Omni-channel: Rethink, reshape, revalue

Retail Study 2014
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Deloitte and the Retail Council of Canada (RCC) undertook a study aimed at understanding the operational complexities that retailers encounter during the transition to being an omni-channel operator. Historically, retailers have operated with a hub-and-spoke model, with retail locations being supported by operating functions at head offices. The shift in consumer purchasing habits, driven by the emergence of eCommerce and mobile technology, has in turn disrupted retailers’ traditional sales channels and back-office operations. Due to the iterative nature of technology development, this will continue to challenge retail operations in the future.

During the study, we found that the operational impacts of an omni-channel can be significant and unexpected. The supply chain no longer ends at the back door of a store, a store is not confined to its four walls, data is not contained in a single system, and customer expectations and culture can’t be ignored. The challenge for a retailer is to usefully anticipate the ways in which the new omni-channel business model should be implemented in its organization and how it can drive the shopping experience in the future.
While China, the U.S. and other countries continue to enjoy double-digit growth in their eCommerce operations, growth in Canada is slowing. While there are economic factors at play that have contributed to reducing online shopping in Canada, an overarching detriment to the Canadian eCommerce market is a relative lack of options for consumers, especially in comparison to what’s available in the U.S., the U.K. and European countries.1

Most of the top 50 e-retailers (referred to as the e-50) from Deloitte’s Global Powers of Retailing 2014 – Retail Beyond begins are based in the U.S., followed by Europe. And while eCommerce accounted for a significant share of total retail revenue for the e-50 in 2012 — on average, nearly one-third of company sales — eCommerce was typically a small slice, often just 1–2% of the revenue of the big mass merchants and food retailers. eCommerce accounted for 5–15% of sales for some of the big department stores and specialty apparel retailers, and reached 15–20% for several consumer electronics retailers.2

While the majority of revenue may not currently come from a retailer’s eCommerce channel, eCommerce will be playing an ever larger role as retailers look to diversify their revenues globally.

Understanding that all of a retailer’s desired omni-channel capabilities and their operational implications are tied together is the key to a successful omni-channel operating model. In order to transition to an omni-channel operating model that is supported by the appropriate processes, technology, people and information, it’s essential to understand the intricacies between the functional and technical levers, and how tinkering with one affects the entire operational and consumer environment.
What do we know?

**If you are not in eCommerce, you are losing out**
Through our research, we noted that it is no longer a question of whether or not retailers should consider integrating eCommerce into their operations – it is now a requirement. Over the last 10 years, online retail sales growth has dramatically outpaced that of traditional retail channels, e.g., bricks-and-mortar (BAM) stores, catalogues, etc. While the recent recession hurt all retail sales, online retail growth rebounded more quickly and is once again outpacing traditional retail (Figure 1).

Global business-to-consumer (B2C) eCommerce sales are forecasted to hit $1.5 trillion in 2014. Growth will come primarily from the rapidly expanding online and mobile user bases in emerging markets, from increased sales in mobile commerce, from advancing shipping and payment options, and from the push into new international markets by major brands. The impacts on organizations can be seemingly endless, with every customer demand or desire translating into capabilities that must be enabled from end to end within the organization’s operations, supply chain, customer relations and marketing, to name just a few functions affected.

We found that the retailers who play most effectively in this new environment are providing a seamless integrated experience across bricks-and-mortar stores, web and mobile in the global environment. This means that they had to re-engineer their current systems and processes to support the new transactional environment. The traditional operating model shifted, forcing retailers to envision the future and define the operational strategy that will influence their share of the marketplace today and into the future.

Throughout this study, we will be exploring four themes and how omni-channel has challenged retailers to rethink, reshape and revalue their business. The four themes are:

1. Enterprise Architecture
2. Omni-Channel Operating Environment
3. Real Estate
4. Data Analytics

![Figure 1: eCommerce sales are reshaping bricks-and-mortar economics](image-url)
Enterprise Architecture

Where is IT taking you?
The first steps for most retailers on the journey to their omni-channel state are an IT strategy and IT Roadmap. These play an important part in a retailer’s ability to successfully deliver the integrated experience that its customers and employees expect. Having an Enterprise Architecture view is paramount in setting the course for investments, capabilities and experience. Historically, retailers have not invested in technology, leaving them with legacy systems that predate some of their employees, and some tough decisions on how to best move forward.

To create an IT Roadmap that outlines the key steps that a retailer needs to take in its journey to becoming the omni-channel operator it would like to be, the process must start with an understanding of the core of the business and how IT supports that core. As a retailer, this means understanding the entire organization, from stores through to support functions, including, but not limited to, design, development, merchandise planning, sourcing, distribution, procurement, store design, marketing, finance and human resources. Understanding the systems and tools that currently support the business is the key to unlocking the future.

“One significant challenge is around the question of whether you can effectively move forward with the systems you have in place today. Will they continue to be a match with the organization’s future goals? In an omni-channel environment, systems and goals must be closely interrelated,” says Peter Higgins, President and Chocolate Scientist, Purdys Chocolates. For an IT Roadmap to be successful, the retailer must have a firm understanding of the capabilities and goals across the organization. Understanding where the key skills are internally and knowing which skills should be acquired or outsourced will provide a starting point for the IT Roadmap, which will allow the IT department to truly be an enabler of the omni-channel strategy. “The ultimate goal is to build an IT Roadmap that addresses issues in a sequence; as these issues are overcome, the initiatives provide benefits that can fund other initiatives,” says Stuart McLaughlin, President, Grouse Mountain Resorts.

“It isn’t only thinking about which levers contribute most significantly to the success of omni-channel. It is also important to rethink the whole business model. If there is one thing that has to be done, it has to be that high-level strategy: building flexibility into your model so you can take advantage of the changes and not be buried by them.”

Gary Faryon, Chief Retail Operations Officer, MEC
IT strategy and roadmap development

1. Understand the current state
2. Identify the tactical and strategic opportunities
3. Prioritize based on organizational goals and value to consumer

Linking the overall omni-channel strategy to the IT Roadmap through the prioritized initiatives creates a foundation for an organization to build upon. It drives forward thinking, high-level planning and a shift toward a long-term sustainable strategy. Many retailers interviewed found developing an IT Roadmap challenging, especially given the pace of change—it is hard to fathom a three- to five-year strategy in today’s retail environment. As a result, they instead have a multitude of projects that are solving various issues but without a common baseline, vision and mutual understanding of the organization’s desired omni-channel capabilities. This increases risk for many retailers, as many have legacy systems that, before they can be dismantled and replaced, require just the right expertise and an understanding of how they came to be. “Limited communications across business units trying to redefine their technology investments increases the risk that something will go wrong. It also puts undue pressure on resources and potentially creates duplicate work or rework, because an overall understanding was not established within the organization as to how systems work, who uses them and how they are connected,” says Joel Turner, Deloitte BC Growth Enterprises Lead.

Once an IT Roadmap is established and the initiatives are prioritized, the successful execution of delivering the omni-channel capabilities lies in managing the initiatives through a program, instead of through one-off projects. An understanding of the following is required in order to achieve the omni-channel goals set out by the organization:

- Where each initiative is in its lifespan
- The risks and required mitigation strategies associated with each initiative
- The required time for, and investment in, resources
- The required investment in technology
Omni-channel is not eCommerce

Strong back-end systems that support the integration between store systems, eCommerce platforms, inventory systems, warehouse management systems, manufacturing systems, distribution systems and customer relationship management systems – all the systems required to support an enterprise – are where many retailers are getting stuck today. Legacy systems that do not connect or that can’t be interfaced, or new technology investments that were not thought through during implementation and integration can cause challenges for retailers in enabling the omni-channel capabilities and the goals established in their vision.

Most retailers interviewed commented that a significant portion of their respective organization’s money is being invested in technology and in upgrading their back-end systems, putting brand and consumer-facing expenses aside. For many, speed and tracking are important – knowing how you can move things faster – not only in the timeline to realize the planned omni-channel capabilities, but also in the portability and affordability of hardware. Some retailers are still concerned that some of the new technologies are fragile; although often looking good when demonstrated at headquarters, they fail when implemented at the retail level. While this warrants a strong process around risk identification throughout IT projects, the reality of the age and the supportability of many retailers’ legacy systems should outweigh this concern.

Recently, retailers have been leaning toward technology-facilitated interactions on the sales floor. By managing people’s consumption of information, such as their purchases at the point of sale (POS), a highly relevant platform can be developed to enable the creation of a very targeted and relevant offering. This trend requires the support of a robust POS system, which has been at the forefront of investment for many retailers interviewed in the study. POS systems are seen as being able to:

- Help retailers to customize their businesses
- Link inventory between stores and eCommerce
- Manage a mobile POS offering

“Omni-channel is not just about having a website, a physical presence, a call centre. Omni-channel is fundamentally based on the back-end systems.”

Arash Fasihi, President and CEO, Cymax Online Stores
Many have invested in physical kiosks in stores as well as new systems that enable integration between bricks-and-mortar sales and online sales. While some retailers have been doing this for years (as a backbone to their operations), for many this is a new reality, mostly due to:

- The investment required in legacy systems (to get to the point where systems can speak to each other)
- Enabling inventory to be shared across channels
- Being able to conduct operations in a sound manner to enable the omni-channel experience

“The reality, however, is that no matter the size of the investment, at the end of the day, it’s up to the consumer. You can plan strategically, think long term, and have all the resources and the ability, but the consumer has a lot of choices. Ultimately, they will choose,” says David Goldman, President, Boys’ Co. Investments in system integration across channels is a requirement for the omni-channel environment.

Outsourcing IT
Outsourcing of IT systems or investing in cloud-based solutions was a key topic in a number of the interviews. Retailers felt that they had to look outside the organization, and often to the cloud, to find scalable solutions that could keep up with the pace of change. Year after year, more IT dollars are being spent in outsourced solutions, in most cases to better understand and track customers. Not all retailers thought the shift was happening because of omni-channel. Many industries are facing cost cutting, and cost-effective solutions are winning. “Reliance on third-party IT service providers has increased, but not necessarily because of omni-channel – the environment is changing so fast and hiring experts is really difficult. You need to be agile when it comes to everything related to technology,” says Bob Matheson, Director, Consumer Sales, Arc’teryx.
Omni-Channel Operating Environment

The complexity of Canada’s geography and its dispersed population results in much higher distribution costs, which limits the ability of Canadian retailers to offer a wide variety of products online at competitive prices compared to their south-of-the-border counterparts. This puts significant pressure on the supply chain. Historically, a retailer needed to fill its stores’ shelves, ensuring that the right product was in the right place at the right time. Now, a retailer is filling its stores’ shelves and its customers’ mailboxes.

The supply chain operations must shift and, for many retailers, must be completely redesigned in order to meet the demands of today’s customer. Entrenched in this shift is the customer’s effortless ability to access information and their seemingly endless demands for transparency and efficacy. It is no longer enough to win in the marketplace by maximizing warehouse management, logistics and distribution. Retailers now need to integrate the supply chain with technology that extracts data at a granular level and that can tell the story of the product. A product’s journey from inception through to fruition and, ultimately, into a buyer’s hands, is becoming a journey that more and more customers and organizations want to be able to trace.

For retailers, understanding where the cost is embedded in the product enables effective decision-making in the supply chain. In the omni-channel environment, supply chain decisions affect the operations – as the traditional distribution centre (DC) is no longer the only DC, so to speak. Retailers now consider their stores part of the distribution network. It’s no longer a linear transport of goods from the DC to stores. Goods can now start in the DC and end up in a store, be bought online by a customer and returned in-store, picked up in-store or shipped out from a store. This change in operating tactics requires changes not only to DCs, but also to stores.

When it comes to shipping from stores, retailers have a lot to contend with. Some store layouts are getting smaller, and retailers are maximizing the selling floor – which, in turn, minimizes the backroom square footage. For many stores, the backroom is already a hub of activity in a marginally planned space. It is rare that retailers invest in designing and building backrooms that optimize square footage. Adding the expectation of a shipping function or the ability to store goods to be shipped from a store will soon challenge the use of space in a bricks-and-mortar environment.

Retailers and consumers have an integrated, real-time view of inventory from any point of purchase, whether it be en route, in the distribution centre or in-store.
The new distribution centre (DC) model

To overcome the challenges associated with shipping and delivering product, retailers are leveraging various warehouse operations strategies to keep up with customer needs. Retailers are opting for different types of warehouses. One model is specifically designed and engineered for pick-and-pack for online orders while maintaining other DCs that are optimally designed for store replenishment. Other retailers are moving toward splitting their DC inventory into two separate yet integrated spaces:

- The first, a ship-to-store model to support bricks-and-mortar operations
- The second, a pick-and-pack model to meet the demands of online shoppers

To combat the issue of cross-country shipping and to avoid having different distribution centres across the country, many retailers now consider their stores as part of their distribution network. With this model, a product can start in the DC and end up in a store. Customers can buy products online and pick up the product in-store, or have it shipped directly from the store to their home or office. The key to the success of this model is understanding the demand for products in different areas across the country. eCommerce sites provide an endless aisle for retailers, so it is important to know what products are desired where, to leverage the ship-from-store model from a cost perspective.

In some instances, due to the nature of goods being shipped (e.g., furniture and mattresses), it is more efficient to ship from the stores versus from the warehouse or third-party logistics providers (3PLs). This is a significant trend for companies shipping larger goods. Other retailers with smaller product offerings have started to consider shipping from the stores. For some retailers, this creates challenges with their current operating models, most notably with:

- Sales recognition
- Inventory visibility
- Inventory availability
- Employee skill sets

In taking into consideration where their customers are located, retailers are doing network analysis in order to optimize their warehouse locations. In some instances, in addition to having separate warehouses, integrated warehouses and using the store as a warehouse, retailers are also considering outsourcing their logistics, relying on 3PLs for some regions, along with their own DC to serve other regions. This model is predominantly adopted by retailers whose suppliers or customers are currently at a great distance from the DCs. The challenge in outsourcing logistics is to ensure that orders can be processed at the required cadence to meet customer expectations.

Other companies with wholesale operations are eliminating the middleman by adopting cross-docking and drop-shipping techniques. Those who are successful with this generally use a blend of inventory and drop shipping. “We’re eCommerce, not a traditional shoe retailer. We deal with a large volume of data and it needs to be clean. Our network has to be perceived as seamless by the consumer. We compete on selection and service, and to enable this, our inventory needs to meet demand – whether it is in our DC, cross docked or drop shipped directly from the distributor,” says Sean Clark, President and Co-Founder, ShoeMe.ca.
The secret to defining the model that works the best for your operation appears to be clean, current and well-maintained data. This enables quick, efficient and cost-effective decision-making, and it allows the retailer to interact seamlessly with the consumer. Being successful with this strategy also involves building strong relationships with suppliers and, in some cases, developing proprietary software that optimizes drop shipping.

At the end of the day, returns can’t be forgotten, and neither can the investment in technology that enables an effective return-to-vendor process. The return process is tied heavily to the customer experience, and while returns in stores appear seamless, returns from online sales require the establishment of the same business process that was once set up for the bricks-and-mortar operation.

**Moving goods in a challenging retail topography**

Given the reality that Canada’s geography is not going to change and that the Canadian consumer base is spread over a wide area, with the majority of demand clustered in populated cities, businesses need to adapt their supply chain operating model to serve their customers as fast as possible while developing creative ways to manage costs. “Omni-channel is fantastic, but the upfront costing is the challenge. It is a matter of making sure the upfront costs align with the expected returns,” says Damon Jones, General Manager, Retail Canada, Glentel. The main reason for the necessity of these changes is the rise in customer expectations.

One of the major concerns iterated throughout the study was that retailers are concerned with the speed at which they can serve customers. Same-day delivery has become a trend in the U.S., and many customers expect to receive products within 24 hours of an online purchase. In Canada, retailers are struggling to keep up with customer demands and to ship products fast at a reasonable cost while ensuring that products arrive undamaged. For global retailers based in Canada, shipping internationally brings about new challenges. Retailers not only need to take into consideration the speed of delivery, but also the taxes and duties, both when customers purchase products and when they return them.

Creating a localized experience is how some companies are taking advantage of local market offerings and managing the Canadian geography. SPUD connects with local artisans in its major markets in order to provide a fresh, local and organic experience. This also enables creative solutions for deliveries and the environment.

“We are always trying to maximize our investment and minimize our footprint. A big question in the consumer business industry is how to manage the delivery costs, given our geographic footprint. We know how many trucks we send out every day – and trucks go out full and come back empty. Exploring how to make those trucks productive on the way home is key.”

Peter van Stolk, Chief Executive Officer, SPUD
Inventory optimization

Convenience and speed in retail can be summarized as having the right product available at the right time, in the right location and in the right quantity. Inventory planning continues to be one of the greatest challenges for retailers today. Consumers are constantly demanding greater product assortments, challenging companies to better understand the product mix desired in different regions. This involves leveraging consumer data to better understand the products they are purchasing, how often they purchase those products and the channel in which the transaction is taking place. Analytics plays, and will continue to play, a significant role in inventory optimization.

While planning inventory is one challenge, retailers found that having the inventory clearly visible at all times is another issue. Critical to the customer experience is fulfilling the promise that if a product is shown as being in stock, it is, in fact, in stock. “The supply chain cannot keep up with the speed that the customer expects. The information we receive from the suppliers is less than what customers expect us to deliver,” says Kristina Egyed, Owner and Founder, LaLa’s. Products are constantly in transit – whether from a warehouse to a store, from a store to a customer, or from one store to another. Retailers are finding it challenging to have clear visibility of the products on hand at any given moment, and they are looking to new technologies and systems to support this need.

“Our competitive advantage is our selection – both online and in the stores that carry Herschel. We actively ensure that Herschel is well stocked and well merchandised at all times. We do this through the relationships we have with our wholesalers and through their active omni-channel environments.”

Lyndon Cormack, Managing Director, Herschel Supply Co.
Real Estate

Consumers redirecting purchases from store to online
While some online retail growth is incremental new business, much of the online sales volume is the result of consumers redirecting part of their purchases from bricks-and-mortar (BAM) stores to online. In light of this trend, we found that there is growing concern among retailers about managing their current physical footprint to maintain traditional profitability levels and to regain a compelling competitive advantage as BAM stores redefine their place in today’s omni-channel reality.

According to Gartner, the overall retail market is forecasted to grow between 3 and 4% through 2015. Mail/catalogue orders – once the main competitive channel to in-store sales – are expected to decline at a compound annual growth rate of 6%. BAM stores are forecast to stay steady at 3%; however, as expected, mobile/electronic commerce will outpace physical store growth by five times (15%). The projections for eCommerce growth to dramatically outpace traditional retail channels portend a dramatic shift in consumer shopping habits and corresponding sales volume over the next few years. We estimate this shift to be approximately $175 billion annually by 2015 (Figure 2). As a result, retailers will need to understand the implications for their physical stores, re-evaluate their overall store strategy and adjust their physical footprint accordingly.

The “traditional” bricks-and-mortar store
With the growing concern among retailers about the evolution of the physical footprint of BAM stores comes the opportunity to establish a new frontier for the in-store experience. The store of the future should incorporate all aspects of the customer experience as well as that of the employee, taking into consideration design, layout, movement and operational requirements, as well as intangibles such as mood and feel. The store is no longer just a store, but instead a space where opinions, reviews, social media, mobile, expectations, experience, technology and attitude combine to create connections. The seamless integration of a brand across all channels is the ultimate goal for many retailers in their desired omni-channel state, and the physical space in which they meet their customers is only one piece of the puzzle.

Figure 2: eCommerce sales are reshaping bricks-and-mortar economics

Source: Multichannel Forecast for the U.S. & the U.K., Gartner, Oct. 2011 (U.S. only), Deloitte Analysis
Physical stores are here to stay, and they are more important than ever in their ability to connect the customer to the product and deliver the full brand experience. Many retailers are exploring how to most effectively use their store footprint in order to maximize the omni-channel experience and to maintain and grow financial performance. This means that most retailers are redeveloping their strategy to manage store footprints in a way that complements the online strategy. In some cases, retail locations are shifting the store footprint to accommodate larger retail space and smaller backrooms to keep more inventory on the sales floor, which enables customer service and the ability to ship from stores while interacting with customers on the sales floor. Some retailers are moving toward eliminating backrooms completely and keeping minimal inventory on hand as stores are transitioning to provide more tangibility and purchases are completed through the web store. Some are even building or transitioning locations into hybrid stores/warehouses, effectively creating a space for their customers to shop, along with creating the ability to store a quantity of product in various geographic locations across the country. This involves less than the volume required for a fully operational DC, but enough to service the local desires of the customers nearby.

Online transactions are also driving decisions about where to open up new locations. With logistics and freight costs putting increased cost pressures on Canadian retailers, companies are selecting strategic locations to place new stores in regions where many online orders are being shipped to. Retailers are also putting stores where there is web concentration – this ensures that online and offline strategies are linked. Many companies are transitioning their Real Estate strategies to meet the geographic disparity of their customers. More and more retailers are moving toward a mix of large and small footprints, enabling more penetration in communities and neighbourhoods. In addition to the change in tactic when it comes to the size of stores, retailers are also looking to the length of leases. “You have to question what is happening online and how it will shape the future. Do you want to continue to commit to a 10-year lease and second-guess every location?” says Brian Kerzner, Chief Executive Officer, Rocky Mountain Chocolate Factory.

“Our omni-channel strategy has definitely impacted elements of our store strategy, specifically in terms of store size, backroom size and proximity to distribution networks.”

Clint Mahlman, Executive VP and Chief Operating Officer, London Drugs.
Product experience

Physical stores exist for many reasons, one which is to provide consumers with the opportunity to experience products. Retailers with a solely online business face hurdles in providing a strong product experience, as consumers are unable to personally interact with their products. Over the past few years, curated offerings at independently owned stores have provided a new shopping experience – that of a gathering space in a destination neighbourhood. These stores appeal to communities and local residents, as well as to those who venture to the areas to absorb the neighbourhood atmosphere. “We know that customers are doing their research online first, sometimes calling to double-check that something is in stock. When they come into the store, they are making an investment to try a piece out and ultimately make a decision,” says Sara Samieian, General Manager, Moe’s Home Collection.

The type of products sold in a store is playing a larger role in the type of experience that a customer can expect. With retailers moving to carrying a greater proportion of soft goods in-store, it becomes challenging to provide the product experience of larger hard goods. The future of the store layout in the omni-channel environment is also driven by the availability and affordability of space. “We are seeing a transition in North America toward smaller-format city stores – more soft goods, with larger items being sold through digital kiosks and websites. The emphasis is on samples and showcases in stores. This is a better customer experience and a better use of real estate, as well as a more efficient supply chain,” says Mohammed Mahabub, Chief Financial Officer, JYSK Canada. Stores are driving to offer additional services or enhanced customer experiences that are possible only in person, keeping retail space relevant in the omni-channel environment.

Effective and clear communication is critical to the success of retailers; delivering on product quality and service commitments is what allows them to thrive and be successful. “Our biggest challenge is trying to give consumers the right information that resonates, while providing them with exceptional service,” says Kyle Vucko, CEO, Indochino.

Customer interaction

The omni-channel experience truly comes to fruition when looking at customer interaction. Retailers are not only understanding who their customers are through the collection of data, but they are also are leveraging data mining and analytics capabilities to better understand their needs and purchasing behaviours. Companies are creating a stronger customer experience by creating profiles for different types of customers and then targeting them with personalized promotions and campaigns. However, as Aaron Gillespie, Vice President, COBS Bread, says, “At times, a customer’s experience comes down to the customer service that a sales associate is able to provide. The customer wants the right service – and a sales associate needs to be able to understand, observe and communicate with the customer in a manner that enables them to provide the service that the customer is looking for.” While the notion of technology supporting the customer experience is strong, old-fashioned personal interaction and customer service are what the customer really wants.
As discussed in the “Omni-channel is not eCommerce” section on page 6, retailers are also enhancing member interaction in-store by using devices such as iPads and tablets to showcase their entire product selection and make tailored recommendations. This demonstrates the shift to satisfy a consumer’s desire to purchase across channels seamlessly and have access to all products at all times. Retailers are finding that, while iPads and tablets may have been introduced to support the check-out process, they are in fact supporting customer interactions with sales associates. They are also acting as education devices for products, providing a virtual – but personal – connection point between the customer, the sales associate and the product.

Retailers are also in the midst of understanding what privacy and brand protection look like in the omni-channel environment. “There has been an increased interest in privacy and brand protection. Companies are looking at privacy and intellectual property, and how these issues are managed in the context of review sites and social media. Retailers are learning how they want to manage their brand and what is possible online,” says Lara Nathans, Partner, McCarthy Tetrault. For organizations setting up shop in Canada, understanding the intricacies of Canadian laws is paramount. Many U.S. retailers were unaware of the complexities of provincial privacy laws and operating laws. Another area of interest is privacy of consumer data. When companies encounter a breach with consumer data, it disrupts their trust and there is usually a significant backlash online.

**Brand and privacy in the omni-channel environment**
A key component of member interaction is ensuring that retailers not only provide strong service, but also the same service experience across all channels. Canadian retailers are positioning themselves for this by retraining staff on delivering a consistent brand experience, by bringing technology into stores, and by deploying new online functions such as shopping assistants and live chat capabilities. “Our store experience is mimicked online by asking similar questions to those asked in-store,” says Jennifer Bawa, Director, Communications, Spence Diamonds.
Information and access changes the consumer

It is no secret that with the rapid adoption of smartphones and other portable media devices, consumers today have instant access to more information than they ever did before (Figure 3). With greater access to information comes better-educated and more informed consumers, and thus consumers are demanding more. We found that retailers are desperately trying to balance the need to satisfy such demands with their goals of growing revenue, reducing costs and making operations more efficient – the road map to which is not always clear.

It became clear that, in order to know and understand this new breed of customer, data integration across the entire enterprise is of utmost importance. The convergence of technologies is what enables omni-channel operations, and at the core of that is master data. Whether the data pertains to items, customers or vendors, it needs to be structured, analyzed and available in order to provide value. It is the foundation on which a retailer can communicate with its customers and, in turn, how the retailer can evaluate, analyze and understand who its customers are. The overwhelming amount of unstructured data is one of the greatest challenges that accompanies the transition to the omni-channel environment, and retailers are finding it challenging to derive value from the data that they have.

As companies struggle to integrate these channels into their operations as quickly and efficiently as possible, it raises the question of whether or not the value that can be derived from existing investments has been realized. Data enables meaningful operating key performance indicators – and in an omni-channel environment, a meaningful key performance indicator is still largely unknown. The cross-channel impacts are making it even more complicated to measure the business and understand what levers to pull in which areas.

Data Analytics is driven by the questions that retailers have, and those questions are not just related to omni-channel. Retailers are interested in knowing “How effective is my eCommerce channel?”, “Which customers are the biggest influencers?”, “Will my workforce match my future needs and strategies?”, “How do I increase my online basket size?” and “What are the optimal inventory levels and distribution across stores and warehouses?”

Figure 3: Smartphone users and penetration worldwide, 2012–2017

Source: eMarketer, December 2013

- Smartphone users (billions)
- % of mobile phone users
- % change
- % of population
Measuring eCommerce

We found that these questions presented two main challenges to retailers. The first is understanding the contribution that eCommerce, web presence and social media make to the bottom line. Most retailers noted that they know that the value of their online presence isn’t just measured in online sales, but how to measure the exact contribution is unclear. The second challenge is gathering the applicable data from various systems and sources in a timely manner so that the distribution channel can be effectively leveraged through the analysis of inventory distribution and customer behaviour across channels and through forecasting. “We want to create a ‘voice of the customer’ department where we can gather and share all of the intelligence that our customers are providing throughout the various channels. Communicate and act on this insight throughout the business and we have a recipe to meet and exceed our customer’s expectations, all enabled by communication with them,” says Andy McNevin, Chief Operating Officer, LUSH.

In all three years of conducting this study, we have explored the question of how to measure the contribution that eCommerce makes to the organization. The answers have evolved from “It is only measured by eCommerce sales and has no knock-on effect.” in year 1, to “We know it provides more value than just the online sales, but we still don’t know how to measure it.” in year 2, to “We know it adds more value and we don’t actually care to measure the specific value. We are more focused on putting effort into understanding how to improve the experience across the channels.” in year 3. Does knowing the exact contribution really matter? Customer expectations have evolved to not just expect retailers to have an online presence but to have all SKUs available. Sophisticated and educated customers think “if it isn’t on the website, they must not have it”.

Tracking the customer across channels

As discussed in the “Inventory optimization” section on page 11, one of the most important key metrics that retailers want to assess is the location of sales across all shopping channels and how best to leverage inventory distribution and reduce shipping costs. In the most basic form, this analysis focuses on the postal codes that products are shipped to. Retailers are looking to loyalty programs and memberships to provide them with the link between online and in-store customers, as well as valuable demographic information. This allows retailers to target marketing efforts and store inventory to very specific regions. Retailers without loyalty programs or membership numbers find it challenging to identify customers across channels and to accurately build a picture of the customer’s shopping behaviour.

Many retailers are looking at CRM systems to improve their tracking and analytics abilities. “We want to have the ability to measure, gauge and engage – to create a baseline that we can measure from. We want to know our customers,” says Dai Manuel, Chief Operating Officer, Fitness Town Inc. Few retailers have systems in place that enable this type of intimate customer analysis and understanding.
Driving value through analytics

We see that the increasing complexity of the supply and distribution channels, combined with the constant pressure to contain costs and reduce margins, has driven the need for data analysis to incorporate cross-functional teams that look at enterprise-wide signals more rigorously than before. Lacking CRM systems, retailers have to consider how to manage and leverage the data that they have, which is the unstructured data from social media, third-party resources and global entities. We noted the following areas where retailers can effectively apply analytics to drive value in the omni-channel:

• Pricing and profitability analysis — Pricing is clearly a complicated matter that includes precision at the most granular levels — across stores, customer segments and channels. Analytics can help retailers improve the way they analyze, set and deliver pricing in a sustainable and predictable manner. Insights gleaned from measuring differences in demand across customer segments as well as differences in customer behaviour across channels allow retailers to develop a tactical framework for setting prices. Answering questions like “Are customers more likely to purchase items with lower price points online and items with higher price points in-store?” could have a significant impact on the omni-channel strategy.

• Supply chain efficiency — Retailers have a tremendous opportunity to leverage analytics to manage inventory, reduce transportation costs and increase collaboration with customers, merchants, marketing and suppliers in the omni-channel. Sales and inventory data from multiple source systems can be integrated to identify items at risk of being out of stock or of being overstocked. Predictive analytics can also be used to allocate incoming inventory to the highly effective point of demand and to shift excess inventory to alternative locations as needed. Order fill rates and delivery metrics can be analyzed to evaluate and balance working capital and service levels.

• Risk and fraud detection — Fraud can originate with customers, associates or external sources such as service providers. In some cases, fraud includes stolen credit cards or fraudulent returns, all of which could become more prevalent in the omni-channel environment. Retailers should also consider risks related to contractor charges that are not in compliance with contracts, duplicate charges and excessive contractor time charges. In this space, analytics can help detect risk areas by identifying and analyzing unusual patterns. Analysis of internal data, combined with data obtained from third parties such as banks, could prove very valuable.
• **Workforce development and management** – As the traffic patterns and in-store habits of customers change, there are a lot of questions as to how best to set up the staffing in stores. Workforce analytics can help align staff schedules to store traffic, required tasks and other variables that drive store activity, such as seasonal shopping patterns or special promotions. These applications of analytics help improve schedule effectiveness and labour productivity, as well as customer service. In the fast pace of change, holding on to great employees becomes even more key than in the past. Analytics could also be used to analyze retention risk. This would leverage internal employee and external data sources to predict the likelihood as to which employees could leave, and why, months before it happens.

• **Customer engagement** – The real opportunity lies in using customer insights to find sales and margin levers. This can be achieved through understanding customer engagement – engaged customers are likely to spend more. Other opportunities are understanding which customers have a propensity to increase spending, defining models to identify customers that are likely to leave and determining the drivers that make them do so.

• **Marketing and media resource allocation** – For digital and social media, as an alternative to mainstream TV or print media, it is important to understand the investment versus the return on investment (ROI) of these mediums. Advanced analytics can provide insights into the return and allow organizations to determine the effective marketing mix.

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**Tracking the customer across channels**

- **Purchase date:**
- **Location:**
- **Items purchased:**
The fundamental success of an omni-channel environment does not depend on the amount of investment, but on the adoption of, and buy-in to, the new technologies, processes and operating model. There is a need for the right talent to support the transformation to omni-channel. This talent is not limited to those who understand the actual technology, but also to those who understand the way in which retail organizations have operated and how retailers need to transform their operations in order to enable the omni-channel capabilities that they so desire.

As the omni-channel becomes status quo, large organizations will have an easier time transitioning, as they have the capital to invest in resources. In small businesses, the owner is the strategist who will willingly make the transition to omni-channel happen – for smaller businesses, their reason for being is the customer they know by name. For mid-sized companies, the shift is almost overwhelming. With limited resources, growth and legacy systems, launching the organization into the next stage is seemingly an impossible task.

Investments in people and change agents are crucial to the success of the new business model. By working at the model from a high level and building the flexibility required for future success, organizations can take advantage of changes and not be buried by them. In an omni-channel environment, technology provides new solutions to age-old problems of customer service. Barriers that have been in place for decades are now disappearing.

Key take-aways

Enterprise Architecture

- Establish the omni-channel vision and desired capabilities
- Understand the systems and tools that currently support the business
- Link the overall omni-channel strategy to the IT Roadmap through prioritized initiatives
- Drive forward thinking and high-level planning with a focus on a long-term sustainable omni-channel strategy

Omni-Channel Operating Environment

- Understand that customers want to be able to trace a product’s journey from the date of its inception
- Acknowledge that customers have an effortless ability to access information and that they demand transparency and efficacy
- Adapt the supply chain operating model to serve customers as fast as possible while developing creative ways to manage costs
- Provide localized assortments to meet the demands of customers who want product assortments that meet their needs

Real Estate

- Know that a store is no longer just a store, but a space where opinions, reviews, social media, mobile, expectations, touch, feel, experience, technology and attitude combine to create connections
- Seamlessly integrate a brand across all channels, knowing that each channel is only one piece of the puzzle
- Create meaningful and unique spaces where customers can interact with products
- Develop a Real Estate strategy to manage store footprints in a way that complements the online strategy

Data Analytics

- Define how you measure the omni-channel
- Understand the levers that influence the omni-channel, how they differ by channel and how they interact across channels
- Consider how to manage and leverage the data – unstructured and structured – that is available
At the core of the omni-channel environment is having an understanding of the omni-channel capabilities and the ability to understand the consumer. Data permits retailers to understand consumer behaviour, giving them the ability to curate the correct offerings, engage with customers and correctly define their service paradigm. The right data can enable the right assortment to be at the right place at the right time, meeting the needs of consumers. More traditional bricks-and-mortar retailers who are on a path to driving value through an omni-channel environment may underestimate the power of knowing a customer through data. They understand data intuitively, because they have had experience with their customers. You need to observe behaviours of customers to know them. Do you need to know the person if you have the data? The key change observed through the study is the reliance on data and the ability to have a deep understanding of consumers without ever actually having seen them.
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