

Bye-bye, silo retailing, hello, omni-channel



Chico's (top photo) and Ann Taylor are two of a fast-growing number of retailers who are responding to the customer's changing shopping patterns with omni-channel strategies.

Retailers are combining their selling platforms with a central aim in mind: pleasing shoppers, a novel idea.

By Marie Driscoll
Contributing Writer

THE OLD ADAGE that retailing has to evolve to survive needs updating. In the last three months, retailers are embarking on a new strategy that many are calling revolutionary, not evolutionary. Change today has to be rapid, not gradual, and those retailers not joining the revolution, not making the investment, could be left far, far behind.

Driven by smart phones (projected to reach 140 million by the end of this year), e-commerce, Amazon and free shipping, shopping options have dramatically expanded and the retailing landscape is undergoing a rapid sea change.

This significant shift in shopping patterns has prompted a brisk embrace of omni-channel, which has exploded as a major focus for retailers this year, particularly those trying to build relevancy with the Millennium generation.

During recent earnings calls and investor conferences, American Eagle, Ann Taylor, Chico's, Deckers/Uggs, Finish Line, Gap, Guess, Kate Spade, New York & Co., Nordstrom, Saks Fifth Avenue, Signet/Ultra Jewelers, VF, Zales and other brands extolled the omni-channel strategy. In short, through the simple task of giving customers what they want, when they want it and where they want it, these companies are driving revenues.

Today's connected consumer shops 24/7 online, in store, in store via mobile, in bed via iPad. Armed with access to competitive pricing and showrooming, customer loyalty is tenuous. Yet we know that when retailers do it right, the omni-channel customer spends more – up to three times more, say retailers such as Chico's.

As recently as 2010, most retailers operated their various channels – online, catalog, full



Nordstrom plans to spend one-fourth of its \$3.7 billion 2013 budget on IT, the end result of which will be improved service and even happier customers.

price and outlet – as distinct silos. This approach misses shoppers who want synergy and service across all channels, who regard the retail brand in its totality, and who now demand cross-pollination.

Consistency in terms of products, pricing, availability, payment methods and promotions is a given. In a nutshell, omni-channel retailers let consumers experience the brand, not a channel within a brand.

A bevy of IT providers offer solutions spanning supply chain, distribution, logistics and marketing under the omni-channel umbrella. Simply put, the omni-channel customer wants what she wants, when she wants it and retailers have to create a flexible and visible supply chain to meet fulfillment expectations one customer at a time.

Omni-channel means greater product choice for the consumer as the online store generally has expanded assortments (such as petites, plus-sizes, special-occasion dresses). More SKUs means more complexity. RFID (radio frequency identification), Big Data and cloud computing now allow for recognition on an item basis. This means that brands can locate a magenta eyelet top size 4 in a Dallas outlet store and ship it to an online customer in San Francisco.

Although store-level inventory management with real-time visibility has variable costs associated with getting the product to the shopper, the gains on the pricing front with improved full-price selling are meaningful.

And a satisfied shopper spends more.

Nordstrom, the epitome of superior customer service, is putting 25 percent – \$900 million – of its 2013 \$3.7 billion capital budget into IT, clearly counting on technology to further enhance its strong relationship with consumers.

“Our multichannel customer is an aggregate of our best customers,” Nordstrom CFO Michael Koppel told analysts in February.

Nordstrom will also spend about \$300 million on fulfillment infrastructure to provide speedy delivery and improve customer service in its \$1.3 billion ecommerce business. The customer-service-minded retailer will spend \$240 million on digital technology to create a better online, mobile and in-store POS experience, and it will spend a like amount on other technology to streamline data collection. The last bit of Nordstrom’s 2013 budget – \$120 million – will go toward merchandising, marketing and loyalty programs.

“I think we’re in the very, very early stage with ecommerce,” Nordstrom’s Koppel said.



Guess’s omni-channel strategy uses mobile and social media to connect customers to its intertwined online and in-store platforms.

“Clearly, if you look at what’s happening and who the winners and losers are, those with what we call a multichannel offer are the ones that, long-term, will have the best outcomes. That’s what we’ve seen to date...Investments to create a frictionless, transparent experience

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for the consumer across all channels are clearly resonating.”

Playing to the connected customer is already happening:

Amazon has increased expectations for free shipping.

Macy's is fulfilling online orders from 300 of its department stores, with plans to fulfill from 500 stores by the end of this year.

By allowing its online business to access all owned inventory – in-store, warehouse and wholesale stock – Jones Group has generated double-digit online growth just through better marketing of all available product.

Saks Fifth Avenue's chairman and CEO Steve Sadove spoke extensively about the retailer's omni-channel initiatives at the BofA conference in March. He said that to get to an 8 percent operating margin, the company is counting on its omni-channel approach.

“I feel better today, especially given omni-channel, than I have in the past relative to visualizing and seeing us getting to that [8 percent] level,” Sadove said. “I can't underestimate or overemphasize how important omni-channel is in retail... You can't have silos. How do you move product around, how do you market products from across the channels? The way we fundamentally think about retail is changing, and I feel real good – very good – about how this organization has responded and is being very proactive in looking at what's right.

“It used to be I'd ask my team, ‘how are our handbag sales?’ and get an answer, ‘Well, our store sales are X, our internet sales are Y and concession sales are Z.’ But the consumer is looking at a handbag. So how do you look at it holistically and how do you manage the entire business system on an omni-channel basis? That's what I think is going to transform us.”

Saks' move toward omni-channel even has a name: Project Evolution.

Like Macy's, Saks is now fulfilling its online orders from its stores, a practice the retailer began testing in November 2012. “We are probably a year behind some of the top best-in-class in doing it,” Sadove said. “We will get there. We were probably in the crawl stage as we went through November; we're probably in the walking stage today, and by midyear, we will be running.

“We have historically run separate inventories. Our internet business would have one inventory, our store business another inventory. When we ran out of stock online, it was gone. Now, we're sharing the inventory so that if we bought 20 ties online and 100 in the store, when we ran out of the ones online, we were done. Now we have the ability to start shipping them directly to the customer from the store. The impact of that is dramatic because what might have been a mark-down sale in the store now can be shipped online and you have both the revenue impact and a gross



Omni-channel retailing has become so important to Saks Inc., that the company has dubbed its transition to the strategy Project Evolution.

margin effect of that sale.

“That's a very dramatic change and it's having a bigger impact than we anticipated in terms of customer response. We're very optimistic about it.”

Cache's chairman and CEO Jay Margolis told analysts in March that the company will be aggressively marketing to consumers in a new way. “As everybody has said in multiple calls, it's an omni-channel brand play, meaning you're going to get this brand Cache to a strength where, whether it be online, whether it be in our outlet stores, or our full price stores, or in other possible channels down the road, people are going to want to come see Cache.”

Fifth & Pacific's Johanna Murphy, VP-ecommerce for Kate Spade, said the company implemented online technologies to limit out-of-stocks and improve inventory management.

“This is all part of our evolving omni-channel strategy,” Murphy said. “We're upgrading our CRM technology so that we can take our understanding of the needs and differences between our offline and online customers to a whole new level. This will help us understand the relative value and specific needs of different customers within and across our different channels. This allows us to utilize those insights to deploy more sophisticated marketing efforts that target high-value customers.”

Social media's role

A 2012 study of 11,000 shoppers in 11 countries showed that 59 percent follow brands or retailers on social media, with 49 percent using social media every day. In the U.S., 52 percent of shoppers go directly to

brand sites to purchase, but only 12 percent of respondents purchase through a social media site and only 18 percent buy a product as a result of information obtained from a social media site.

However, online shoppers do comment on their purchases in social media venues such as Facebook, as well as interact with brands, seek friends' and experts' recommendations, and look for deals and promotions. While not yet a retail channel, social media is a robust marketing and communications tool.

While privacy concerns remain, many shoppers happily opt-in to geo tracking mobile apps so they can receive personalized targeting and individualized promotions. Mobile phones aren't shopper's preferred purchasing tool – but PCs, notebooks and tablets are virtual cash registers.

Shipping news

Walmart currently has app-based self-checkout in more than 200 stores in a 14-market test.

Walmart is also doing an unusual test in 25 stores. The retailer is asking in-store shoppers to deliver purchases to online buyers – we are not making this up! The shopper/driver gets a discount that effectively covers the cost of gasoline. Obviously, there are many privacy, legal and regulatory hurdles to this brainstorm.

Nordstrom is testing same-day shipping and looking at an off-price online offer, but sees the real future of omni-channel in creating a more personalized experience for the customer.

Koppel said at the BofA conference,

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Recognizing that customers “want what they want when they want it,” Uggs is working to meet those demands through omni-channel retailing.

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“We’re reaching a point where you can create a very personalized experience for a customer, and it doesn’t have to be just at a desktop. It can be through their mobile. It could be walking in a store and the mobile recognizing the customer’s there and creating a personalized experience with the customer and the salesperson.

“The good news is, because of all of our touch points, our credit card, the Rack, online, and full-line, we have, over the years, gathered a lot of data to better understand our customer, and I think long-term, we’re going to continue to look for ways that create that personalized experience. If you think about it, that is what created that customer experi-

ence with Nordstrom in the more traditional way, it’s that personalized experience.”

At Deloitte, in the 2013 Outlook on Retail, Alison Kenney Paul advises a return to retail 101 – know your consumer.

“Retailers should focus on connecting with the customer through whatever means their shoppers desire. If you are serving teens, you should be in the middle of the digital and social revolution and thinking about the mobile devices in their hands. The focus should be on engaging the customers in a two-way dialog, not just pushing messages to their smartphones or tablets.”

Angel Martinez, chairman and CEO of Deckers, parent company of Uggs, said that understanding the full impact of omni-channel on consumer behavior is difficult because it plays out in so many different ways.

“Consumers want what they want and they want it now and they want it in every facility – every easy way they can get it,” Martinez told analysts in February. “It has a ripple effect on a lot of investments in terms of inventory levels. This is all still shaking out. We’re being cautious, but I think we have our eyes open and we’re working very, very hard to project the impact of what I would almost call a revolutionary change in the wholesale environment and consumer behavior around omni-channel.” ■

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