Think big, start small, connect now
Omnichannel fulfilment in 2017
Introduction

The retail landscape is rapidly changing. In order to win the battle for consumers, retailers have to seize opportunities. However, today’s key challenges are not easy to crack. For example, pure players disrupt the marketplace and consumers have an abundance of choice with fingertip-access to a global assortment, while switching costs are low.

Recently, Deloitte published ‘The New Digital Divide’, ‘Global Powers of Retailing’ and ‘Retail Talent Disrupted’ which report on the digital and mobile influence factor, shopping preferences of consumers, and the latest trends in retail. Now, we have enriched the insights from various retail-industry studies and benchmarks by listening to ‘The Voice of the Consumer’. With data from a large-scale consumer survey, we share our view on consumer fulfilment, returns, and corresponding omnichannel and supply chain capabilities. This study reveals the dominant consumer preferences related to their purchasing, delivery, and return experience. What service propositions do consumers value and do they match the offerings in the marketplace? What capabilities are crucial to satisfy your consumer effectively and efficiently?

The omnichannel fulfilment study is the result of an industry benchmark, expert interviews and a consumer survey:

- A consumer survey - over 600 representative Dutch respondents have provided their insights based on trade-off analyses

- An industry benchmark - 60 Brick-and-Click retailers with sales operations in the Netherlands were compared based on the customer fulfilment services offered

- Expert interviews - 8 retail managers and executives and multiple supply chain specialists were interviewed for insights in their view on omnichannel services and capabilities

Some of the key results show that Brick remains competitive to Click, as consumers favour both sales channels to an equal degree. This justifies a complementary Brick & Click strategy. In addition, retailers should develop and strengthen their mobile channel as especially the younger, trend sensitive and digitally savvy generation shows appetite for mobile purchasing. Asking consumers for preferred payment methods reveals that more and more consumers expect payment-after-purchase to simplify the purchasing process. In terms of product fulfilment it is striking that availability beats sales channel loyalty, as consumers are indifferent to how they receive the product. Lastly, free delivery costs are becoming the standard, while dynamic pricing methods should be applied to leverage willingness-to-pay for same-day delivery and other premium services.

These omnichannel offerings can be realized by implementing capabilities in three areas: enabling, supply chain, and commercial capabilities. Deloitte developed a capability framework to make a profitable trade-off between responsiveness and efficiency for each of those capabilities, in order to meet consumer expectations. Finally, it is all about getting started. Building a winning omnichannel fulfilment proposition requires to Think Big. Start Small. Connect Now. We welcome any feedback, suggestions and comments for which you can contact:

Wesley Snoeren – wsnoeren@deloitte.nl
“What I think is important is same day delivery”

– Omnichannel Operations Manager – Global urban fashion brand
Your consumers value a distinct set of services

The voice of the consumer shows that consumers have preferences across the entire customer fulfilment phase, ranging from ordering to return.

**Brick remains complementary to Click**
While analysing sales channel preferences, Brick and Click are complementary. Even though retailers see that their digital channel keeps growing, 32% of online consumers still show a preference for brick and mortar stores and 42% rate their preference for a purchasing channel equally for website and store. This indicates that providing an outstanding store experience is still a competitive advantage. Whether a consumer prefers shopping in stores or online differs per target group. For instance, 50% of consumers that work outside of office hours favour store most and only 9% prefer online.

**Improve your mobile landscape**
Purchasing through mobile channels is increasingly popular. Up to 21% of consumers say a mobile website or app is favoured as purchasing channel, and this number increases to 30% for progressive consumers (e.g. younger than 30 or trend sensitive consumers). Only 21% of retailers is currently offering a mobile purchasing option. This indicates the importance of improving your mobile landscape, especially when you are targeting certain consumer groups.

**Enable payment after purchase**
Payment should be convenient for consumers. Standard methods like iDeal, Credit Card, and PayPal are popular. However, 53% of consumers prefer to test the product before payment (i.e. payment after the purchase) while only 32% of your peers offer this service.
Product availability drives behaviour.
Consumer loyalty to a particular sales channel is low. Their main purpose is to buy the product they desire. You can leverage this by fulfilment from alternative channels in case of stock-outs. When facing an online stock-out, 60% of consumers will stop their purchase or go to a competitor. However, when redirecting consumers to the store (e.g. by showing store inventory levels or providing the option to reserve the out-of-stock product in store), this no-sales percentage is reduced to 15%. The other way around, when sales associates send a store out-of-stock product from another location to the consumer's location of choice (e.g. home or store), the no-sales percentage is reduced from 30% to 10%. In addition to the significant reduction in no-sales, this also shows that consumers are more loyal to a store than to a website and enhances the presumption that consumer switching costs are lower in the online environment.

Pursue no cost standard fulfilment strategy
Retailers, especially pure players, increasingly strive for shorter lead times, increased reliability, and more flexible shipping hours (e.g. weekend delivery). Despite the increasing convenience, consumers show no willingness to pay for improvement of their fulfilment services. For standard delivery, costs are considered 3 to 6 times more important than other attributes like speed, and 4 to 12 times more important than return attributes. This shows that it is important to offer cheap, if not free, standard fulfilment to adhere to the importance of this cost factor.
Leverage willingness to pay for same-day delivery or other premium services

In specific situations (e.g., your consumer needs a birthday gift delivered quickly), consumers could still value premium fulfilment quality like same-day delivery or a smaller time window. Results indicate that consumers are willing to pay when a service is provided as a premium option as add-on to their standard delivery. 60% of consumers would be willing to pay for same-day delivery if needed, and 30% would be willing to pay for delivery re-allocation (i.e., change the delivery time and/or location when the driver is already on its way), or a smaller delivery-time window. In all cases, they are willing to pay, on average, approximately four euros. This shows that consumer satisfaction can be increased in a profitable way by creating a dual fulfilment proposition with free standard delivery and premium service options.

Exploit return channel as a sales opportunity

The return channel can be leveraged to boost sales. In certain situations retailers know upfront that the consumer is going to return a product. For instance due to the fact that a consumer has ordered several sizes of the same product. You could send additional products based on consumer analytics that consumers can either keep and pay or return. 51% of consumers do not feel negative about this service. Keep in mind that still a large portion of consumers is not positive about this model. Listen to your consumer and offer this service as a choice rather than forcing it upon the consumer.
Delivering upon the promise is key
To survive the battle for share, retailers should focus on consumer life-time value instead of short-term conversion. Consumers expect good products and excellent service. This requires the consumer fulfilment process to be flawless. 46% of consumers considers purchasing at a competitor if the fulfilment offering is dissatisfactory. If the fulfilment execution is dissatisfactory, 54% of consumers say they will not return for their next purchase. This shows the importance of the right customer fulfilment proposition and a reliable execution.

Your peers are not fully adhering to identified consumer preferences
Comparing the customer fulfilment preferences with your Brick-and-Click competitor’s offerings shows some interesting differences.
- Only 21% of the investigated retailers have a mobile purchasing channel, while this is becoming an increasingly dominant channel.
- Only 32% of retailers offer payment after purchase, while 53% of consumers would like to have this option.
- Only 14% of the retailers show store stock levels, even though this decreases stock-out no-sales with up to 45%.
- Only 35% of retailers offer in-store delivery or return, even though this generates additional traffic.
- 52% of the retailers offer an extended return time window. This increases markdowns, while it only slightly impacts the purchase decision.
- 42% of retailers offer express delivery service as an added value service, but only 2% offer more premium services (e.g. same-day delivery).
Reconsidering your capabilities

In order to offer the fulfilment proposition desired by consumers – and make a profit – a set of capabilities needs to be in place. By gathering industry insights, Deloitte has built a framework that brings these capabilities together. The framework consists of three areas that help fulfil in a consumer-centric way: enabling capabilities, supply chain capabilities, and commercial capabilities.
Enabling capabilities - insights and structures
To support efficiency and flexibility in the operations, enabling capabilities are essential. Analytics and information management guides decisions and helps to build a profitable omnichannel fulfilment strategy. End-to-end inventory visibility, preferably real-time, is crucial to offer the consumer access to all inventory, provide visibility on stock levels in stores, and (re-) allocate stock as effectively as possible. You should consolidate consumer data from all touchpoints to create a single view of the consumer, make consumer profiles, and develop preference models to offer customized service propositions based on individual needs.

Organizational and tax components are foundational elements to define the omnichannel structure. Omnichannel retailing can only be successful with the right organizational and partnership structure that enables cross-channel and cross-organizational exchange of products. This structure allows an organization to allocate revenue and cost, to maximize bottom-line, and to avoid cannibalization as much as possible. Also, when operating cross-border, different fulfilment models may impact tax allocation. Optimized routings and transfer pricing can soften the tax burden and increase probability.

Supply chain capabilities – efficiency versus flexibility
Supply chain capabilities are the foundation for customer fulfilment execution. Since standard delivery is advised to be as cheap as possible, this requires an efficient supply chain. To enable premium services, increased responsiveness is required as well. Therefore, a dual capability mode creates the basis for the trade-off between efficiency and responsiveness with the demand for premium services as a main influencer. For instance, if a large percentage of your consumers desires same-day delivery, more flexibility is required. In the entire range of capabilities, from strategic to operational, it is advisable to make these trade-offs.

Network design – What should be the optimal DC footprint?
The first supply chain capability that requires attention is network design: What is the best distribution footprint to fulfil efficiently on the one hand and ensure accessible local stock on the other hand? Most firms know how to fulfil efficiently, often with a centralized warehouse that serves a large area. However, local stock needs to be accessible to maintain premium service levels. This local stock can be made accessible in two distinct ways:

1. Using existing store capacity for local stock
2. Building a local hub to create new capacity

Using stores requires less investments, but puts strain on store capacity. Therefore, when capacity is higher than premium service demand, stores are a smart option. When the demand for premium services exceeds store capacity, local hubs can increase service levels without jeopardizing store sales operations.

Hubs and stores can complement each other in a variety of ways to ensure that premium services are fulfilled efficiently. The choice of which option to use depends on the specific requirements and the business goals of the company.
**Inventory deployment – In which DC to put what inventory?**

When locations of stock are determined, the breadth and depth of the assortment within the different locations can be assessed. The entire portfolio needs to be stored centrally for fulfillment of standard delivery. However, it is very expensive to also store all products in the local hubs or stores. Therefore, premium services do not have to be offered on all products for all consumers. Depending on the sales contribution of the product (i.e. how much does the product represent as a percentage of sales or profit?) and the demand for premium services on the product (i.e. are premium services often used for this product?), a decision can be made for deployment of local inventory.

**Replenishment and fulfillment – How to replenish DCs and fulfill consumers?**

After determining the desired breadth and depth of the product portfolio, you can assess how to replenish the stock positions and fulfill consumer demand. Seasonal businesses often work with seasonal replenishment: a push model where once every season, inventory is pushed downstream in the supply chain. This results in a high volume of stock in stores, leaving less capacity for possible fulfillment opportunities. It also leads to high in-transit inventory, high number of inter store transfers, and returns that sell at lower price points. A more flexible replenishment structure is point of sales replenishment where more inventory is kept upstream in the supply chain and the point of sales data provides insight to offer the right product at the right place for the right price. Point of sales replenishment limits inter store transfers and in-transit inventory, leaves capacity for from-store fulfillment and means that in-season cancellations sell at a higher price-point. Since it requires more upstream inventory, you can find the trade-off between the two models or a hybrid version that fits your needs best.

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**Push inventory to stores**

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<th>Central DC</th>
<th>Local/Account DC</th>
<th>Stores</th>
<th>In-transit</th>
<th>Cancellation DC</th>
<th>Liquidation channels</th>
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- **Downstream inventory deployment**
- **High in-transit inventory**
- **Cancellations**
- **Cancellations sell at lower price point**
- **High number inter store transfers**
- **Proactive cancellations**
The replenishment strategy brings products to stores. Fulfilment strategies bring products to consumers. Standard allocation - products brought to consumers by sending products from a(n) (e-Commerce) DC - is efficient and easy. Markdowns can be avoided by sending products with high markdown risk in stores to consumers instead of directly from the warehouse. This decreases lost margin and improves business results if cost-to-serve is kept in mind.

“We generally have centralized inventory, while for a lot of services you need to have local inventory available”

– Director Digital Supply Chain – Global sports and apparel firm
Reverse logistics – How and where to process returns?

Returns are a burden for a lot of retailers due to margin hits and increased markdowns. First, to enhance reverse logistics performance, it is key to speed up the return processing speed. The longer it takes to bring a return back to resellable stock, the higher the probability that it ends up being sold with markdown or liquidation type of margins.

One way to bring products back to resellable stock faster is to process returns decentralized to deploy them faster. The smaller the timeframe between full price and markdown, the more beneficial it is to do so. However, since decentralized return processing can be expensive, a trade-off between these two aspects can be an indication of profitable return processing strategies.

Commercial capabilities – the front line

Operational performance can be great, but if this is not translated into a consumer-centred approach, the value for consumers will be dissatisfactory. Therefore, all front-end touchpoints need to be aligned and optimized. For Brick-and-Click retailers, stores are a competitive advantage compared to disruptive pure players. This means that store associates need to be trained to service consumers properly as well as how to fulfil (e.g. for in-store delivery). Online presence is increasingly important and the right infrastructure for web and mobile is key as well. Together, this will result in (more) consumers. In addition to direct front-end capabilities, collaboration with key partners could increase consumer value. Aligning your customer fulfilment offerings with retail or wholesale partners improves consistency for consumers. Cross-organizational offerings (e.g. in-partner-store delivery) enhances convenience and the seamless experience even further. This requires partnering with your value chain – ‘network retailing’.
Getting started

To achieve true omnichannel fulfilment and adhere to consumer preferences, you need to get started as soon as possible. Establish a consumer-centred foundation to accelerate the process. Appoint your program leader and assemble a team to define your omnichannel goals. Understand the drivers that bring your organization and your partners together to effectively take consumer satisfaction to the next level.

**Think big**

- Embrace the consumer journey: pave the way towards a seamless end-to-end consumer journey by understanding your consumer and your offerings.
- Design future proof: embrace the fact that your supply chain will be disrupted. Design your omnichannel fulfilment capabilities to face exponential technologies and other disruptions.

**Start small**

- Prioritize your service offerings: Pick several fulfilment services to focus on first in order to get started and establish a proof of concept.
- Find the trade-off: identify the trade-offs needed to support your service offerings and adhere to current operations. A total overhaul is not always necessary.

**Connect now**

- Break down the internal siloes: Support omnichannel thinking. Online needs offline and the other way around. Combined channels are stronger than separate ones.
- Enhance your external network: Establish partnerships with upstream and downstream stakeholders. A network of retailers will outperform a single firm.

“You really have to arrange it well end-to-end or it will become a mess”

– General Manager, Global fashion investment firm
Feel free to contact us!

Maureen Hughes
Partner – Global Supply Chain Lead Consumer Products
Tel: +31 (0)88 288 2549
Mobile: +31 (0)6 5267 2502
Email: maureenhughes@deloitte.nl

Lonneke Knipscheer
Partner – Supply Chain Strategy
Tel: +31 (0)88 288 4418
Mobile: +31 (0)6 2660 8305
Email: lknipscheer@deloitte.nl

Victor Hoong
Partner – Retail Lead Deloitte NL
Tel: +31 (0)88 288 9709
Mobile: +31 (0)6 1312 7261
Email: vhoong@deloitte.nl

Mark-Jan Grootenboer
Senior Manager – Omnichannel Supply Chain Expert
Tel: +31 (0)88 288 4725
Mobile: +31 (0)6 1234 4524
Email: mgrootenboer@deloitte.nl

Laurens Nolet
Manager – Omnichannel Supply Chain Expert
Tel: +31 (0)88 288 8059
Mobile: +31 (0)6 8355 5153
Email: lnolet@deloitte.nl

Wesley Snoeren
Business Analyst – Supply Chain and Omnichannel Fulfilment
Tel: +31 (0)88 288 3718
Mobile: +31 (0)6 1327 4910
Email: wsnoeren@deloitte.nl