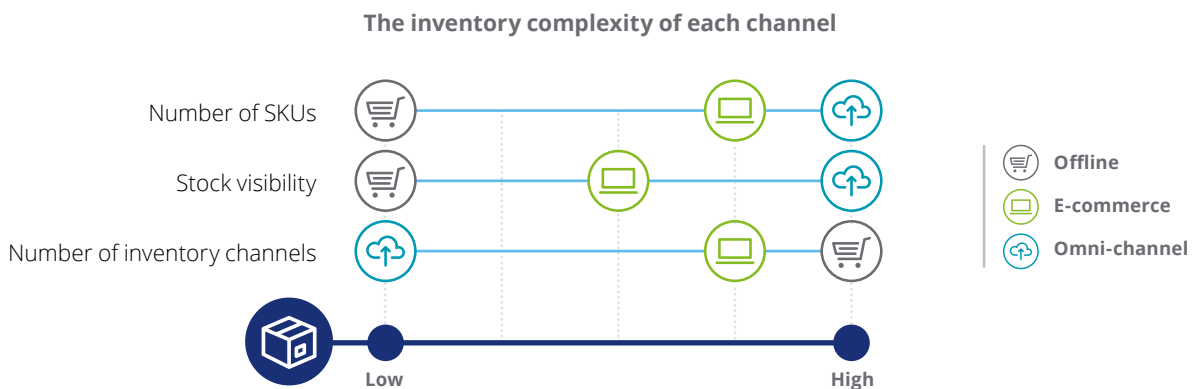
This episode focuses on inventory visibility & optimization as a lever to avoid lost sales and increase availability and service. A single view on inventory across the company and its ecosystem has turned out to be a critical prerequisite for omni-channel success.

Omni-channel inventory challenge

Solid inventory management is a key supply chain capability to enable spotless delivery at an acceptable cost.

An omni-channel shopping experience brings additional inventory complexity since demand fluctuations are not only product-specific but also channel-specific. Customers not only choose the product, but also choose the channel (i.e., online, in store) through which they would like to be served (in terms of delivery as well as returns). Different channels may require different processes, different delivery methods and formats, which can in its turn lead to a proliferation of SKUs given the e-customer's preference for personalization and smaller pack sizes. Finally, returns create additional warehousing complexity with requirements for quality control and re-entry into inventory.

Today, the majority of companies treat their stock separately per channel and pack size (e.g., stock on box/pallet level for the offline and on unit-level for the e-commerce customer). This traditional approach loses out on working capital efficiencies, supply chain flexibility and ultimately sales. Omni-channel inventory optimization leverages an ecosystem of products and services with visibility across the network to find and allocate inventory in order to meet customer demand regardless of location, status or ownership of the inventory.



Towards an inventory ecosystem

Providing the omni-channel experience increases the complexity of optimally balancing service level and inventory investment.

Since most companies continue to struggle with excess inventory whilst meeting customer expectations, a stepwise approach is recommended:

1

Hit the Curve

As a first and important step, companies can deliver incremental value by managing inventory better in each channel.

2

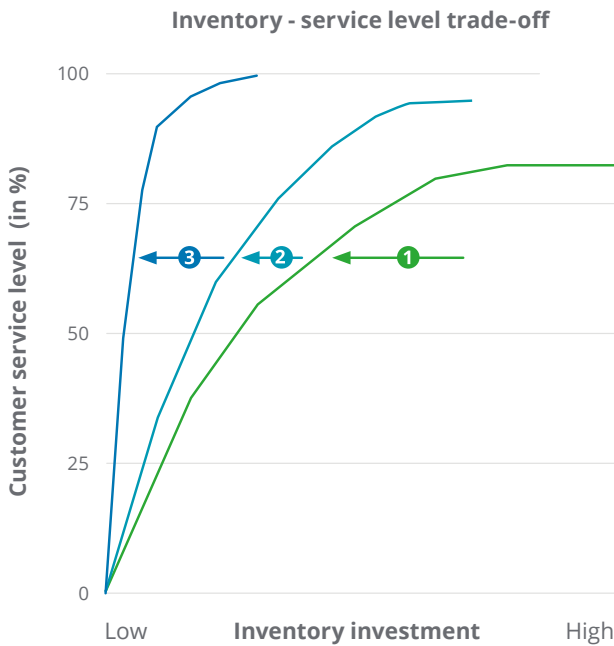
Shift the Curve

The next step is to shift the service level – inventory trade-off curve by optimizing inventory allocation across channels based on cross-channel demand forecasting.

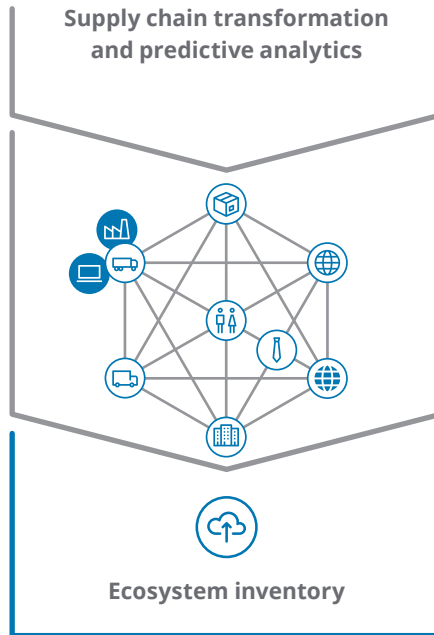
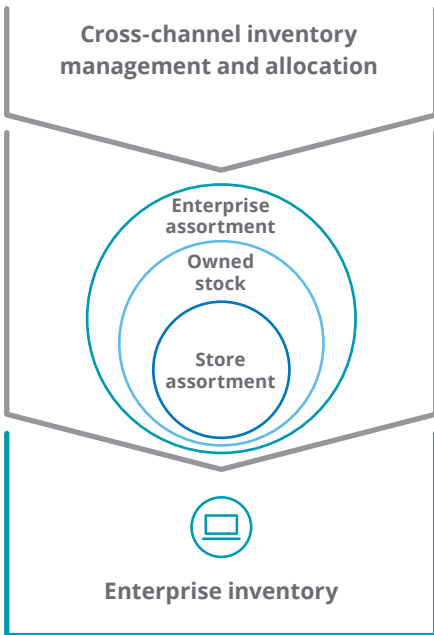
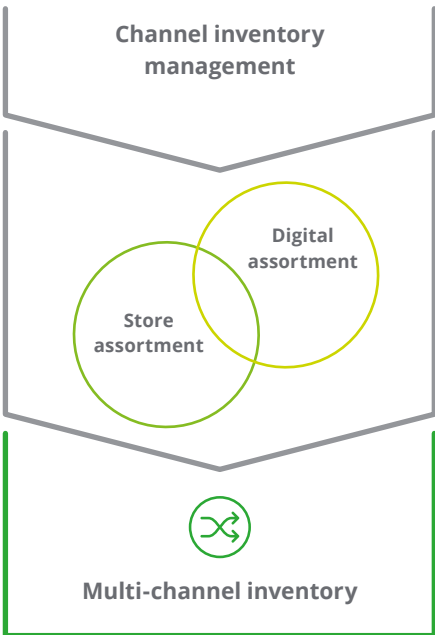
3

Redefine the Curve

To finally meet the connected customers' expectations, the ultimate step is to redefine the trade-off curve by a transformation of the supply chain into an ecosystem of inventory. In this ecosystem, inventory is pooled between channels and information is shared across all partners ensuring full inventory visibility and flexibility of allocation.



The inventory management journey

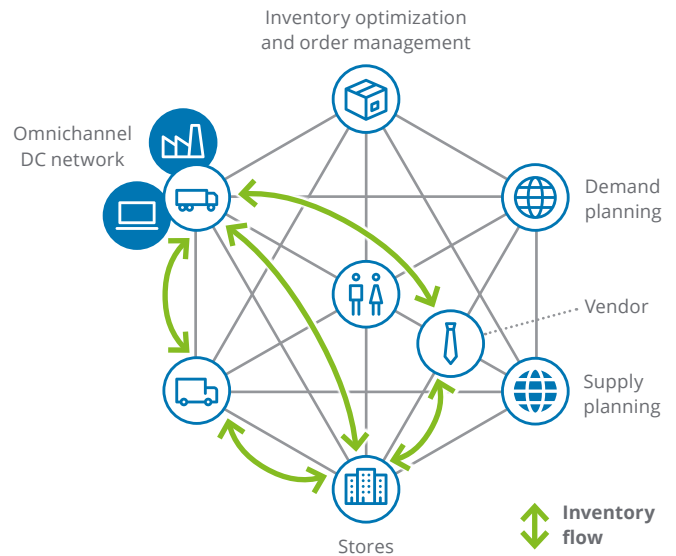


Defining omni-channel inventory management

The future omni-channel supply chain should support channel-agnostic inventory management.

Addressing safety stocks or determining order frequencies is based on a constant monitoring of the balance between inventory investment and service levels. Inventory visibility across the entire company makes it easier to balance supply and demand in real time. By means of a single inventory management system and predictive analytics, the organization can choose the most profitable and available way to fulfill an order.

The inventory ecosystem



"Inventory visibility is a key enabler for successful omni-channel inventory management"

For Macy's, inventory visibility is a key enabler for successful omni-channel inventory management. Its fulfillment strategy accounts for direct shipping to the customer from another location in the network, in the case of unavailability at a particular store. Although shipping

from the sub-optimal location comes at a cost, it does not outweigh the benefits of avoiding a markdown of the product in the low demand location. By the use of RFID technology, Macy's has built item-level identification leading to an increased confidence in the accuracy of

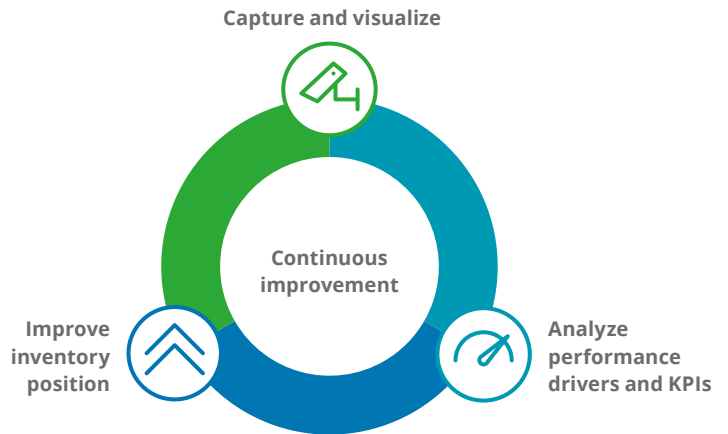
reported inventory levels. These real-time inventory initiatives led to \$1 billion inventory savings.

source:
publicly available information

New technology is an important enabler for the evolutions in the marketplace. Ongoing inventory optimization exercises are intensively data-driven and fed by predictive analytics. The crucial information consists of demand forecasts, point-of-sales data and market driver performance. By visualizing the inventory and demand, the performance drivers and KPIs can be closely tracked and assist in improved inventory decision making:

- 1 Dynamically leveraged inventory through appropriate inventory protection levels and well-defined order rules;
- 2 Enhanced and fast flow of information;
- 3 Improved planning capabilities;
- 4 Better understanding of customer behavior.

The ongoing learning process



Next to technology, new organizational practices founded on collaboration and information sharing are coming to the forefront. These innovative business models require a new vision on inventory management in order to keep up with the demands of the ever-changing customer. The traditional focus on one-off inventory optimizations is fading away, making room for a process mindset where inventory management is a continuous learning effort, of which findings are fed into business practices in order to operate in a more effective way.



"Alibaba.com offers a platform that connects buyers, sellers, third-party service providers and investors to do business anytime and anywhere"

Alibaba.com has created an ecosystem of inventory to the extent that the company itself does not hold inventory, neither a warehouse. Instead, Alibaba.com offers a platform that connects

buyers, sellers and third-party service providers and investors to do business anywhere at any time. The multi-channel retailing model offers direct access to the seller's inventory, across all marketplaces.

Data analysis to discover demand requirements or supply gaps holds everything together.

source:
publicly available information

Contact

Paul Delesalle

EMEA Supply Chain Leader
+ 32 476 49 50 08
pdelesalle@deloitte.com

Vincent Fosty

Digital Transformation Leader
+ 32 497 59 62 19
vfosty@deloitte.com

Kevin Overdulve

Director
EMEA Logistics & Distribution practice
+ 32 479 91 02 28
koverdulve@deloitte.com

Dennis De Clerck

Senior Consultant
+ 32 474 66 57 76
ddeclerck@deloitte.com

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax and legal, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 225,000 professionals, all committed to becoming the standard of excellence.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.