

Omnichannel Inventory Accuracy: Implications and Customer Impact



In any discussion of omnichannel capabilities, the word “customer” must be at the forefront.

While there are many different variations of retail omnichannel models, the true concept, quite simply, is a customer-centric retail model that essentially fuses a retailer’s multiple channels into a seamless customer experience with the brand. Omnichannel allows consumers to shop a brand in any way and at any time, subsequently having their products delivered however and whenever they choose.

In the highly competitive endeavor to become omnichannel retailers are expanding their capabilities and offerings, but with these improvements come expanded *vulnerabilities* resulting from poor inventory accuracy and out-of-date processes, magnified by ever-intensifying competition. Foremost among these, **inventory accuracy** is both the key enabler and potentially the greatest challenge.

In this point of view, The Parker Avery Group will delve into the current omnichannel inventory landscape, examine underlying but less evident causes of inventory accuracy issues, and assess the “last 100 feet” of a product’s journey – all with an eye on the customer experience and with the objective of preparing retailers for the inventory expectations of the next decade and protecting their customer base.

Understanding the Omnichannel Inventory Landscape

The gap between customer expectations and retailer execution is not growing, nor is it shrinking. As retailers race to enhance and implement technology that supports the inventory visibility capabilities required for omnichannel, they are beginning to expose themselves to more and more risk from poor inventory practices and planning.

The tide has shifted: the majority of customers now *expect* omnichannel capabilities – and retail competitors are racing to meet this heightened customer demand. With this also comes an increase in competitive alternatives; one out-of-stock on a paid-for item or a single trip to the store for an item that is no longer there can quickly cost a customer's loyalty and severely dampen the brand's perception on their social networks.

Customer Expectations	Retail Realities
 <p>71% of multichannel shoppers say store inventory visibility is important</p>	<p>88% of retailers are concerned about their inventory</p> 
 <p>Digital interactions influence \$1.1 trillion of retail sales (expected to be \$1.8 trillion by 2017)</p>	<p>54% of retailers plan to expand and extend their warehouse assortment</p> 
 <p>39% of customers are unlikely to visit a store without inventory information</p>	<p>49% of retailers greatest challenge is store level inventory accuracy</p> 
 <p>45% of customers would still buy an out of stock item if it was shipped to them for free</p>	<p>88% of retailers enabling ship-from-store improved customer satisfaction metrics</p> 
 <p>50% of customers expect to buy online and pick up in store</p>	<p>For 52% of retailers, inventory accuracy issues are a major barrier to enabling pick up in store</p> 

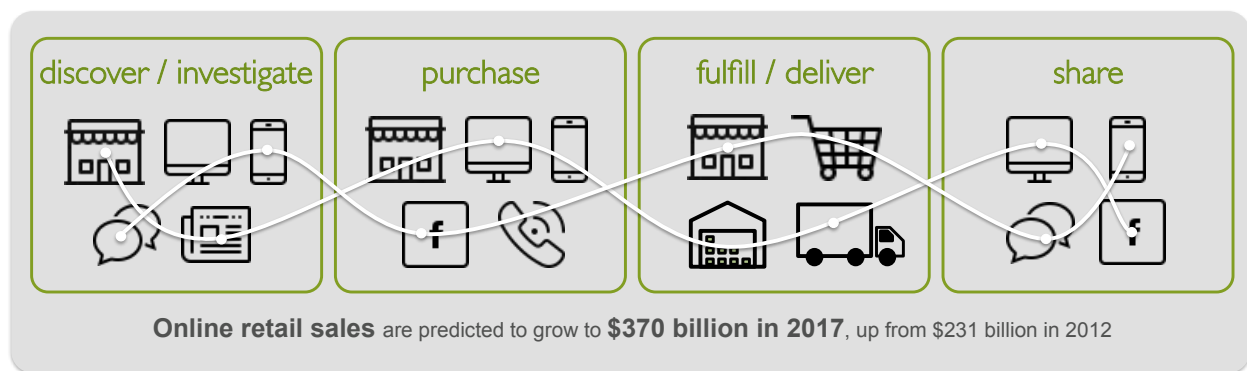
Based on skyrocketing adoption trends¹, the next five years will see customer journeys become incredibly complex and interconnected. In these new paths to purchase, the accuracy of a retailer's inventory will be an increasingly vital requirement.

¹ Data sources:

- www.parkeravery.com/research/ChannelIntegration_FullReport_PAG_Research.pdf
- www.cmo.com/articles/2014/5/6/Mind_Blowing_Stats_Online_Shopping.html
- www.emarketer.com/Article/Buy-Online-Pick-Up-In-Store-New-Way-Shop/1010681
- <http://apparel.edgl.com/news/News-from-NRF--Top-20-Takeaways---97803>
- <http://alerttech.net/buy-online-pickup-in-store-clothing/>
- <http://www.netspherestrategies.com/blog/15-stats-to-explain-why-omni-channel-is-more-than-just-a-buzzword>

Nearly every aspect of the customer experience in finding, selecting, locating, purchasing and ultimately receiving inventory will be dependent on accuracy in every channel and at every customer touchpoint. Further, these touchpoints will encompass several pieces of technology and come through different mediums.

One simplistic example would be a customer who checks online for an item using her personal computer or laptop, checks its stock level, then pulls the item up on her phone for the trip to the store. Once there, she tries to locate the item in the store using the retailer's mobile optimized site or app. Being unsuccessful, she locates an associate for assistance in finding the item; the associate may then refer to a handheld for aisle or backstock information.



That single customer experience with the brand encompassed up to five touchpoints across at least two channels, all of which needed to be simultaneously synced with the same data. Moreover, to ensure the shopper completes the transaction, the data needs to be 100% accurate. And that's a *simple* example of an omnichannel shopping journey.

In short, customers are in the driver's seat, dictating where they want to look for the product, how they want to purchase it and the manner in which they want to receive it. This expectation forms the foundation for the omnichannel experience, but as we will discuss later – **true Omnichannel success is dependent upon accurate inventory.**

Digging Deep into Inventory Accuracy Issues

Inventory accuracy (or inaccuracy) has no singular root cause. As we outlined in another Parker Avery point of view, *“Inventory Accuracy: Fundamental Strategies for Getting it Right,”* there are several underlying causes for inventory problems. However, to fully understand inventory accuracy within an omnichannel environment, it is important to comprehend the interconnectedness of many of the people, systems and processes that are in place and used daily – often these represent obscure contributors to inventory issues.

In many cases, even systems and processes that are strengths can turn into weaknesses if not leveraged *together* with other elements in place throughout the organization. Take incentives and technology for example. Incentives can perhaps be the greatest driver of positive action and behavior, and technology provides numerous ways to deliver great results and experiences. However, when these are not designed together, technology can be misused to drive unearned incentives or undesirable behaviors (and there are hundreds of examples of these). On the same token, technology that is not incorporated with the incentive system can harm compensation and lead to low adoption, misuse, or the worse case scenario: organizational apathy.

Bringing it all back to the customer, remember that they will behave in the way that most easily meets the needs of their trip to a store. Customers should be viewed as teachers and supporters instead of outsiders, and stores should be designed based on their feedback and in a way that supports a retailer’s value proposition. Additionally, technology, employee training, incentives and processes must be built in to support the desired customer experience.

We’ve captured several actionable causes of inventory accuracy issues below:



Technology

Technology must be selected, configured, fully tested and rolled out in ways that compliment existing incentives, customers, employees, and processes. Technology should take care to “close the loop” and be able to track inventory through the supply chain, into the back of the store, to the floor, and ultimately to the customer.



Employees

Employees will always be the greatest asset but can also be a liability to the customer experience. Retailers who spend the time to explain the reasons behind operational processes and execution standards, support buy-in, fund tasks for maximum completion (not minimum), and provide ample

training will experience more efficiencies and adherence to company standards, resulting in better inventory accuracy.



Incentives

Nothing drives better or worse organizational behavior than incentives. Great incentives drive desired behaviors, which in turn promote desired results. Incentives can be monetary or intrinsic, and can greatly boost the effectiveness of well-designed processes or technology, but should not be used as a crutch for poor rollout planning or implementation.



Processes






Perhaps the most lingering cause, the importance of processes that properly support a retailer's business model and value proposition cannot be understated. Poorly designed or outdated processes (compounded by improper training) lead to poor adoption, malcontent, and suboptimal results. In many cases, they can also lead to undesirable behaviors with negative consequences.



Customers

Customers are many things, but loving caretakers of your stores they are not. While not an equal partner with the other causes in this category, customers can unknowingly be great disruptors in on-shelf availability through item displacement, theft, returns or even through interruptions of stocking associates. That being said, the best mitigation of these behaviors is excellence in the design of controllable factors and ease of the shopping experience.

Consider this Simple Scenario:

Store employees  are given a script  to educate customers  about the retailer's customer experience survey accessible via the mobile app or website . The store is rewarded  with a pizza party or bonuses based on the number of customer satisfaction surveys completed within a certain timeframe, the customers receive an incentive or discount for completing the survey, and the retailer receives information about specific inventory categories (e.g., out of stocks).

This scenario portrays a consistent and simple process to leverage technology and drive employee and customer behaviors towards the common goals of understanding inventory issues and enhancing customer experiences.

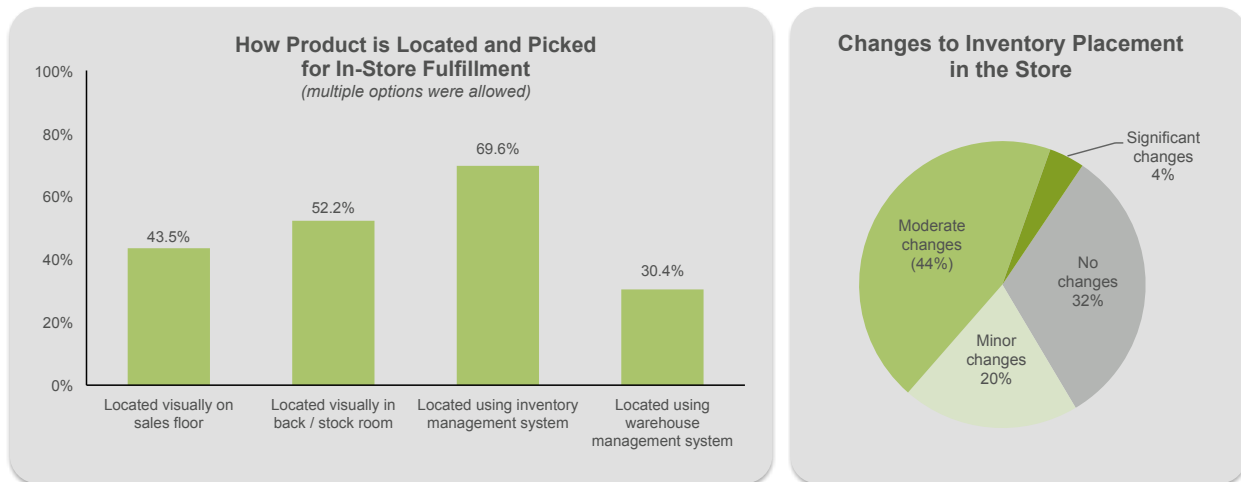
For true inventory accuracy, a holistic view taking into account the employee, environment, and customer must be front and center. Fortunately, this also means that positive change is additive, and moving in the right direction can provide lasting and tangible results.

Understanding the Last 100 Feet

As one retail leader eloquently put it: **“Hope is not a strategy.”** The last 100 feet is a critical distance in order for product to make it successfully to the customer. Oftentimes, issues in this critical phase of a product’s journey can be blamed on differences in systemic versus actual inventory levels as well as process execution.

In-Stock and On Shelf Availability are typically associated with each other, but are often vastly different. In-Stock refers to the item residing within a particular location by the retailer’s system of record, or in layman’s terms, “the computer says it’s here.” On Shelf Availability means that the item was received into inventory then replenished or placed onto the sales floor in the correct location per planogram (or other tool) and is readily available to the customer in an expected location.

In Parker Avery’s research study, *“Channel Integration in the Store,”* we found that a majority of retailers use visual inspection to locate inventory either on the sales floor (44%), in the stockroom (52%), or both. This reliance on human accuracy, coupled with nearly 70% of retailers planning to change their inventory placement for omnichannel, highlight an increasing risk of low On-Shelf Availability for items.



Data and graphics source: “Channel Integration in the Store,” The Parker Avery Institute

Far and away the most prevalent method of attempting to drive On-Shelf Availability is an hourly associate with pen and paper, hoping they make it to the stockroom before being called to assist a customer. This associate will then prep a cart of the items (perhaps scanning them out, likely not) and take it to the sales floor, filling what they can throughout their shift. Whatever cannot fit is left for the next associate or backstocked.

In particularly suboptimal cases, store leaders will instruct their associates to “get this out” or “make this fit”... they get exactly what they expect, and the customer suffers.

When it comes to inventory management, the above scenario illustrates one of the key areas in which neither technology nor process have fully and effectively “closed the loop.” This phrase refers to an item’s travel out of the stockroom once it has been received, then placed into a “pending” or “in-transit” state in a retailer’s inventory management system. That systemic state ends with the item being scanned or located into a shelf or display unit on the sales floor. This series of events has taken an item from one location and placed it in another, thereby “closing the loop” in the system and giving the item a new home, where ideally it will be visible to customers and associates alike. Perhaps surprisingly, this is *not* common.

However, even closing the loop with technology cannot stand alone. As we mentioned in the last section, technology still requires robust process change, incentives to drive positive behavior, and employee training to ensure adoption and efficiency. Taking a holistic approach will ensure that each solution is integrated into the overall organization and that adoption and results make it all the way to the customer.

Fulfillment from Stores: Omnichannel Success Depends on Accurate Store Inventory

One of the largest areas of opportunity for retailers comes from omnichannel fulfillment. Early adopters in the space are realizing increased sales and customer satisfaction, differentiating from their peer group, and defending their customer base from pure play e-tailers.

The abilities to leverage an existing store base, deliver touch and feel, and compete on customer experience are valuable competitive advantages that brick-and-mortar retailers can and should leverage to drive market share, top line sales and most importantly, customer satisfaction and loyalty.



View / Reserve in Store

72% of Millennials research products online before visiting a store



Pick Up in Store

64% of customers **picked-up-in-stores** in 2014 and **54% pick-up-in-stores multiple times** / year
54% of customers said it was **important** to be able to **ship to a specific store for pickup**



Ship from Store

93% of retailers cited positive **uplifts in online revenue from ship from store activities**
Macy's will ship \$1B in inventory from its stores in 2015



Return to Store

62% of customers want to be able to **buy online and return in a physical store**

The winners in the race for omnichannel success also must be prepared to flawlessly execute a variety of fulfillment and returns processes to ensure against customer dissatisfaction and abandonment due to a bad experience and / or loss of confidence. Multiple permutations of in-store omnichannel fulfillment capabilities currently exist, but the leading practices absolutely must incorporate technology, employees, incentives, process design and customers.

Final Word

Inventory accuracy issues have wide-reaching implications, and with integrated channels (or omnichannel) already the expected status quo, comes integrated complications.

Online orders impact store labor, customer service experiences carry over from channel to channel, mobile increases expectations of inventory knowledge, and competition is only a banner ad or push notification away. While the learnings and best practices of these new retail models continue to emerge, the landscape continues to evolve and the early mover advantages to omnichannel success is quickly dissipating.

Strategically leveraging brick-and-mortar stores is key to successful omnichannel fulfillment and exceeding customer expectations. However, an acute focus on inventory accuracy is one of the most critical components in ensuring those expanded capabilities resonate with your customers and deliver on the promises of your brand.

The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm that is a trusted advisor to leading retail brands. We combine practical industry experience with proven consulting methodology to deliver measurable results. We specialize in merchandising, supply chain and the omnichannel business model, integrating customer insights and the digital retail experience with strategy and operational improvements. Parker Avery helps clients develop enhanced business strategies, design improved processes and execute global business models.

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