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TCS-FICCI – Massmerize 2013
Adapting to the Multi-channel Customer
A Roadmap for Integrated Multi-channel Retailing

FICCI



Foreword

Dear Friends,

It gives me great pleasure to welcome you to Massmerize 2013.

Taking the dialogue ahead from last year's consumption theme, this year we look at how consumerism in the digital era is reshaping the traditional consumer businesses of FMCG and Retail. And to their credit, they have made some interesting moves already.

Consumer behavior is changing in sync with fast emerging consumer technologies and in the process, giving rise to new business opportunities as well as challenges to existing models. Organizations which are moving in pace with these rapid changes will succeed immensely in the coming future. I am hopeful that this event will trigger insights, dialogue, thoughts and actions towards achieving that success.

I take this opportunity to wish Massmerize all the very best and I am hoping that it will be an insightful learning experience for all those who attend it.

Regards,

Kurush Grant
Chairman – FICCI FMCG Committee

Dear Friends,

Welcome to Massmerize 2013.

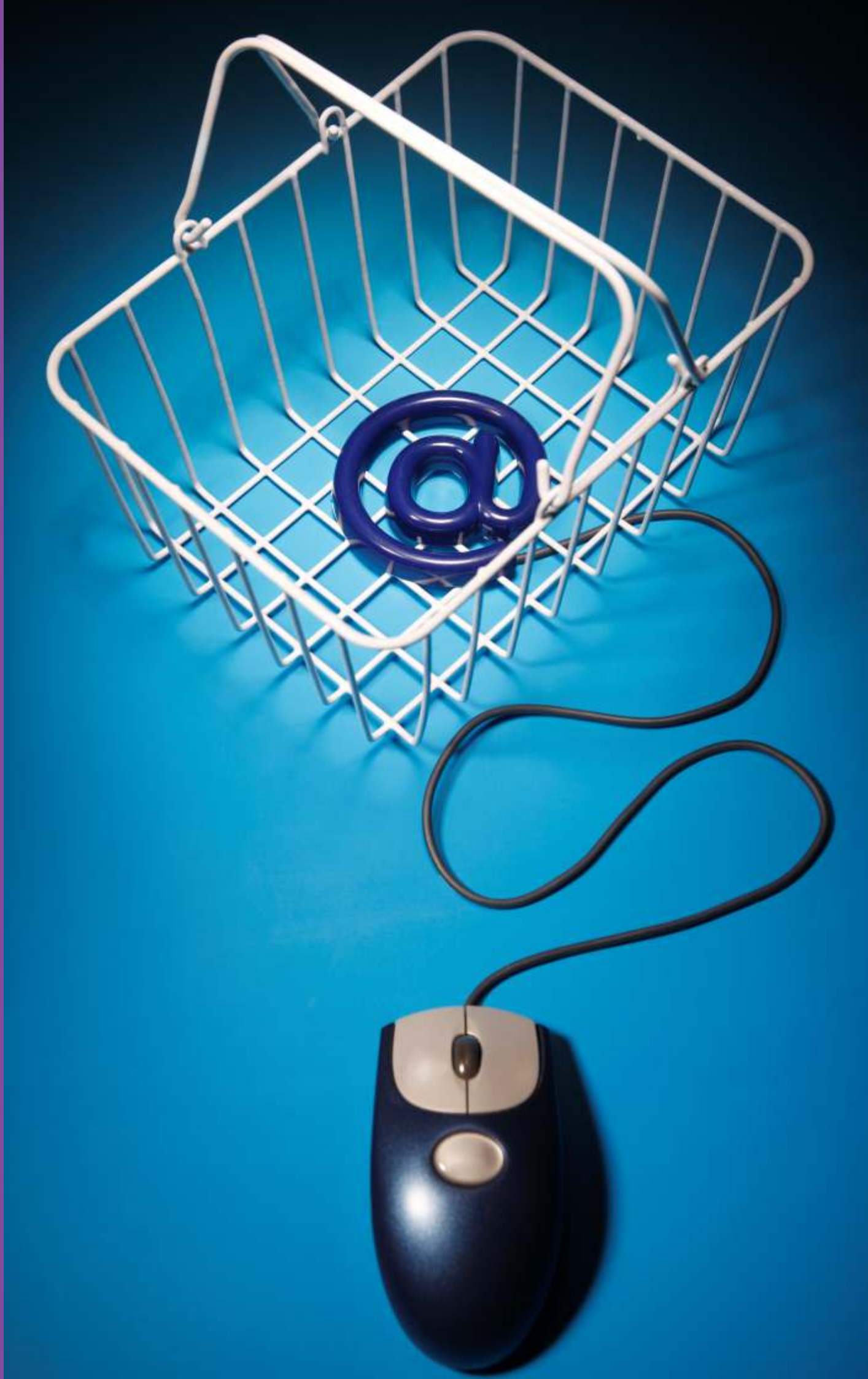
From consumption opportunities to consumerism in the digital era, we have come a long way from last year.

Technology has enabled consumers to engage directly with their favorite brands – be it products or stores. Multiple channels of communication like social media and digital channels, which go beyond conventional media, have permitted marketers to reach out to new consumer segments, especially the youth. While conventional retail channels like stores continue to expand and flourish, new technologies in hosting products, communicating to consumers, and allowing them to transact securely have enabled multiple channels such as e-commerce, m-commerce and television shopping to proliferate. Marketers and retailers who have embraced these technologies and channels remain at the forefront of change.

With this event, we are positive about creating a business strategy that is focused on the multichannel consumer. I hope that you will find the insights, interactions and best practices shared at the event to be of immense value to you. I also believe that they will help shape your organization's efforts to stay relevant in the digital era.

Regards,

Bijou Kurien
Chairman – FICCI Retail Committee



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EXECUTIVE SUMMARY

The Integrated Multi-channel Retailing (IMCR) Model, we presented as a sustainable retail business model of the future at Massmerize 2012, has been well received by a number of retailers who agree with the merits of the business case. Over the last year, several companies approached us for a detailed view of the approach, the imperatives and best practices in this area, the credible industry examples and, finally, tracking of the progress of their initiatives. This knowledge report will address the requirement and help achieve a truly integrated multi-channel retail business model.

Current State of Multi-Channel Retailing

Before we get down to outlining the roadmap for IMCR, let us take a quick look at the current state of multi-channel retail – globally as well as in India.

Global consumer indicators reveal that multi-channel consumers (consumers who shop across multiple channels, including web, mobile, offline store), spend more on brands than single channel shoppers. It is interesting to note that 54% of multi-channel customers shop with only five retailers or less. This indicates that only a few retailers have been successful in adapting their business models, while others are lagging behind.

To explain further, a prominent retail group in the United Kingdom made inspiring strides in multi-channel retail between 2009 and 2013. Their online business now contributes nearly 12% of total sales, an increase from 5.6% in 2009. They also registered a healthy growth rate of 27% per year. Additionally, they have been able to measure multi-channel retail revenues accurately, and it is estimated to be at nearly 25% of total revenues in 2013.

To represent the APAC region, we also evaluated a leading Indian departmental store chain with a credible online presence. In the absence of complete IMCR metrics in this market, we compared their online performance to a pure online fashion retailer to evaluate their multi-channel model. Theirs was a mix of online and physical stores. We evaluated the opportunities they were missing in comparison to available potential. Our analysis revealed that the company could have an IMCR revenue component of 17% in 2013. The number of visitors to their online channel had grown 1.57 times, whereas there was only a 9% increase in store footfalls. We estimate that by 2018, the number of visitors to the retail brands' online channel will far exceed the number of its store visitors. It is therefore important that retailers focus on becoming a truly integrated multi-channel retail entity.

Another interesting trend we witnessed is that FMCG players are not only partnering with retailers in their multi-channel retailing efforts, but are also experimenting with initiatives of their own in this space. Coca-Cola has recently piloted online and mobile initiatives in India, so that they can reach customers directly at their homes. There is hence a good business case to review existing business models and explore the possibilities available through integrated multi-channel retailing.



Following the positives from the leaders in this space, let us get down to the basics of the entire journey. We have mapped the multichannel consumer buying journey and observed that they have become increasingly channel agnostic. For this reason it is becoming important for retailers to shape their business to reach the customers wherever they are – store, mobile, web, TV, phone, airport, magazine or at home. And this can be achieved only by pursuing the end state of integrated multi-channel retailing. There are a number of issues that need to be considered as this model increases in popularity. Customers will need adequate regulatory support and protection. For example, the issue regarding ambiguity with respect to jurisdiction as a result of the online retailer's business structure and model. It is possible that the retailer's registered office, warehouse location, and service outlet are in three different places. In this scenario, who is responsible for customer grievances arising from a multi-channel model? There is still some ground to be covered on this front.

Meanwhile, ITC Limited Chairman Kurush Grant interacted with us on this topic and highlighted key imperatives towards building a robust IMCR roadmap covering the use of shopper insights, managing channel conflict and enabling organizational structures, which have been integrated in our approach on the same.

The integrated multi-channel retail journey involved four phases – Individual to Independent to Interconnected to Integrated. We now focus on what it takes to reach the Integrated phase and to keep evolving.

Roadmap for IMCR

For a retailer to become a successful integrated multi-channel retailer, it is imperative to address multiple issues holistically. These issues pan across strategy, operations, organization, processes and systems:

- **Defining operating strategy and model:** leading to right governance and cross channel collaboration
  - Business and channel strategy
  - Assortment strategy
  - Organization structure, Key Performance Indicators (KPIs)
- **Shaping customer experience:** leading to seamless shopping behavior across channels
  - Pricing
  - Service
  - Customer order fulfillment
- **Deploying processes and systems:** leading to one view of the customer, inventory and orders across channels

This paper covers best practices on these three critical aspects and proposes, what we call, a pragmatic roadmap for attaining an integrated multi-channel state.

These steps must be repeated on a regular and consistent basis to adapt to a truly holistic integrated multi-channel way of retailing. New operating models will emerge, competitors will catch up, consumer expectations will change – what's superior service today is common tomorrow, with new tools and system enablers coming in. It is important to observe here that this is the new way of doing business. Best practices highlighted from the likes of Home Depot, Tesco, Best Buy and Macy's reiterate this.

Let us take a look at the journey of a marquee specialty retailer in the USA, in the integrated multi-channel retail program. The strategy was to increase sales by adopting and enhancing different consumer channels. The retailer commenced multi-channel retail initiatives with the objective of enabling its customers to 'buy anywhere' and to 'fulfill orders anywhere'. Anticipating business challenges like a reduction in customer base because of increased shipping costs, the retailer refined the business processes, set up new channels like mobile and social media, and integrated independent systems. The retailer also reviewed processes for Point of Sale (POS), Data Warehouse (DW), e-commerce, and Enterprise Resource Planning (ERP) for seamless processes and uniform customer experience. This resulted in enhanced customer satisfaction and increased store sales when customers came in to collect their online orders.

The example above not only strengthens the business case for pursuing an integrated multi-channel retail model but also highlights key metrics that an organization needs to track to measure success. We have outlined a list of 21 key metrics, the important ones include: incremental channel sales, sales per customer, share of multi-channel customers to total number of customers, total brand traffic, and customer satisfaction.

In conclusion, the advent of IMCR is imminent as the multi-channel consumer has already emerged and the best way to make the most of this opportunity is by having an integrated approach that binds together an organization's proposition to its customers in a seamless manner. The journey is arduous as new types of behavior, innovations and opportunities emerge. However, having an integrated multi-channel retail view of the organization will help meet these new developments every time. The time to realign and redo the traditional channel-silo model is now. IMCR is the new normal.

About the Authors

Anil Rajpal – *Practice Head, Global Consulting Practice – Retail and CPG*

Anil has over 17 years of experience in management consulting and operations and currently heads the Retail and Consumer Products Group for TCS' Global Consulting Practice in India. In this role, he has been instrumental in establishing and developing the consulting practice in India. Prior to TCS, Anil worked with Kurt Salmon Associates, India.

As a management consultant, Anil has been passionately involved in formulating business strategies and setting up operations of several leading Indian and international retail, e-commerce, and consumer product companies.

He is also actively involved with leading industry associations for which he spearheads strategic initiatives. Most recently, Anil showcased the India retail opportunity to international retailers, and conceptualized and executed India's first 'Operations Benchmarking' study.

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Kedar is an Engagement Lead with TCS' Global Consulting Practice – Retail and Consumer Products Group - and consults with retailers in their strategy, marketing, and operations improvement initiatives. He has nearly 10 years of work experience in retail, e-business, and management consulting and has worked with international as well as Indian players, across multiple categories, formats, and markets. In his current role, he has led a number of thought leadership initiatives, such as developing a go-to-market framework for integrated multi-channel retailing and conducting India's first-ever Retail Operations Benchmarking and Excellence Survey (ROBES) with FICCI and the Retailers Association of India (RAI) respectively.

Abhishek Pangaria – *Engagement Lead, Global Consulting Practice – Retail and CPG*

Abhishek has over 13 years of international experience in management and technology consulting. Currently, as an Engagement Manager with TCS' Global Consulting Practice, Abhishek works with leading organizations on diverse areas like business planning, supply chain improvement, technology change and adoption, development of e-commerce, and multi-channel operations. Abhishek is passionate about helping young entrepreneurs set up businesses and has been an entrepreneur himself.

Deepali Malhotra – *Consultant, Global Consulting Practice – Retail and CPG*

Deepali is a Consultant with TCS' Global Consulting Practice – Retail and Consumer Products Group and has around 6 years of experience in operations improvement and IT functional consulting in retail and e-commerce. She has worked for global retail clients across three continents - North America, Europe, and Asia, and across multiple categories and formats. She has also published whitepapers and articles in academic journals, and has helped to execute India's first TCS-led Retail Operations Benchmarking and Excellence Survey (ROBES) with the Retailers Association of India (RAI).

Multi-Channel Retailing Today

In a FICCI-TCS paper released at Massmerize 2012, the idea of pursuing IMCR to address a trillion-dollar retail consumption opportunity was presented. The IMCR model that was envisaged not only had an impact on reaching more consumers and meeting retail demand quickly across multiple geographies, but also had the potential to directly impact a retailer's operating margins and profitability.

Before outlining how retailers can adapt well to a multi-channel consumer and build a multi-channel retail roadmap, let's first take a look at where things stand today. Examples of the multi-channel retail evolution between developed markets – Europe – and emerging markets – Asia are highlighted in the following section. We have taken an example of a leading UK retail group and an Indian department store chain to represent each market.

Global Benchmarking – IMCR Evolution
Illustration from a leading UK retail group

First up is a leading UK retail group that runs a leading department store chain and a premium food retail supermarket in the country, besides a host of other smaller retail formats. We have reviewed their IMCR numbers from 2009 to 2012 and projections for end 2013 in figure 1.

Leading UK Retail Group - Multi Channel Retail (MCR) Evolution					
	Sales			Of All Online Orders	
£ Million	Total	Online	Online Proportion	Click & Collect Order	MCR Proportion
2009	7000	393	5.6	16%	7%
2010	7400	503	6.8	17%	13%
2011	8200	685	8.4	22%	16%
2012	8730	877	10.04	26%	20%
2013*	**9540**	**1122**	**11.76**	**31%**	**25%**

Source: TCS Internal

Figure 1: A leading UK retail group's IMCR evolution

The share of its online business has grown steadily from £393 million in 2009 to an estimated £1,122 million in 2013, growing at a healthy 27%. Online business share as a proportion of the group's total sales is projected to be 11.76% at the end of 2013.

The share of its IMCR has grown from 7% of its total sales to 20% in 2012 and is projected to be 25% at the end of 2013, having grown at 27% every year since 2009. Boosting this trend is the fact that 'click and collect orders' are becoming popular among consumers, constituting nearly 26% of all online orders in 2012 and the number is expected to be 31% for current year.



This group has seen that 9 out 10 online customers are still buying at stores and added incremental sales of £7.6 million in 2009 alone, when they visited the store to collect their 'click and collect' orders. While these numbers are encouraging enough to build a retailer's case for IMCR initiatives, it is interesting to note that they are yet to target the requirements of 'store' consumers who are buying online. Currently, only 1 out 10 store customers is buying online. If they are able to increase this trend and proportion of sales online, the growth opportunity for overall sales is immense.

It will be interesting to compare the IMCR evolution in developed markets like the UK and the emerging Asian retail markets.

Asian Initiatives – IMCR Evolution

Illustration from a leading department store chain with an online channel, compared to a pure online fashion store in India

Multi-channel retail is still a relatively new phenomenon in Asia; there are no clear IMCR numbers of any single retailer as yet. At this point in time, both the store and online retailers seem to be emerging as independent models. There is no evidence of store retailers being strong online or online retailers interested in store retailing. This makes it difficult to evaluate the evolution and potential of IMCR in Asia. We therefore compare a retailer with store and online channels, with one that only has an online presence. Relevant data of a leading department store chain with credible online initiatives was compared with the data from a market leading pure online fashion store, in India, in figure 2.

1. Online channel growth faster and bigger than store

	Department Store Chain			Pure Online Fashion Retailer	
	Stores	Online	Store	Online	
	Footfalls - Mn	Visitors - Mn	ATS - INR	ATS - INR	Visitors - Mn
2012	37	7	2300	1250	20
2013	41	11	2500	1600	100
Growth	**1.11**	**1.57**	**1.09**	**1.28**	**5**

Source: TCS Internal

Figure 2: A leading department store chain vs. a pure online fashion retailer in India – IMCR evolution

Takeaways:

- The number of visitors for the online fashion retailer increased fivefold – from 20 million to 100 million, between 2012 and 2013. In comparison, the footfalls and online visitors to the department store chain only grew by 1.11 and 1.57 times respectively. This means that department store chains can gain immensely if they focus on online customers, a number growing faster than its own store traffic, to benchmark and reach the potential numbers of an online fashion retailer.
- The Average Transaction Size (ATS) for the department store chain grew by 9% only, whereas for the pure online fashion retailer, it grew by an impressive 28% between 2012 and 2013. We can infer that consumers are increasingly shopping online and the department store chain is not utilizing its full growth potential.

2. Potential IMCR revenue proportion in 2013 – illustration

Department Store MCR Revenue Proportion – An Illustration	
Store Visitors – Mn	41
Store Transactions Mn – 10%	4.1
Store ATS – INR	2,500
Store Revenue – INR Mn	10,250
Online /Store Visitors %	27
Online Visitors – Mn	11
Multi-channel Visitors – Mn	11
MCR Transactions Mn – 10%	1.1
MCR ATS = Online Fashion Retailer ATS - INR	1,600
MCR Revenue – INR Mn	1,760
MCR/Total Revenue %	**17**

Source: TCS Internal

Figure 3: A leading department store chain – IMCR revenue proportion – illustration - IMCR evolution

Assumptions:

- Online visitors are a subset of store visitors and not unique visitors and hence IMCR visitors = online visitors constituting 27% of store consumers. This conservative number is in line with the Asian Hong Kong number of shoppers who shop in more than one channel of 45% and thereby can be considered a safe assumption
- Number of transactions = number of conversions, for online as well as store have been estimated at 10%, indicative of the store brand characteristic

Takeaways:

- For 2013, it is assumed that the number of online visitors for the department store chain is equal to the total multi-channel visitors i.e. 11 million. We see that 10% of the total multi-channel visitors have transacted at an ATS of INR 1,600, which is equal to that of the pure online fashion retailer. We can compute the department store chain's IMCR revenue to be INR 1,760 million i.e. 17% of total store as sales from multi-channel consumers
- This number is interesting as it is potentially in line with the global benchmark number of the UK retail group, while highlighting the potential of IMCR which probably lies unutilized today, even by the department store chain in figure 3

3. Potential loss of IMCR revenue in 2013 – illustration

Department Store Chain – Potential Lost Revenue 2013 - Illustration	
Online Growth	1.57
Online Visitors – Mn	11
Online Transactions – 10% in Mn	1.1
Online ATS – INR	1,600
Online Revenue – INR Mn	1,760
Online Fashion Retailer Growth	5
Potential Online Visitors (2012 to 2013 Growth) – Mn	35
Potential Online Transaction – 10% in Mn	3.5
Potential Online ATS – INR	1,600
Potential Online Revenue – INR Mn	5,600
Potential Loss in Revenue – INR Mn	**(3,840)**

Source: TCS Internal

Figure 4: Leading department store chain – IMCR revenue proportion – Illustration – IMCR evolution

Takeaways:

- We have seen in figure 2 that the online channel of the department store chain grew faster than its own stores at 1.57 times versus 1.09 times. However, during the same period the pure online fashion retailer had a fivefold higher growth rate. This potential loss of revenue for the department store chain translates to INR 3,840 million
- This is based on a simple hypothesis and the actual numbers could be significantly different from that in figure 4. The fact is that the trend noted here is true – that, traditional store retailers, even with credible online initiatives, are still losing out on potential revenues to pure online players

4. Online brand traffic for a department store is going to outpace its store traffic by 2018

Department Store Chain		
	Stores	Online
	Footfalls - Mn	Visitors - Mn
2012	37	7
2013	41	11
Growth	**1.11**	**1.57**
2014	45	17
2015	50	27
2016	56	43
2017	62	67
2018 - Online Brand Traffic	**69**	**105**

Source: TCS Internal

Figure 5: Store vs. online brand traffic – department store chain, in 2018– IMCR evolution

Takeaways:

- As figure 5 shows, the drivers for growth of future sales are the online channels, as per global trends today. This is based on the number of visitors who will first visit the department store chain's website to evaluate and identify their purchases, before going to the physical store

We can hence conclude that multi-channel retailing in India (and APAC) as a whole still has some way to go. Though a few retailers have begun to realize and reap the benefits of online sales as well as improved productivity from the multi-channel retailing model, such examples are few and far between. This is especially highlighted by the fact that these numbers are not available for most traditional retailers, even with those who have credible online initiatives.

As consumers have already embraced multiple channels to complete the shopping experience, it is time retailers took note of this behavior and gained from the operational efficiencies.



Inspiration from Retailers – FMCG Players innovating in Multi-Channel

Retail

We have seen retailers taking a cue from their global counterparts and experimenting with multi-channel retailing and the growing potential of online retailing in India and in Asia Pacific (APAC). FMCG players are also launching innovative multi-channel initiatives of their own. We will provide a few examples, which will not only highlight the effectiveness of the IMCR model but also highlight the importance of being available to the consumer anytime, anywhere.

Bisleri Shoppe – Retail Outlets

In 2012, Bisleri International set up 'Bisleri Shoppe', an exclusive retail format to sell bottled water. The company believes that the move will boost the brand visibility and counter competition. Bisleri Shoppe, typically a 20 feet by 10 feet store, was to be set up with an estimated investment of INR 0.3 Million per store. Post the review of the response to these outlets, the company intended to work on deployment strategies to take the initiative pan-India.

Dabur establishes a Marketplace on Snapdeal.com

Dabur claims that they are the first FMCG in India to have their online portal (www.daburuveda.com). In 2011, Dabur India established its online trading platform in collaboration with the leading Indian e-commerce player snapdeal.com. It retailed 52 products across three categories of health foods, ayurveda and organic, and combination packs. Customers could pay online or opt for cash on delivery via the trading portal.

Coca-Cola Online Goes Online and Mobile

On the web: Coca-Cola India recently piloted an online store in Ahmedabad (India) – Coke2home.com – for home delivery of all its products in an attempt to tap the burgeoning e-commerce market. This is a first-of-its-kind move by an FMCG company. The site offers products such as energy drinks, juice drinks, mixers, soda, and packaged drinking water and home delivery on orders above INR 300. The portal facilitates individual, bulk, and monthly-based orders.

There is a registration process on the site for regular orders, whereas for a bulk order, a form has to be filled to connect with the company representative. We were not able to study the service as it is available only in Ahmedabad. However, it appears that once a user places an order, the company provides them with an order number that can be tracked on the website. It claims that orders placed before 12 noon will be delivered the same day.

On mobile: Coca Cola also launched a mobile version of the site accessible at – m.coke2home.com. The site provides a QR code, which once scanned, leads a user to the mobile version of the site on their mobile browser.

Proctor and Gamble (P&G) Samples with Pampers Sales on Walmart.com

P&G tied-up with Walmart.com and offered to give away product samples with purchase of any Pampers product. Consumers could choose to buy Pampers swaddlers, Pampers baby dry, cruisers, or training pants from Walmart.com and the product samples would be shipped for free on purchases over $45.

Non-store 'FMCG Retailer' HomeShop18 opens a 'Virtual' Store in India

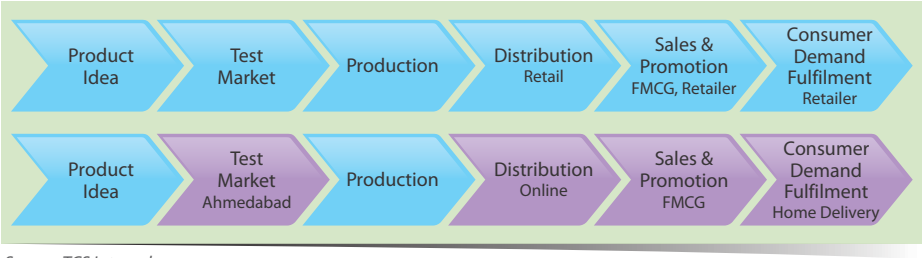
In 2012, Network18-owned Homeshop18 launched a virtual wall named 'Scan N Shop' at the Terminal 3 (T3) domestic terminal of New Delhi's-IGI Airport (IGIA). The virtual wall offered consumers the ability to order by scanning the QR code displayed against each item or over the phone at the call center. To do so, consumers had to download and install a QR code scanner built-in within the Homeshop18's iOS app on their phone. For Blackberry, the BBM QR code scanner could be used. Once the scanner was installed on the phone, consumers scanned the QR Code displayed against each product, and were shown product details on the Homeshop18 mobile website through their mobile browser. Users then clicked on the 'buy now' link and followed the checkout process to complete the order.

Multi-channel Value Chain – Customer Buying and Consumption Journey

We are witnessing changes in consumers' buying and consumption patterns. These changes underscore the importance of a robust IMCR model. We will highlight two examples of how organizations have adapted to meet the requirements of the multi-channel consumer, by developing a flexible multi-channel value chain.

Coca-Cola India engagement across the Value Chain

We have already seen the example of Coca-Cola India's multi-channel retail initiative; now let us look at the traditional FMCG value chain.



Source: TCS Internal

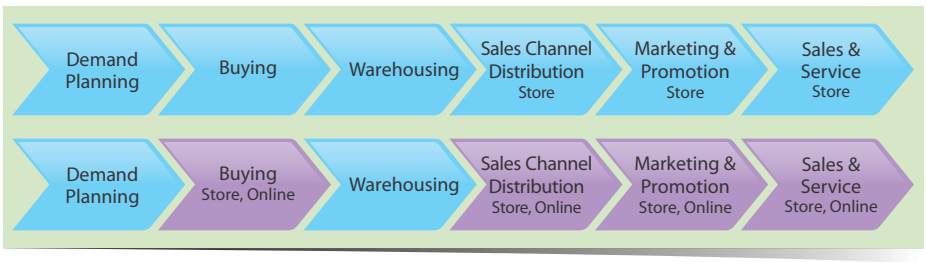
Figure 6: Consumer touch-points impacting the FMCG value chain – Coca-Cola India

Traditionally, an FMCG company did not connect with the end customer directly; it was the retailer or distributor who did. We have seen this change with Coca-Cola's online initiative where an FMCG company distributes its products through its online channel and takes responsibility for consumer demand fulfillment by direct home delivery, as shown in figure 6.

If this initiative is successful, it could become the template for FMCG companies to reach out to the multi-channel consumer through any channel the consumer chooses to engage with.

Tesco – Wine Co-buy Concept – Retail IMCR

With Tesco launching a wine co-buy initiative recently, we take a look at the traditional retail chain, where the customer is not directly linked to the buying activity – which is derived purely from demand planning data of past behavior. Figure 7 shows the customer touch points impacting the retail value chain.



Source: TCS Internal

Figure 7: Consumer touch-points impacting the retail value chain - Tesco

Tesco has partnered with 'buyapowa' to launch wine co-buys since May 2013. This is a group-buying program, which enables people to refer friends to buy cases of wine at better prices. The model relies on the power of people's networks and Tesco's commitment to deliver genuine value.

Through the wine co-buys, Tesco is shifting some power to its customers, giving them more control over the product pricing and a say in which products should be included in the next co-buy. Tesco may be on a winning proposition given that online sale values are likely to be high and customers are driving what they want to buy.

Multi-channel Customer Enablement and Regulatory Support – Example of Jurisdiction

It is very important that in this multi-channel journey, customer interests are protected through adequate government regulatory support, to minimize conflicts between the stakeholders. Current regulations are not yet geared up to meet the requirements of this emerging model.

There are many cases of consumer grievances relating to transactions on online retailer websites and service delivery, which doesn't match retailer promise. Consumer forums have refused to admit these complaints, citing a lack of clarity on jurisdiction. The confusion then arises as to where the complaint has to be booked – the retailer's office address, the warehouse address, or the customer's address. One such prominent case is related to an Indian online player – Timtara – where hundreds of complaints were registered with a consumer forum called Akosha[1]. Most of the complaints were related to delivery failures and refund order delays. In a multi-channel world, powered primarily by e-commerce and mobile channels, similar customer issues will increase, if not addressed immediately.

The Indian government has taken initial steps to address this matter. They have tried to balance the onus on both the company and the consumer when the legislature drafted the jurisdiction clause in the Consumer Protection Act. It would be impractical for a company to represent itself everywhere – thereby justifying the customer having to file the complaint in the place where the company conducts its business. According to Akosha, the Consumer Protection Amendment Bill could have proposed an amendment to Section 11 of the Act that deals with jurisdiction and would have incorporated a separate jurisdiction clause directed at the e-commerce sector. Such a clause would have clearly laid down that in e-commerce cases, a complaint should be filed where the cause of action arises, irrespective of the company's physical location. This could have been a perfect, even though overly legislative, redressal of an issue that is already a major problem for consumers making online purchases. Another way out could be to have the National Consumer Disputes Redressal Commission lay down clear directives in this regard, clarifying that 'cause of action' be given precedence when dealing with jurisdiction issues specific to e-commerce complaints.

This example illustrates how many similar initiatives need to be taken at national level and old consumer protection norms need to be reviewed to enable this multi-channel retail business model to succeed.

[1] Akosha.com is an online consumer complaints forum, founded by Ankur Singla, in India



Using Consumer Shopper Insights, managing Channel Conflict and enabling Organizational Structures for Integrated Multichannel Retailingy

We had detailed interactions with Kurush Grant, Chairman, ITC Limited (a leading Indian FMCG company). Here are the highlights of the key organizational imperatives for shaping the contours of a robust IMCR roadmap. These have been synchronized with our approach in the following section:

A. Shopper Insight: Consumers want more	How IMCR can leverage this Insight
Consumers want to research a product or service and buy from a channel with the best perceived benefit	Decision making and purchase behavior demonstrated are different and hence role of each channel can be defined to deliver an 'integrated buying experience'
Consumers expect to see consistent product range, promotions, and customer service across channels	■ An integrated 'channel assortment strategy' must be defined to set consumer expectation ■ Out of Stock (OOS) leads to channel dissonance
Consumers want a personalized shopping experience	An integrated back end data management system to capture 'trending purchase behavior' across channels to generate shopper analytics
Consumers expect to participate in designing and marketing of products or services	A 'three way communication' between consumers, retailers, and marketers must be established
Consumers seek convenience on repetitive purchases	An integrated system which captures the history of all purchases for ease of re-use (e.g. while purchasing e-tickets, most airlines prompt the passenger details stored in their memory thus reducing the purchase cycle time)

B. Channels operating in Silos	How IMCR can leverage this Insight
A new channel is often seen as competition to existing channels leading to cannibalization	Short term channel conflict will continue to play till such time retailers identify 'new hook' for consumers outside of price discounting (Q Ratio[2])
Organizations have a separate metric of evaluating each channel	An 'integrated channel Profit and Loss (P&L)' must be created
May lead to complexity or increase in cost if processes are not synchronized	Investment in technology to ensure 'no overlap of processes' between channels
Conflict in retailing with the increased presence of cash and carry	A segmented approach of partnership can be driven for: ■ Distribution: By geography, identified portfolio ■ In-store sales: Targeting individual shoppers ■ Targeting new channels: Institutions

[2] *It is the ratio of a company's market cap to value of its tangible asset. If > 1, it means that markets believe that part of company's value comes from its non-tangible assets such as brand equity, differentiation, innovation, customer experience, market dominance, customer loyalty and skillful execution.* International retailers are regularly

C. Organizational Structures and Processes	How IMCR can leverage this Insight
Creating common goals (no individual channel goals must be set)	■ Head of a channel must 'create and integrate' all channel strategies to deliver a 'common goal'
Diminishing role of 'sales push' with 'replenishment' and 'rate of sell out' being driven by marketing and automated or integrated supply chain systems	■ With technology investment across channels, stock loading through sell-in will be replaced by 'replenishment' orders ■ Need to impact rate of sell out (and in turn stock loading) will determine organization's structures ■ Vendor managed inventory (VMI) will play a significant role

We have examined the positive results of multi-channel retailing; now let us take a look at the basic building blocks of this model. We have mapped the multi-channel consumer buying patterns and observed that they have become increasingly channel agnostic. This makes it vital that retailers reach out to customers wherever they are - stores, mobiles, Internet, TV, phones, airports, magazines, or their homes. The only viable way to achieve this is by adopting the integrated multi-channel retailing model.

Approach for Integrated Multi-Channel Retailing

There are some key questions that crop up when companies look to reorient their business model to become a truly integrated multi-channel retail organization. These questions include:

- Where do we begin our multi-channel journey?
- What are the resources needed to undertake multi-channel initiatives?
- How do we assimilate our multi-channel initiatives?
- How do we measure effectiveness of our efforts?
- How do we sustain the benefits that we may accrue?

In our view, the retailers must adopt a holistic approach encompassing the following aspects, which need to be aligned with each other to maximize multi-channel presence:

I Defining operating strategy and model: leading to right governance and cross channel collaboration

1. Business and channel strategy
2. Assortment strategy
3. Organization structure, KPIs

II Shaping customer experience: leading to seamless shopping behavior across channels

4. Pricing
5. Service
6. Customer order fulfilment

III Deploying processes and systems: leading to one view of the customer, inventory and orders across channels

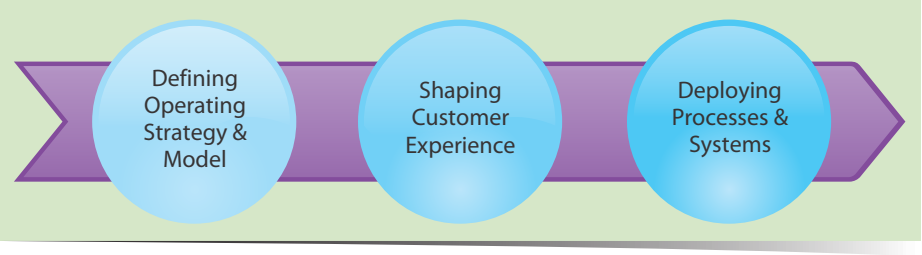


Figure 8: Approach for integrated market retailing

The following section covers the key initiatives and best practices, and proposes a pragmatic roadmap of attaining the integrated state.

Initiatives, Roadmap, and Best Practices for Integrated Multi-channel Retailing

I Defining Operating Strategy and Model

1. Operating strategy and multi-channel model

Retailers tend to look at their channels in isolation when they are drawing up their long-term or medium term business strategies. They tend to draw up different strategies for the store, online, catalog, and mobile channels. Often, these strategies are not in line with the individual objectives and the resulting multi-channel model is unable to achieve sales impact, improve operational efficiencies, and enhance customer experience.

For example, the objective of a multi-channel model is to increase a retailer's sales, yet the store rollout plan gets 100 stores, while critical functionalities such as Buy Online, Pick In-Store (BOPIS) are not enabled on the e-commerce platform. A single cohesive business strategy that encompasses all the channels and draws up a suitable multi-channel model to meet the strategic objectives has to be developed.

Additionally, companies need to identify key objectives for pursuing an integrated multi-channel retail model and strategic elements that drive the organization. Once a retailer has identified one (or more) of these strategies, the next step is to shape the multi-channel model – spanning the multi-channel environment the retailer operates in. Here are a few illustrations that highlight the approach and provide a glimpse of how this activity needs to be taken at an organizational level. Typically, there are four broad areas of strategic intent that can be identified for the IMCR approach:

	Business Strategy	Multi-channel Model	Best Practices
1.	Establish a new 'sales post'	Establish a digital channel as an extension of the store. Online, catalog, and mobile customer orders to be fulfilled from the nearest physical store	Tesco
2.	Capture customer's 'share of wallet' profitably	Re-visit existing store sizes on locations, in lieu of new digital channels, and increase transactions from expensive stores to cheap online channels	JC Penney
3.	Optimized customer order fulfillment	Establish regional stores only, which will act as regional retail brand hubs. All channel orders to be fulfilled by regional stores	Macy's
4.	Improved 'customer experience'	One unique ID of the customer, single product pricing, and integrated customer service – across all channels for seamless brand experience	Best Buy

This illustration highlights one scenario against each of the four strategy objectives. However, it will become more complex when the retailer has multiple strategies and multiple tactical options available to achieve the same model. For example, single product pricing could be achieved through having a common item master and a single category manager managing



both the store and online channels. Alternatively, an organization could have two separate category managers for store and online, and store operations (on the floor) decides to 'price match' the online store pricing using a store manager discount option in the POS system. How does an organization decide which option to adopt? The retailer needs to address all the multi-channel model elements comprehensively to become a multi-channel organization across all markets, not limited by geography – for example, Tesco and Sears.

2. Assortment strategy

Deciding the retail assortment for a standalone channel – be it a physical store or online or mobile – the typical assortment planning activity needs to be carried out on two broad pillars of assortment strategy:

- Determine assortment roles – Convenient, sporadic, regular, exclusive
- Determine assortment plans– Sales driver, buzz creator, competition match, margin driver

Following this, the assortment processes – procurement, distribution, marketing, and customer order fulfillment – are then synchronized with this framework and enabled out at a channel level. Pricing and profitability variables are relatively simple linear computations, while allocations and transfers depend upon the importance quotient of the stores for selling a particular product, as shown in figure 9.

Assortment Roles	Convenient	Sporadic	Regular	Exclusive
Product 1				#
Product 2		#		
Product 3			#	
Product 4			#	
Product 5	#			
Assortment Plans	**Sales Driver**	**Buzz Creator**	**Competition Match**	**Margin Driver**

Source: TCS Internal

Figure 9: Assortment Roles

There is a need to introduce a third pillar in shaping the assortment strategy. This includes the 'multiple channels' that a retailer operates in today and factors in the ones they plan to operate in the future.

- Channels – Store, online, mobile, catalog (taking the four main ones)

As a result of this addition, IMCR assortment strategy actually now needs to work in three dimensions: roles, plans, and channels, as shown in figure 10.

Assortment Roles	Convenient	Sporadic	Regular	Exclusive	Channel
Product 1				#	Store, Catalog
Product 2		#			Online, Mobile
Product 3			#		Online, Mobile
Product 4			#		Online, Mobile
Product 5	#				Store, Online, Mobile, Catalog
Assortment Plans	**Sales Driver**	**Buzz Creator**	**Competition Match**	**Margin Driver**	**Channel**

Source: TCS Internal

Figure 10: Assortment Roles with Channel Mix

To further refine the assortment plan, each channel will play a unique role in delivering the strategy:

- Channel role – Aggregate (all products), select (fast selling items), complement (attachments and accessories), and differentiate (limited items)

An approach towards IMCR assortment strategy is highlighted in figure 11.

Assortment Roles	Convenient	Sporadic	Regular	Exclusive	Channel	Channel Role
Product 1				#	Store	Differentiate
					Catalog	Complement
Product 2		#			Online	Differentiate
					Mobile	Differentiate
Product 3			#		Online	Aggregate
					Mobile	Select
Product 4			#		Online	Aggregate
					Mobile	Select
Product 5	#				Store	Aggregate
					Online	Aggregate
					Mobile	Complement
					Catalog	Complement
Assortment Plans	**Sales Driver**	**Buzz Creator**	**Competition Match**	**Margin Driver**	**Channel**	**Channel Role**

Source: TCS Internal

Figure 11: Assortment Roles with channel mix and specific channel roles

After this is done, the assortment processes – procurement, distribution, marketing, and customer order fulfillment, need to be realigned with the channel's characteristic processes and designated channel roles.

Pricing and profitability variables are now multi-linear computations since different channels have different cost and service structures and yet the organization, must come up with a consistent pricing across all channels. Allocations and transfers will need to be devised depending upon the 'affinity' quotient of a 'channel' for selling a particular product.

The dynamics of an IMCR environment mandates that retailers need to move towards an integrated continuous assortment planning approach. The integrated multi-channel assortment plan must take in account the demands of all channels as an aggregate and provide the correct allocation to each selling medium.

One of the main challenges in achieving this is the ability to accurately estimate demand in each channel. Retailers find it difficult to keep up with the latest customer requirements, irrespective of the channels they shop in. Retailers need to get an insight into which products are the most and least successful, in the assortment mix that they have chosen for a particular period. They need to develop an organization-wide quick response time for changing trends and customer expectations, as mastered by Zara.

3. Organization Structure, KPIs

A multi-channel retailer can align the organizational structure in two ways:

- A fully coordinated organization with a single P&L and joint decision-making that optimizes total firm profits
- A decentralized structure in which each channel has a separate P&L. Decisions for each channel may be taken within the channel itself or there could be limited inter-channel decision-making during the annual planning exercise

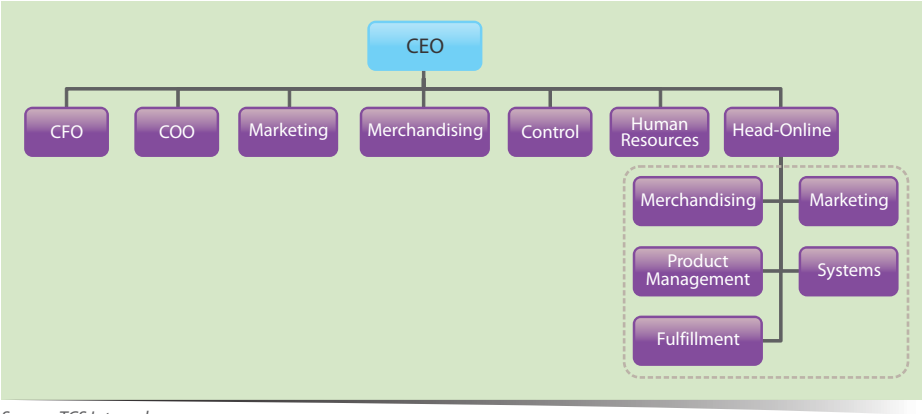
At the early stage of e-commerce development, some retailers intentionally gave a great deal of independence to their online channel to attract executive talent and to encourage its growth. For example, even though Walmart is known for its centralized organizational structure, Walmart.com was established as a subsidiary with a fresh management team and chose to locate its headquarters near Silicon Valley rather than at Bentonville, Arkansas.

Consistency across channels in terms of merchandising, service, and promotion — remains a challenge for most retailers. In brick and mortar stores, the most well accepted performance metrics are same-store sales, sales, and gross margin per square foot (GMROF). However, these metrics do not apply to the online or mobile channels. A multi-channel retailer needs to determine how to measure the impact of marketing actions in one channel on consumer awareness, brand preference, sales, profit, and customer satisfaction in the retailer's other channels.

Most retailers manage their channels in a decentralized fashion (as shown in figure 12) and maintain separate teams of inventory management, merchandising, marketing, finance, analytics, and product development within each channel. Generally, the head of online

channels reported directly to the CEO of the company. Such retailers have seen tremendous growth and profitable returns initially. However, if we look at a longer time horizon, the decentralized structure has caused issues such as:

- Inefficiency of business processes due to the creation of duplicate teams
- Internal conflicts across channels
- Inconsistent customer experiences due to lack of coordination in merchandising activities across channels



Source: TCS Internal

Figure 12: Decentralized Organization Structure

If the online channel brings additional sales to stores, how should it be given the credit as the additional sales do not reflect in their accounting books? How can retailers reward store staff who do an excellent job cross-selling merchandise that are only available online? How can they motivate store staff to provide flawless service to customers who come to stores to pick their online orders or to return merchandise bought online? Retailers need to answer these questions and design an effective compensation system to minimize conflicts and encourage and reward collaboration across channels. Here are some recommendations:

1. Create a structure with single P&L: An IMCR needs to integrate the organization structure so that channels do not operate in silos. This will provide an integrated approach to decision-making in marketing, merchandising, inventory management and visual merchandising.

   This will also enable multi-channel retailers to create cross-channel synergies and seamless customer experience. Other advantages of an integrated structure are that a capability or asset from one channel is systematically available to the other channels, and that the overall resources devoted by the enterprise to similar activities can be appropriately adjusted. For example, if the online channel can drive store traffic, then the mass media budget of the retailer could be reduced or redirected elsewhere.

2. Assign clear executive leadership: IMCR should assign senior management to oversee the coordination of all channels and ensure that multi-channel initiatives remain a priority. At US-based outdoor gear and apparel retailer, Recreational Equipment Inc. (REI), this position is held by the CEO and at Circuit City, there is a dedicated position created for this role.



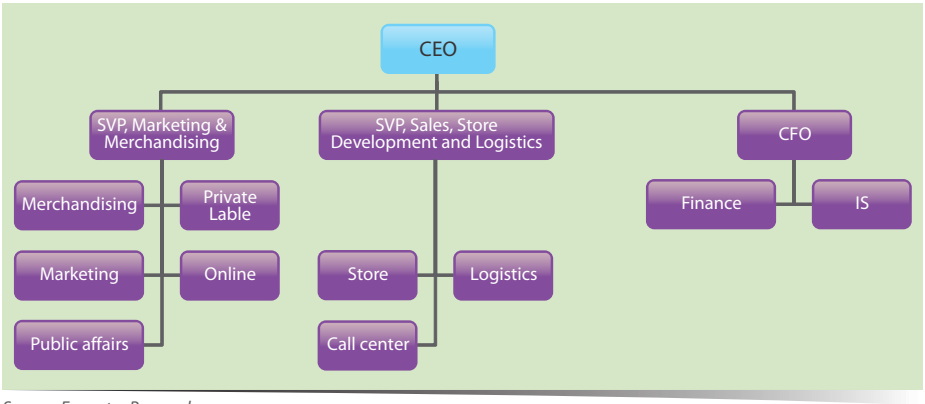
As a pre-requisite, executives heading the functions need not be just retailers but also have a sound strategic vision and experience of e-commerce to know how to operate in a multi-channel environment. For example, the CMO needs to be fluent in traditional marketing areas - mass media (radio, TV, newspapers); direct marketing (marketing databases, control groups, testing, ROI, modelling) and newer areas like e-commerce (SEO, navigation, e-mail, opt in/opt out, privacy) and social media (Facebook, Twitter). This will enable the Marketing function to develop a 360-degree view of the customer and respond to their needs and channel preferences.

3. Provide incentives for cross: channel collaboration - Unlike in physical retail stores, marketers in online retail have the ability to measure and track almost every customer interaction. Retailers need to shift their focus to total product and category sales across all channels. Category gross margin is the number that needs to grow and is a good indicator of whether or not the channels are working effectively together to drive sales.

An integrated organization structure may create synergies of sharing overall resources; however, only a few executives would relinquish control of critical resources like advertising budgets in the belief that the alternative online or mobile marketing will drive store traffic and sales.

Additionally, if we consider the research shopper phenomenon, one channel may function mostly as an information source for customers, while another channel may serve as the transaction channel. In that case, it is very difficult to determine which channel manager should be rewarded for a sale.

REI's efforts to build a multi-channel culture are best practices for other firms to adopt. The retailer developed a focus on the customer, that cuts across channels — with a combination of organizational restructuring, new incentives, training, and flexibility to enable the success of the model, detailed in figure 13.



Source: Forrester Research

Figure 13: Organization Structure at REI Outdoor apparel: for multi-channel success

Macy's, on the other hand, introduced incentives for sales staff to fulfill needs regardless of channel in its initiative called Magic Selling.

4. Pricing

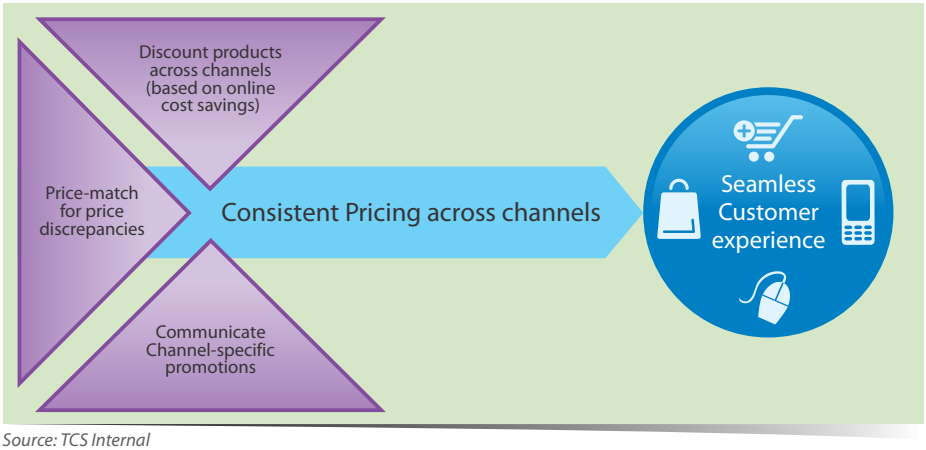
Customers of each channel of an IMCR have different needs and the cost of serving these channels vary. The question is whether pricing of merchandise should vary by channel or not. It is a strong indicator of a retailer's web strategy, if focused on aggressive e-commerce sales growth or on delivering a consistent multi-channel customer experience.

To derive growth in an e-commerce channel, an IMCR would pass on the savings in operational costs (such as rentals, staff expenses), while selling online to the customer in the form of discounts. However, the stores would continue selling the same merchandise at full-price. According to a CrossView multi-channel retailing study, 58% of top US multi-channel retailers offered different prices across channels on the same item in 2010. On the contrary, to deliver a seamless customer experience to a channel agnostic, retailers need to have consistent pricing across channels. This is also relevant in countries like India where the customer is not familiar with differential pricing based on retail format, as pricing is based on Maximum Retail Price (MRP), where the manufacturer recommends the price at which the retailer should sell the product. Retailers though sell slightly below MRP to attract more customers to their stores.

Ensuring a consistent pricing across channels however is imperative for a multi-channel retailer. Retailers like Tesco and Zara pursue consistent pricing across online and brick and mortar stores. In case of a price differential across channels, an IMCR should match its online and offline prices just as it matches prices with competitor stores. Best Buy is a good example of an IMCR that offers price matches with leading online stores like Amazon. In case price discrepancies exist between channels, some retailers effectively communicate this to the store shopper, as in the case of Mountain Equipment Co-op (Canada), Sears (US) and B&Q (UK).

If a price differential has to be introduced for additional services offered by the retailer, customers need to be offered a transparent choice of channel and service options, and differing prices that reflect cost to serve, e.g. Amazon offers the reliable comfort of its own shop-front, or else a range of sellers on its marketplace with varying ratings and delivery promises. Shoppers place different values on trust, speed, and certainty, and can choose and pay accordingly.

While we advocate consistent pricing across channels, we need to understand that the cost structure associated with each channel is different. The advantage gained by an IMCR from the low operating cost of online channels must be balanced with the high operating costs of physical retail, thus, offering the customer a consistent lower price across channels. This may or may not be the lowest price offered across pure-play online retailers but will certainly help retain customer trust.



Source: TCS Internal

Figure 14: Consistent Pricing for Seamless Customer Experience

In addition to pricing, assortment can be varied by an IMCR to create differentiation in comparison to pure-play online retailers. The IMCR can sell exclusive products online or focus more on large assortment categories that they may avoid in the store.

Manufacturers may also need to intervene to avoid excessive discounting of their products by online retailers. This can be done by identifying the customer segments they want to focus on, and then direct their trade discounts towards these channels. They can opt to use a pay-for-performance mechanism to reward a retailer for the support they provide in representing the brand and in acquiring new customers in the target group. This way the performing retailer is in-sync with the manufacturer and earns higher margins. On the other hand, retailers who do not support the brand and provide indiscriminate discounts will suffer lower margins, forcing them to cut down on the discounts to the end customer.

Further, pricing of merchandise across channels may eventually evolve into dynamic pricing similar to that adopted by airline companies. The retailers may enable the automatic rollout of price based on the time of the day and even personalize pricing for customers, similar to personalized promotions prevalent today.

The leading IMCR adopt the following best practices to ensure consistent pricing across channels:

- Changes in organization structure - One category manager for both online and store businesses is recommended. This means having a single P&L for the entire organization and not treating online business as a separate entity
- Using Master Data Management (MDM) for better price management across items
- Using pricing intelligence software that monitors prices across channels and competitors to enable better pricing

There could be a few challenges while ensuring pricing consistency in multichannel retail. For example, pricing differentiation may sometimes be required for seasonal products offered to customers in different regions. Alternatively, different prices are offered at differing times of the day to drive footfalls. This may cause confusion for the consumer and potentially damage brand reputation.

In addition to pricing, promotions need to be consistent across all channels, regions and countries. Problems can arise when multi-channel retailers are running online-only or store-only promotions. This needs to be communicated properly to the customer. For example, Sears does not do in-store price-match items under online-only promotions.

Best Buy is a popular example of multi-channel pricing. It does a price match for all local retail competitors and 19 major online competitors in all product categories, whenever a customer requests for it. There are exclusions like promotions run by competitors, BestBuy.com Clearance and Marketplace items. Additionally, the price match is limited to one price match per identical item. This is also an important move in combating 'showrooming' (where customers experience the product in-store and buy it online at a discounted price).

Alternatively, Walmart doesn't lose much due to showrooming because it sells products in a lot of other categories to customers who come in to browse electronics. Here, we may need to remember that price is just one aspect of a compelling multi-channel experience, and some retailers will be more comfortable in finding a profitable balance than others.

5. Customer Services and Marketing

In brick and mortar retail, customer service is largely people-oriented and performed at touch-points in stores such as interaction with sales staff, the customer service desk, and in a limited manner, on the telephone. As the customer service function is localized to the store, it is easier to control the quality of service.

Online channels today offer customers the convenience of tapping into the buying cycle at any stage and have given rise to additional touch-points such as email, live chat, and social media, with customer service now having both human and technology aspects. It is crucial when prices and products are very similar between competitors and customer experience is one way to differentiate a retailer from its rivals. Brands like Zappos have built up a reputation of excellent customer service.

Advertising using search engines and social media plays a key role during the early stages of the buying cycle when a customer has certain keywords or products in mind. Multi-channel retailers need to align their promotions and loyalty programs to provide a seamless customer experience across channels.

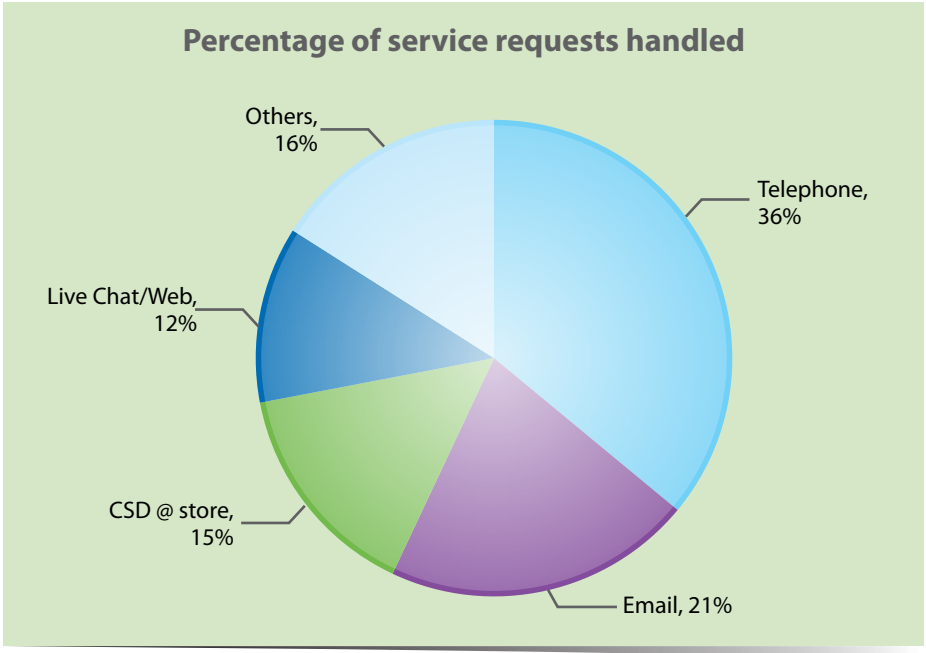
A multi-channel retailer has the following major touch points where customers can communicate with customer service staff.

- Telephone
- Email
- Customer service desk at store
- Live chat or web
- Others like social media

According to research conducted by the Aberdeen Group (figure 15), the telephone channel has the most incoming service requests at 36%. At each of these touch points; retailers have the opportunity to create a positive impression. Self-service is also an important service



channel, like the internet. Many cross-channel shoppers are tech savvy and prefer to control their experience, so retailers like PETCO, American Eagle Outfitters, and Famous Footwear ensure that online and offline order and account information as well as applicable coupons are easily accessible online.



Source: Aberdeen Group Research

Figure 15: Mode of Customer Service Requests

Specific customer service channels are often managed by separate teams - one team may deal with telephone queries, another with emails, or social media, or live chat. This kind of

The benefit of integrating customer service functions for retailers is that they would be able to provide services to individual customers far more efficiently, as well as generate insights to improve the targeting of marketing communications. The customer can be provided with a higher level of service, and this can lead to an increase in customer satisfaction and greater loyalty.

IMCR also has a relevant case for cross-channel promotions. An inter-channel cross-selling promotion might entail a coupon offered to internet users for purchasing an item in a retail store. The objective of such a promotion could be to increase store traffic. Alternatively, a store may offer a customer at the checkout counter a coupon that can be used for online purchases.

Marks & Spencer estimates that: Spending of multi-channel (in-store, online, and mobile) customer = 8 x spending of store-only customer

Here are some best practices to improve customer service:

- Service options - Retailers should offer click-to-chat or click-to-call options and experiment with in-store kiosks that link to live customer service representatives.
- Consistent communication - Retailers should avoid frustrating consumers with their inability to service them because information is unavailable or by making them repeat information
- Differential services - In the future, retailers will need to optimize the interactions across channels for a combination of cost and satisfaction, thereby providing valuable customers with different service options than other customers

Best Buy and Macy's offer live chat and click-to-call options, and their customer service representatives have visibility into both customer and order data.

The major challenges customers face while resolving a service request are:

- Being forced to repeat themselves as customer service staff lack information regarding the customer's history and value
- Long waiting times and being trapped in automated self-service lines
- Not being able to switch between communication channels easily

From an IMCR standpoint, retailers should look out for policies that discourage employees from not delivering good multi-channel service. For example, if stores make it difficult for customers to return online products at the store, they risk losing future online sales because of a frustrating returns process.

6. Customer Order Fulfillment

The ultimate aim of the multi-channel business is to deliver goods or services anywhere, anytime and provide a great customer experience. Most retailers today have relatively strong independent channel fulfillment processes; be it the availability of merchandise in store or the capability to deliver within 24 hours. The RSR Omni Channel 2013 Benchmarking Report has indicated that 64% of multi-channel retailers have little or no synchronization in fulfillment. The single view of inventory and customer are fundamental enablers and integration across channels for fulfillment is the key to customer satisfaction. More than 75% companies consider seamless integrated multi-channel experience as a top business challenge for their fulfillment strategy.

Retailers looking at multi-channel as a true enabler of their business must also look at creating uniform experience of fulfillment across channels. Some of the key aspects of fulfillment that need to be addressed are:

- Enabling customers to purchase on any sales channel – store, e-commerce, m-commerce, kiosks and social commerce.
- Allowing customers to take delivery through any mechanism possible like self-pickup, express, or regular delivery.
- Allowing customers to return products through a channel of their choice like dropping it off at the store or predefined location, getting it picked up from home, or the customers' location of choice.

These functionalities are the primary drivers for customer satisfaction.

The obvious key enablers for achieving excellence in fulfillment are having a unified sales platform, single view of the inventory, robust order management, ability to allocate inventory to demand in real-time, and cohesive view of the customer across channels. The growing customer expectations mean that improvements are necessary in speed and quality of delivery.

Globally, several companies are setting up new benchmarks in fulfilment every day. Store pick-up and home delivery options are provided across channels by the likes of Home Depot and Callaway. Companies like Best Buy and Circuit City provide for a dedicated pickup area in stores for online orders. In India, Flipkart, Jabong, and several others have setup their own fleet for deliveries in metro cities. Jabong (through JaVAS) has diversified and is now providing a fulfilment service to other e-commerce companies in India. The fledging e-commerce business has customers largely across metros and companies are using third party vendors for last mile delivery services to further improve their delivery footprint. In our view, companies may look at a three step approach to improve their fulfillment capabilities:

- Leverage: Utilize existing infrastructure or develop only a basic set up while establishing multi-channel business. This includes both a logistics network as well as technology solutions.
- Optimize: Improve current state of fulfillment operations across processes, infrastructure, and technology. This should enable the company to reduce overheads and improve utilization levels.
- Integrate: Once operations are optimized across all distinct fulfillment channels, companies can enable integration across channels. It should include processes around sales, delivery and returns, and be achieved through suitable technology interventions.

While companies proceed through their respective charters, it is important that they maintain the brand salience.

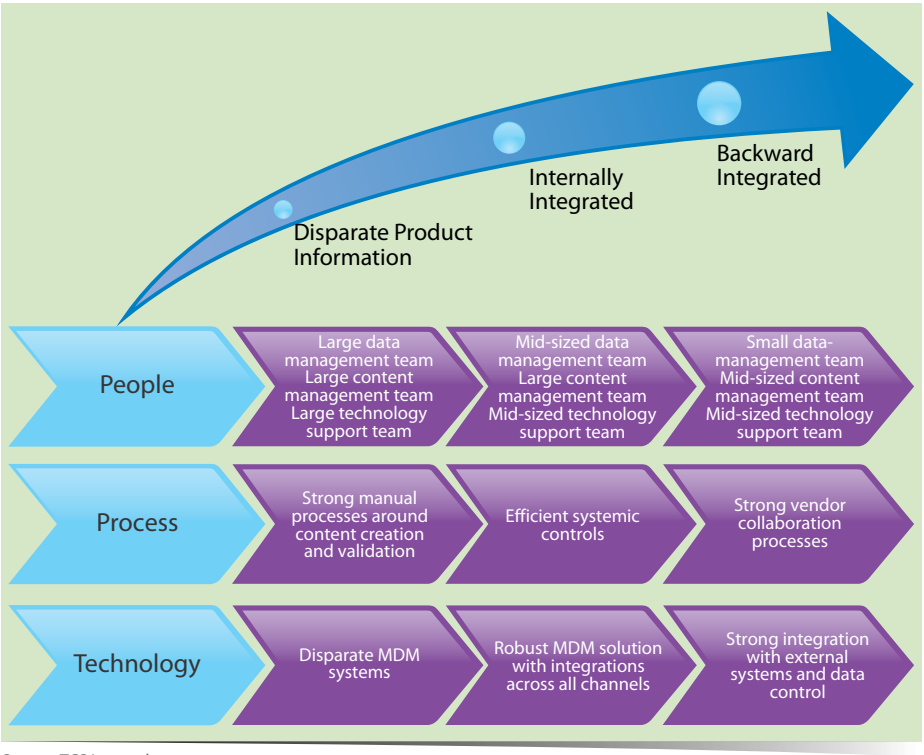
III Deploying Processes and Systems

After the organization strategy for IMCR operations is finalized and the role of individual channels is delineated, we should look at how to achieve the goals and execute the strategy. Reviewing the processes and systems are the key drivers of a successful IMCR business.

One Product

Traditionally, retailers have been using a basic master data management (MDM) system (generally a part of core ERP system) to capture only the essential elements of product information. Physical attributes or technical specifications are not included as the customer can see all information while buying the product in a physical store. As we move to channels which disconnect the customer from the physical product, it becomes essential to communicate all information that would generally be available to the customer when viewing the product in-hand.

Companies started using the e-commerce platform's MDM to capture additional information, when they adopted internet as a retail channel. This meant that organizations now have two or more systems where basic item information is being captured and these had little or no synchronization between them. However, in an integrated multi-channel environment, it becomes essential to have a single view of the product across channels (figure 16).



Source: TCS Internal

Figure 16: Single View of Product



Retailers need to use robust MDM solutions like Initiate or InfoSphere or develop a bare-bones MDM solution in-house, to achieve a unified view of the product across channels. The basic data about the products are best adopted from the vendors. Retailers must therefore look at extending the MDM solution to vendors or develop interfaces with the vendor's Product Lifecycle Management (PLM) tool or MDM systems.

Implementing a simple bespoke system can be a quick fix, as other options may take longer to implement and have higher cost implications. Our view is that retailers should analyze and identify what solution works best for them from medium to long term. According to Aberdeen Group research, 50% of the best-in-class multi-channel companies are sharing product information across channels.

Integrated Supply Chain

A decade ago, achieving collaborations with vendors at a strategic level was a rare occurrence. Implementing the Collaborative Planning Forecasting Replenishment (CPFR) model in the true sense may still be a challenge for most organizations, but there is a need to collaborate at an operational level. Some of the supply chain aspects critical for a strong multi-channel business are highlighted below:

1. Vendor information: It's no longer about having the vendor's data in place. It's about gaining access to information about vendors such as their production capabilities, lead time on upcoming orders, and insights into their available production slots. A company keen on multi-channel business should also focus on integrating with their vendors like never before.

   Companies must have real-time access to vendor information so that they can accurately predict and promise delivery to customers across channels and locations. It also enables them to plan their logistics efficiently. According to Aberdeen Group research, 54% of the leaders and 34% of followers in multi-channel business are working on initiatives that support such collaboration.

2. One inventory: Imagine if you have an inventory earmarked for stores but are not able to fulfill online orders. A choice between an unhappy online customer, a lost order, or incurring additional cost to fulfill an order are all undesirable solutions in today's high demand and customer-centric businesses. One of the main themes we speak of in the multi-channel retail business is having a single and real-time view of inventory across the organization. Ideally, it is best to have a single source of information for on-hand or on-order inventory; however we know that companies operate in various ways. The traditional retailers segregate and allocate inventory for various channels, when they adopt multi-channel operations. This may be beneficial to ensure stock availability at stores or at e-commerce order fulfillment centers. Multi-channel business though is unpredictable and companies would still benefit by having an aggregated view of inventory to respond to fluctuating demands across channels while at the same time optimally utilizing their investment in goods. According to the RSR Research conducted in June 2012, 61% of the multi-channel retailers consider cross-channel inventory visibility to be a critical process while 37% have already completed synchronization or are in the process of doing so.

3. Order management: Prioritizing orders and ensuring smart execution of available-to-promise (ATP) algorithms demand that we look at orders as a mission critical process. Creating a single control area for orders, both internal store requests and direct customer deliveries, gives organizations phenomenal flexibility. The ability to alter flow of inventory in real-time is critical to ensure that companies do not invest in high levels of safety stock. At the same time, it optimizes the use of logistics services. According to Aberdeen Group research, 44% of leading multi-channel organizations have distributed order management systems. RSR Research of leading multi-channel retailers has identified that 58% allow inventory allocated for one channel to be used for another channel's fulfillment.

Integrating the various aspects of supply chain is one of the top requirements of companies going multi-channel. This can be more challenging than other focus areas such as loyalty, social media, and customer experience. This is because of the large number of systems and processes that would need to be altered. Macys, for example, has been working on an inventory visibility project for some time now and by the end of 2013, 500 of their 840 stores will have the ability to pick online orders.

Terry Lundgren, CEO, Macys recently quoted an example from his stores with evident satisfaction. Macy's had 1,600 place settings of Feista dishes remaining in many stores in ones and twos, but they commonly sell in sets of eight or 12. The goods were effectively unsellable where they were located, but the online inventory and store-level picking permitted online sales to continue until they were sold through at full mark-up. This ensured that all sales were all profitable.

Investment in appropriate technology solutions is the only way to achieve an integrated supply chain. Aberdeen Group research pegs 98% on-time order delivery for leading multi-channel players leveraging such systems.

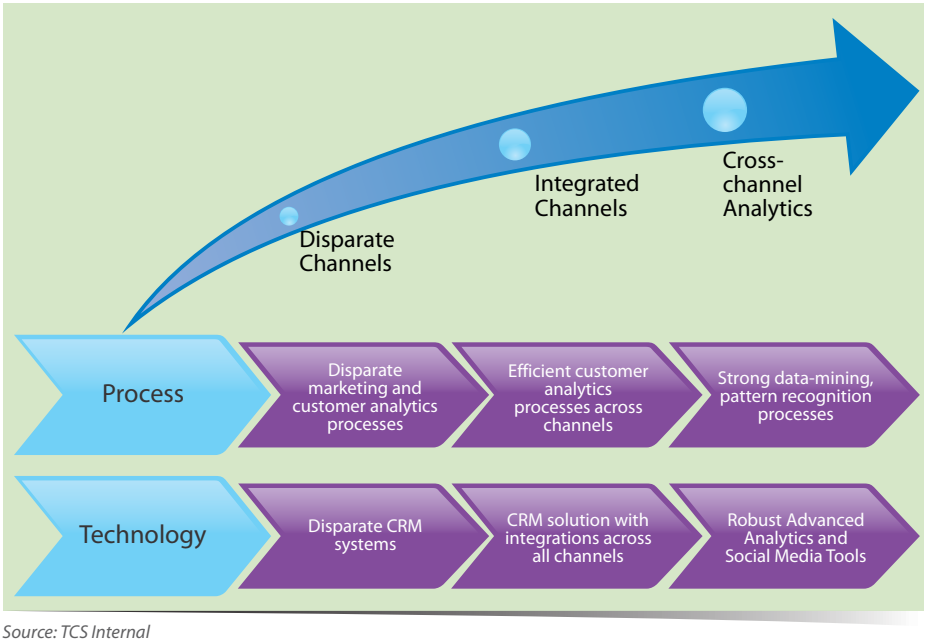
One customer

The prime focus of companies remains better understanding of the new, empowered, and omni-present customer. The Aberdeen Group's research on omni-channel customer experience highlights that four out of top five issues faced by multi-channel companies today are directly related to customers.

Superior customer services, uniform experience across channels, cross-channel loyalty are some of the expectations of the evolving customer. In our view, the fundamental aspect that all multi-channel companies should work on is to improve customer satisfaction, by developing a single personalized view of the customer. RSR research too highlights the lack of single view of the customer as the largest organizational inhibitor with a whopping 55% of the respondents agreeing to it.

Digital platforms allow customer information to be captured at every step and can uniquely identify a customer. This is not the case in the traditional retail business. Loyalty programs do provide some insights from the physical retail world, but it lacks details about customer behavior at the store. There are differences across channels and retailers have been managing disparate systems to capture customer information. This leads to a complicated web of dissimilar experiences, misleading marketing campaigns, and complicated loyalty programs.

As shown in figure 17, as a first step, the multi-channel retailers can look at investing in appropriate technology and processes that can integrate information derived out of various customer touch points such as store, web, mobile, customer care, and social media. Once the integrated information is available, companies can look at delivering uniform experience, coordinated marketing campaigns, and various other aspects as may be derived from this massive all inclusive dataset.



Source: TCS Internal

Figure 17: One View of the Customer

Technology backbone

A majority of multi-channel initiatives are those that can be envisaged and implemented from a solutions perspective. A robust yet nimble technology backbone is the need of the hour.

Most multi-channel retailers today are either facing inertia or are making inadequate efforts to enhance their current back end systems to adapt to the multi-channel environment.

While in certain instances it may be appropriate to enhance low priority systems, it can be counterproductive to do so for key areas like inventory and order management, Customer Relationship Management (CRM) or advanced analytics.

Achieve	How	Significance
Real-time inventory visibility	1. Core system which holds real-time information on inventory across all locations or sites 2. Integration between core system and vendor's inventory or order fulfillment system to accurately predict lead time	Critical
One view of the customer	1. An enterprise CRM system that will: a. gather transaction information from all channels b. capture interests, behavior, and actions on digital channels c. manage loyalty d. take inputs from advanced customer analytics e. feed marketing engine for personalized campaign management f. feed sales channel with data from other channels and assist personalized pricing 2. Curb the urge to enhance existing non-enterprise class CRM for multi-channel retail. However, if enterprise class CRM is available, look at re-implementation or modification by doing thorough analysis	Critical
Order management	1. Advanced system which will enable optimized order fulfillment 2. System must interface with core inventory and CRM system for inputs and provide feeds to logistics, sales channels, and customer profile	Critical
Advanced POS	1. Advanced POS system would provide ability to pull out analytics insights in near real-time to assist in cross-selling, up-selling, or closing transactions. POS systems must integrate with CRM and analytics	Important
Contact center system	1. Contact center systems must be upgraded to assist associates with real-time inputs and feed from analytics and CRM about specific customers 2. Distinguishing between key and regular customers and providing personalized service rather than a cookie cutter response is vital	Important
Advanced analytics	1. Like with CRM, look at implementation or modification of enterprise class analytics system 2. Develop capabilities around customer analytics across channels and product portfolio to drive personalized or optimized marketing campaigns 3. Develop capabilities around channel and product analytics to assist in channel-category role definition as well as pricing strategy	Critical

There are numerous other functions (like content management, e-commerce and mobile platform, social media, MDM, and partner relationship management) that may require revamp or some degree of upgrade. The focus of leadership and technology teams should be to deliver a long term solution which truly delivers in a multi-channel environment.



Key Takeaway:
Integrated Multi-channel Customer Engagement Model

Illustration of a Marquee Specialty Retailer's 'Buy Anywhere, Fulfill Anywhere' Journey, from TCS experience

Business strategy

The retailer wanted to improve its sales by adopting and enhancing different channels. The focus was to achieve the following:

- Enhance the existing in-store pick up process
- Implement the ship from store process
- Implement the site to store process

A team comprising of executives from customer, third party vendors, and TCS was formed.

Business problems

- Reduction in customer base due to increased shipping costs
- Reduction in sales with other retailers offering newer shopping options
- Increase in stagnant inventory in stores
- Increased cancellation of orders due to non-availability of items in stores and distribution centers (DCs) at the same time leading to loss due to non-movement of items from other stores

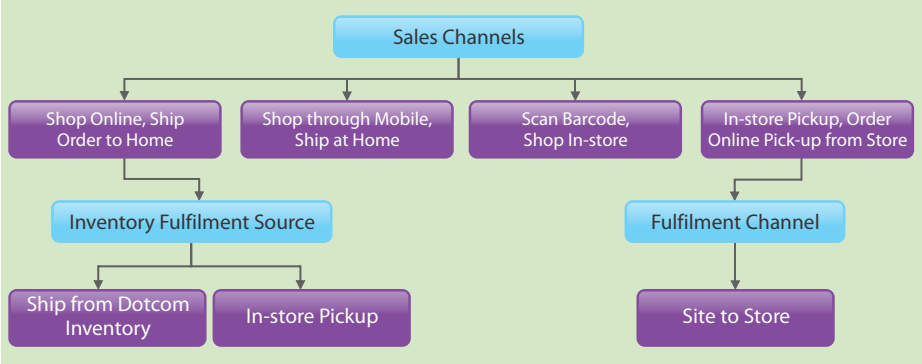
Solution implementation

- Studied existing sales channels and refined the processes
- Came up with new sales channels such as mobile phones and social networking sites
- Finalized the new channels to be implemented and set up infrastructure
- Set up rules for each sales channel
- Integrated independent systems – Electronic Data Warehouse (EDW), Point of Sale (POS), Radio Frequency (RF), e-Commerce – to define a streamlined process
- The end customers needed the ordered items instantly and without any shipping charges. To meet these demands, they introduced multiple facilities for order fulfillment. These included:
  - An e-commerce website for customers to place their orders
  - An order management system for facilitating and maintaining the order workflow
  - A stores workforce system for accepting the order and fulfilling it
  - A customer care helpline for order cancellations
- The existing e-commerce site was leveraged for in-store orders and to pass them to relevant stores
- The existing order management system was redesigned to address new in-store orders automatically

- Order management, stores and merchandising systems were integrated to provide a near-real time snap shot of inventory and fulfill the orders within the Service Level Agreement (SLA)
- A facility for store associates to work on orders in offline mode was set up as backup to an automated system
- A new email notification was sent to the customer at every stage of the order fulfillment

Outcomes

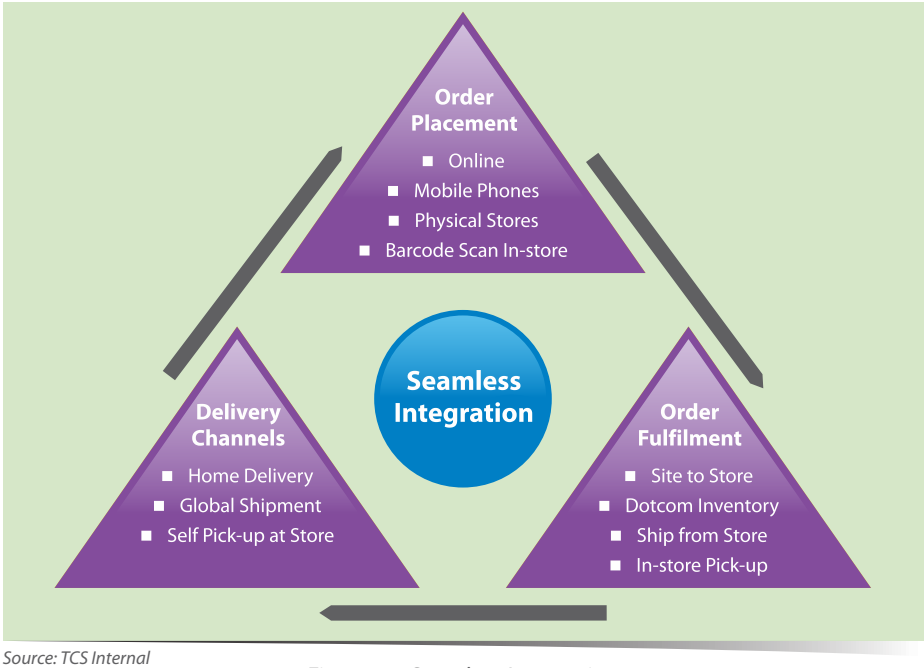
1) Sales Channel Enablement



Source: TCS Internal

Figure 18: Sales Channel Enablement

- 2) Seamless Multi-channel Integration



Source: TCS Internal

Figure 19: Seamless Integration

Business and Customer Benefits

- Increased potential sales by providing alternate channels of shopping
- Improved customer base by providing the customer with a new and improved shopping experience with reduced shipping costs
- Increased market share of sales by providing competitive offers and facilities to customers
- Improved inventory turnover ratio by facilitating alternate sales from various stores and Dcs
- Reduction in slow-moving inventory by selling them through alternate stores
- Improved brand value in local and international markets
- Customers benefitted from the absence of shipping costs and shipping delays for in-store pick-up orders which resulted in more business
- Customers were able to experience the look and feel of the item before finalizing the order in store. This improved customer satisfaction
- Presence of customers in-store led to sale of additional items which increased the store's overall sales
- Movement of stagnant items from the store led to reduced losses in the ship from store channel

Key Takeaway: 21 Multi-channel Retail KPIs to Chase and Achieve

After a retailer or an FMCG company has embarked on an integrated multi-channel retail journey, the next steps should involve gauging the effectiveness of these initiatives. This can be measured by tracking and pursuing the KPIs on a regular and consistent basis. Key multi-channel retail KPIs, in no particular order of importance, include:

- Average Transaction Size (ATS)
- Average selling price
- Customer conversion and retention rates across channels
- Incremental channel sales – online/store/others
- Percentage change in comparable channel sales
- Percentage change in comparable category and channel sales
- Percentage change in comparable customer and channel sales
- Non-store markdowns vs. store markdowns
- Non-store gross margins vs. store gross margins
- Non-store inventory vs. store inventory
- Sales per customer
- Profit per customer
- Lost sales
- Share of multi-channel customers to total number of customers
- Multi-channel customer spends vs. store customer spends
- Customer satisfaction
- Online channel influenced sales at store
- Customer delivery metrics – BOPIS – Buy Online Pick In Store, Home Delivery, In-Store Delivery
- Channel-wise returns and refunds
- Channel-wise promotions Impact
- Total brand traffic – unique online vs. offline



Conclusion

As the multi-channel consumer has already emerged, the best way to act on this opportunity is by adopting an IMCR approach that binds an organization's proposition to its customers, in a seamless manner. Sooner or later, adequate government regulatory support will emerge to balance the interests of multi-channel businesses as well as customer enablement and protection.

The business case for IMCR as a next generation way of retailing is compelling:

- In the 2012 paper, we have already seen that the IMCR model has a direct positive impact on a retailer's operating metrics and have identified the core components of the evolution.
- This year, we have noted how some leaders in the APAC market have initiated this journey and have the potential to compare with the global leaders. At the same time, they have improved their overall customer experience and brand affinity.
- We have outlined specific initiatives to be undertaken for adopting the operating model development, shaping customer experience, and deploying processes and systems towards an IMCR model. We have provided examples like a marquee US specialty retailer which has turned around its business performance in the last few years.
- To summarize, well-developed frameworks, best practices, solution maps, and case studies to pursue IMCR are available globally as well as locally, for any retailer to take cue from and initiate their journey today.

With this paper, we hope we have provided you with insights that will encourage you to embrace the methodology for IMCR.

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