

Sharpening Omnichannel Inventory Management to a Razor’s Edge

Inventory is your company’s largest capital investment. It is why customers make purchases in your stores and online. It is the source of your company’s revenue and the bedrock of your brand. Naturally, it makes sense that fine tuning inventory management is a key to achieving financial success.

And yet, with so much riding on inventory management, it is surprising that many retailers struggle to master their supply networks, which extend from source to shelf through a matrix of nodes, flows, transportation modes, third-party providers, and technologies that are not up to the job.

To make inventory management an even more complex task, a proliferation of digital sales channels – online, mobile, social media and marketplace platforms – has been added to the supply matrix.



Digital sales channels are challenging for retailers because digital orders occur before consumers take possession of their purchases. A consumer could be in Idaho and the item in one of many locations scattered throughout the supply network. And yet, the product must be rapidly identified, marked as sold, designated for shipment, and moved out on a journey to the consumer as soon as possible.

Two big mistakes can occur when omnichannel inventory management systems go awry: items run out of stock (either in total or in various locations in the supply network) and, on the opposite end of the scale, excessive safety stock is held to cover mistakes. For both of these reasons and many other, there is an urgency for retailers to hone omnichannel inventory management to a razor’s edge.

In this Targeted Research report, we examine the importance of omnichannel inventory management and how it supports key financial goals and customer satisfaction.

Why Omnichannel Inventory Management Matters

Omnichannel inventory management is a holistic strategy that enables effective management across sales channels and internal departments by breaking down technology barriers created by running disparate applications and databases. It is overwhelmingly recognized by retailers as being a major factor in meeting a company’s financial goals.

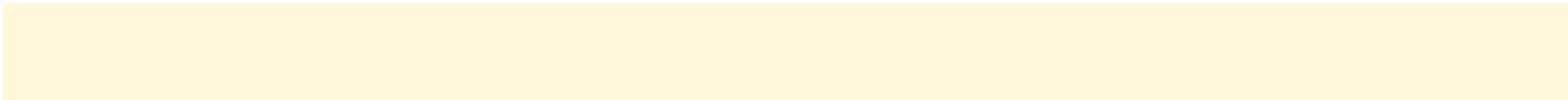
72% An overwhelming percentage of retailers say the role played by omnichannel inventory management is a major factor in meeting their company's financial goals.

However, even though omnichannel inventory management is recognized as playing a major role in achieving financial goals, most retailers also understand the role it currently plays can be improved through upgrading technology systems and processes.

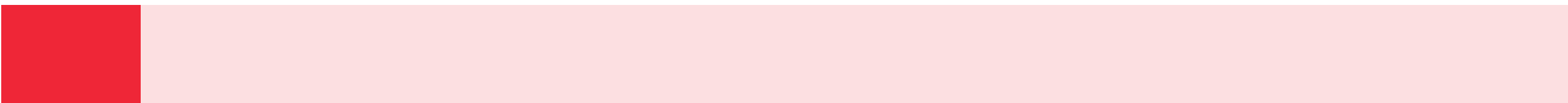
Nearly half (49%) say they only have a “few advanced systems and processes” in place (at best) to achieve smooth, accurate and cost-effective omnichannel inventory management. Just 9% say they have “many advanced system and processes” in place.

Current Maturity Level For Managing Omnichannel Inventory In A Smooth, Accurate And Cost-Effective Way

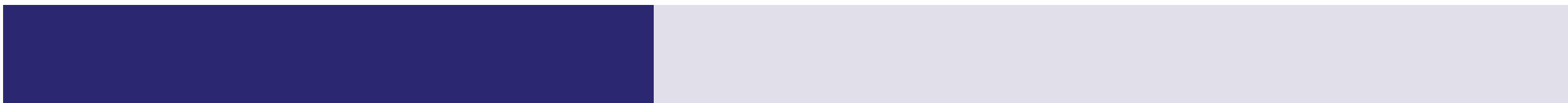
Advanced, state-of-the-art systems and process in place: **0%**



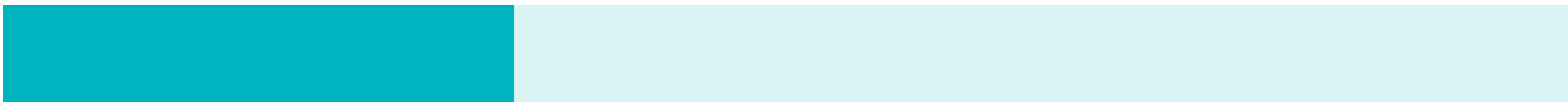
Many advanced systems and processes in place but not all: **9%**



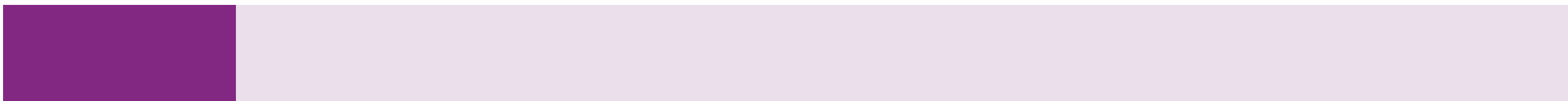
Some advanced systems and processes in place: **42%**



Few advanced systems and processes, many need upgrading: **33%**



Most systems and processes need upgrading: **15%**

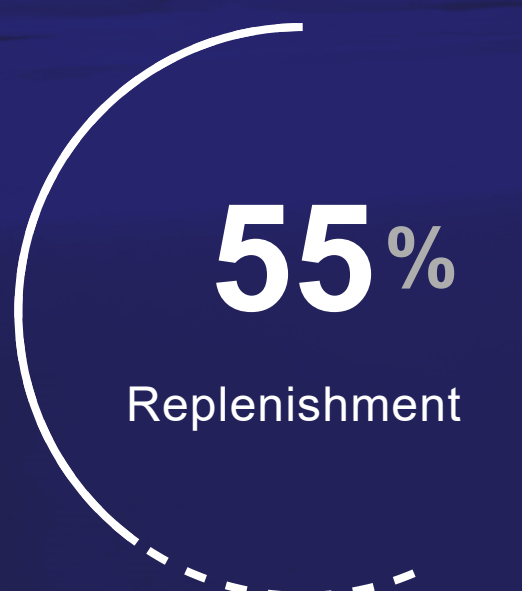


Applications Critical For Ensuring Inventory Management Goals Are Met

As previously noted, the inventory supply network is a complex matrix of physical items (containers, crates, individual SKUs), nodes (warehouses, DCs, store back rooms, shelves), transportation modes (trucks, ships, trains, direct-to-consumer shippers, etc.) and IT systems (applications, bar codes, RFID chips).

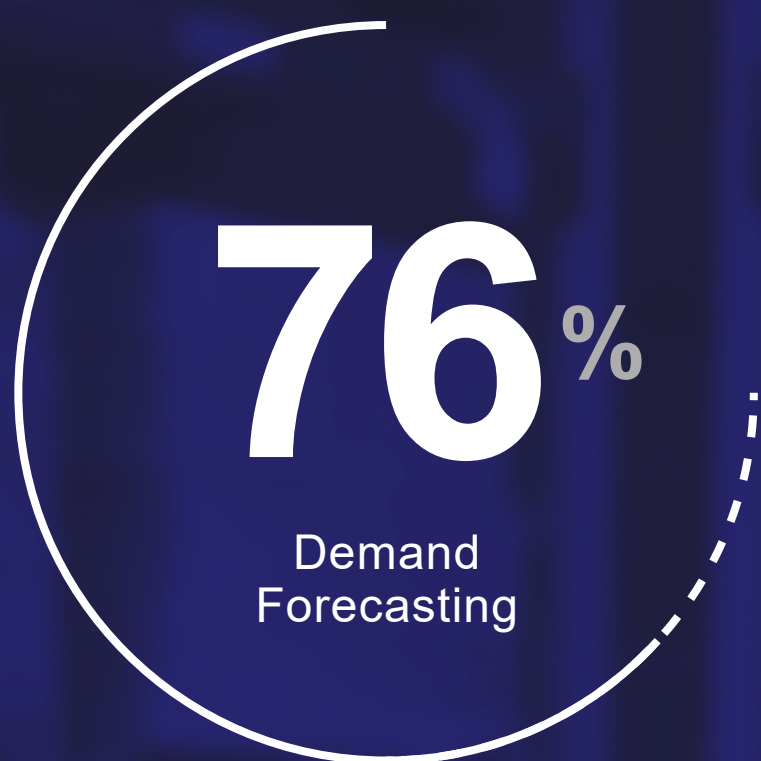
Advanced software is necessary for retailers to effectively manage the complexity of the supply network. The most important of these are: merchandise management (73%), price management (67%), warehouse/DC management (58%), out-of-stock alerts (55%), and replenishment (55%).

Aside from meeting financial goals, retailers must also meet customer expectation goals and the most important applications that help retailers manage these are: demand forecasting (76%), sales data (73%), real-time (or near-real time) item-level inventory data (70%), order management (58%), and order (sales) data from digital channels (48%).



Applications And Data That Ensure Inventory Management Will Meet Customer Expectations

It is not a surprise that demand forecasting heads the customer-expectations' list. The data demand forecasting tools produce helps retailers manage inventory to meet actual demand. Poor demand forecasting in the omnichannel age can miss goals at both the macro level (total sales) and micro level (category sales, channel sales, individual store sales, SKU sales).



BLENDING PHYSICAL AND DIGITAL

Five years ago retailers were debating if it made sense to fulfill online orders in stores and if so what was the best strategy. Today, omnichannel fulfillment services are spread deep and wide across the retail landscape.

Three quarters (75%) of retailers offer some form of home delivery of online or store goods to consumers. Nearly half (47%) offer return of web-purchased items in stores and shipping from stores to consumers. A growing number (41%) offer some form of free delivery, i.e. with a minimum order or a membership.

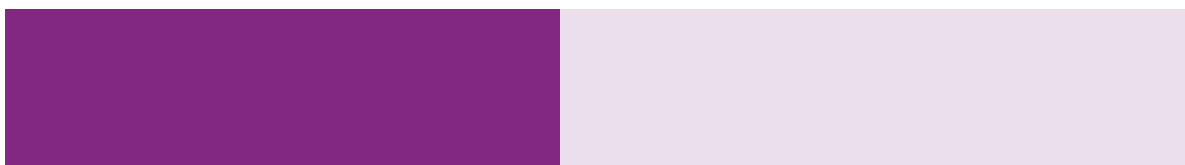
Soon to make the list of mainstream adoption for omnichannel services are: Buy online and pick up in a store (38%), fast fulfillment with a guarantee of two-day delivery or less (31%), and shipping products from store to store (28%).

Omnichannel Services and Functions are Currently Offered

Home delivery to consumers: **75%**



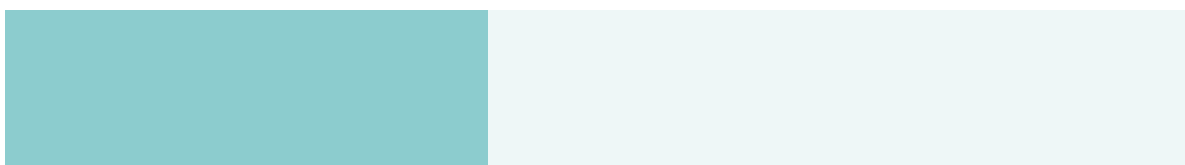
Return web-purchased items in stores: **47%**



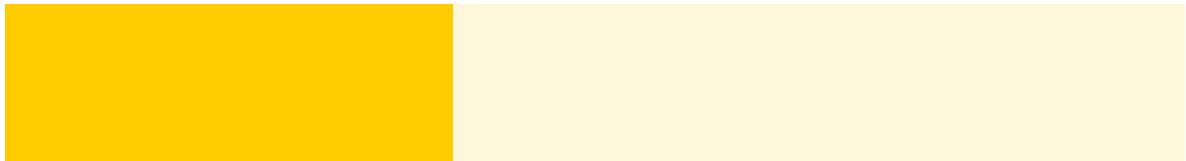
Ship from stores to consumers: **47%**



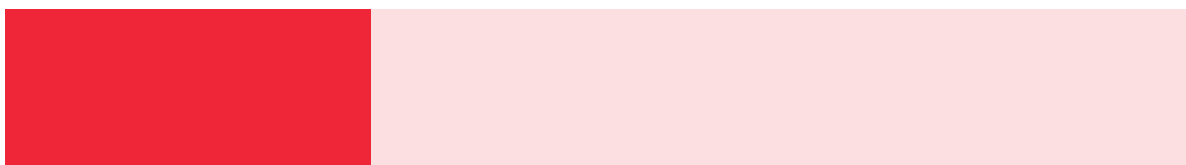
Free delivery (with minimum order or membership): **41%**



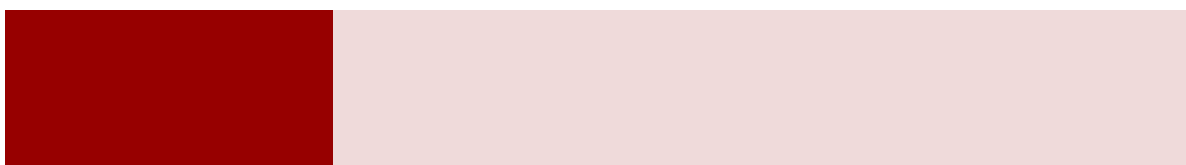
Buy online and pick up in store (BOPIS): **38%**



Fast fulfillment (2-day delivery guarantee or less): **31%**



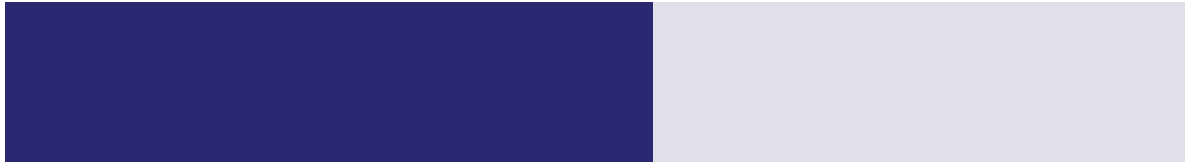
Ship from store to store: **28%**



An inefficient supply network bleeds money in many ways thanks to its complexity because there are so many places to spring a leak. Problem areas at the top of the list are: item-level inventory accuracy (55%), reducing out of stocks (45%), and reducing over stocks (39%). Each of these problem areas can be a source of significant losses if not corrected

Inventory Management Challenges That Top Priority List

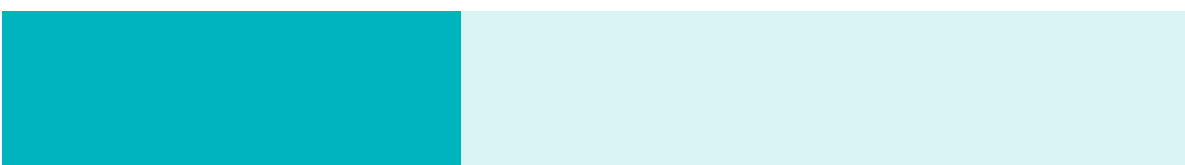
Improve item level inventory accuracy: **55%**



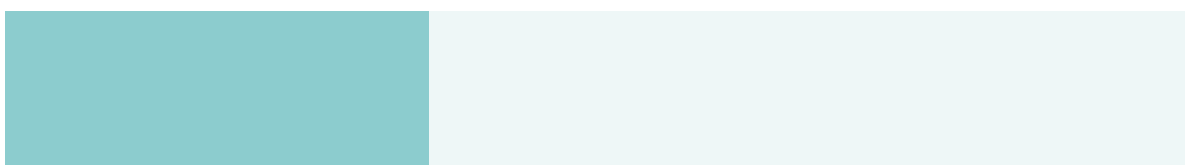
Reducing out of stocks: **45%**



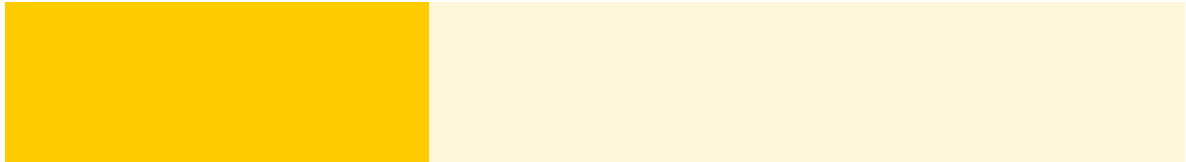
Reducing over stocks: **39%**



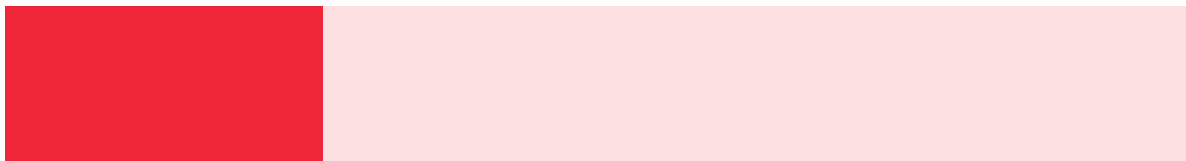
Speed up home delivery of digital orders (same day or quicker): **36%**



Create real-time inventory visibility: **36%**



Reducing mark downs to move out excess inventory: **27%**

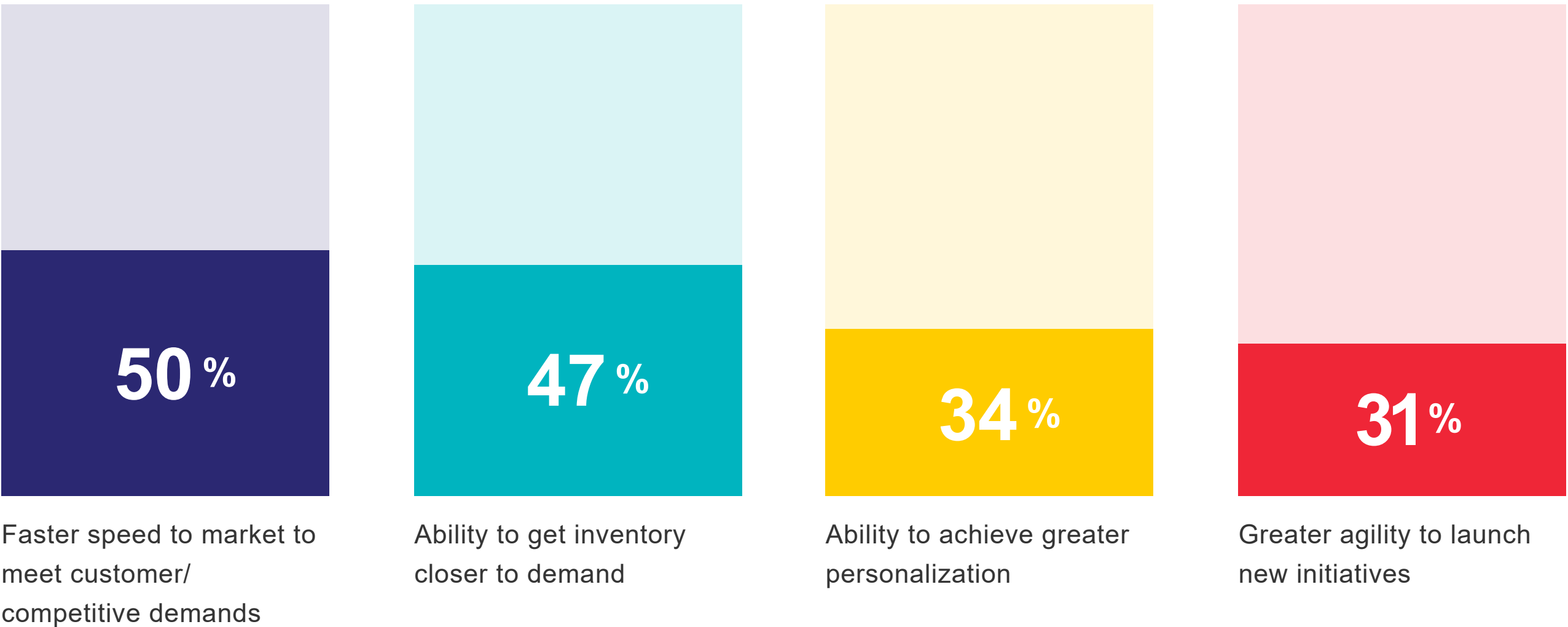


Replace key legacy systems: **27%**



On the flip side, when the supply network is a finely tuned instrument, it can be a source of strong performance gains.

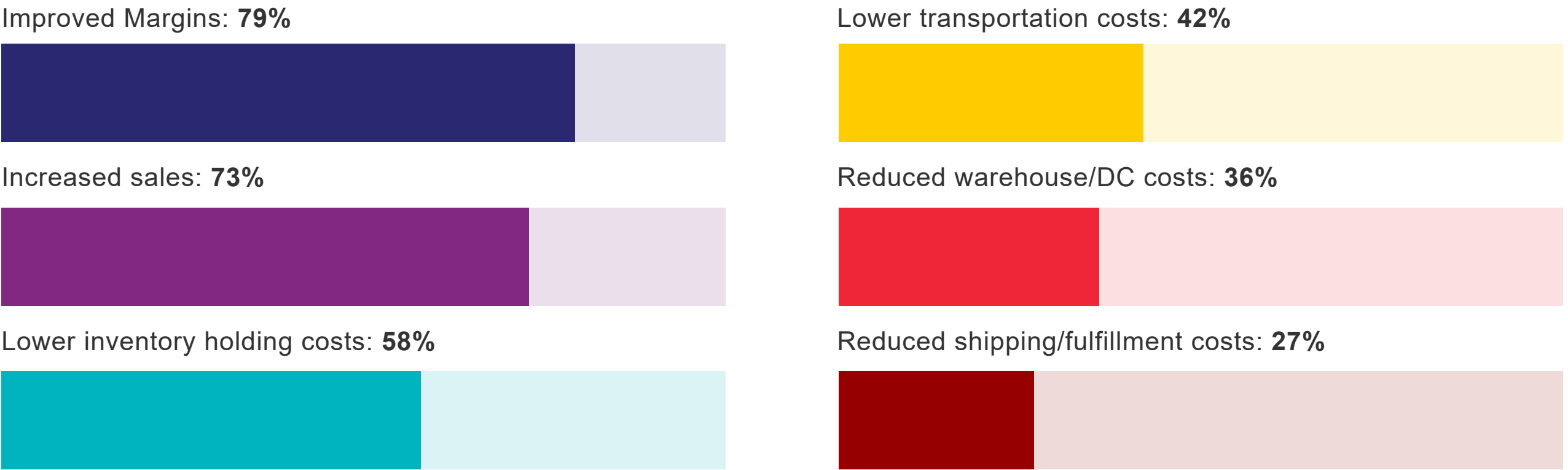
Chief Benefits of Having Efficient, Productive Omnichannel Inventory Management Systems in Place



Top Revenue Generating or Cost-Saving Benefits Achieved Through Optimized Inventory Management

The top four benefits identified by retailers who fine tune their inventory networks are: faster speed to market to meet customer and competitive demands (50%), ability to get inventory closer to demand (47%), ability to achieve greater personalization (34%), and greater agility to launch new initiatives (31%).

To achieve financial gains in the supply network, either by increasing top-line revenue by growing sales or bottom-line profits by decreasing costs, retailers identified five opportunities.



From a macro perspective, retailers cited improving margins (79%) and increasing sales (73%). From a micro perspective, they identified lowering inventory holding costs (58%), lowering transportation costs (42%), reducing warehouse/DC costs (36%), and reducing shipping/fulfillment costs (27%).

OMNICHANNEL PRESSURE TO INNOVATE

An overwhelming majority of retailers (82%) say the rise in customer expectations has put pressure on providing efficient, accurate and cost-effective omnichannel inventory management capabilities. If customers see an omnichannel service is available somewhere on the web they assume it is available everywhere.

82% Overwhelming majority of retailers say that increasing customer expectations have put pressure on providing efficient, accurate and cost-effective omnichannel inventory management

Virus-like customer expectation are a major driver for retailers to test and invest in emerging technologies that can improve inventory management.

A majority of retailers express a strong interest in three emerging technologies:

	High Interest	Medium Interest	No Interest
Machine learning (algorithms to deliver predictive/ prescriptive analytics and improve over time)	36 %	45 %	18%
AI (advanced algorithms combined with big data)	22 %	59 %	19%
Automated DCs/warehouses	19 %	44 %	38%
Autonomous delivery vehicles	6 %	13 %	81%
Blockchain	3%	35 %	61%

- Machine learning, i.e. algorithms to delivery predictive and prescriptive analytic capabilities that improve over time (high interest 36% plus medium interest 45%).
- Artificial intelligence, i.e. advanced algorithms combined with big data (high interest 22% plus medium interest 59%).
- Automated DCs/warehouses (high interest 19% and medium interest 44%).

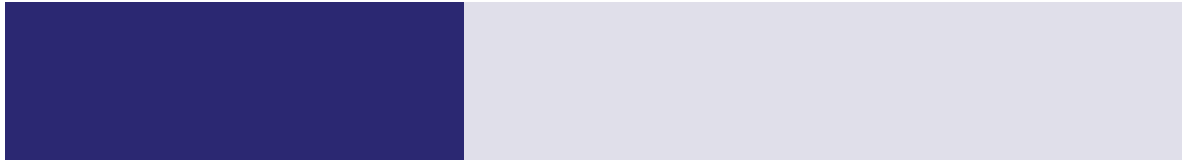
Two emerging technologies that have yet to break through to retailers looking to improve inventory management are autonomous delivery vehicles and blockchain, although 35% express a medium level of interest in the latter.

METHODOLOGY

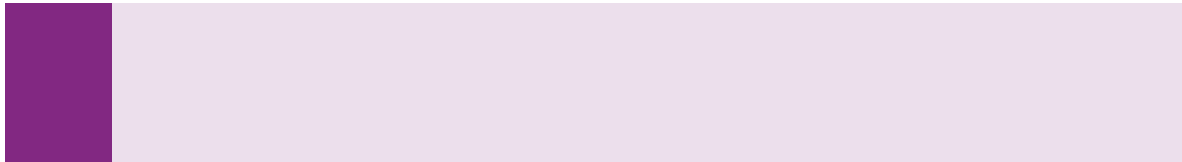
This study was conducted during the month of April and only senior executives from national or large regional retailers were invited to participate. The results do not include any store-level, field-level or regional employees. Only headquarters-level staff responses were included.

Annual Revenue

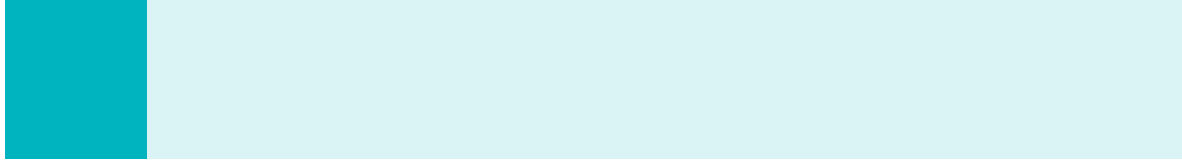
<\$100 million: **39%**



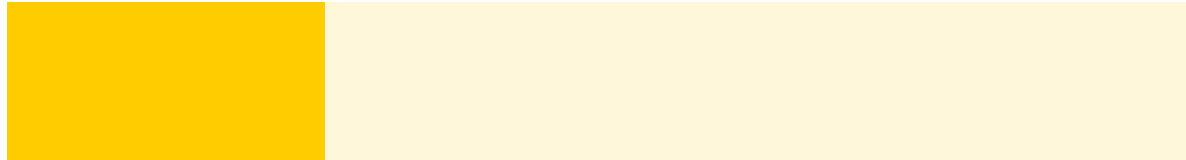
\$100 million to \$500 million: **9%**



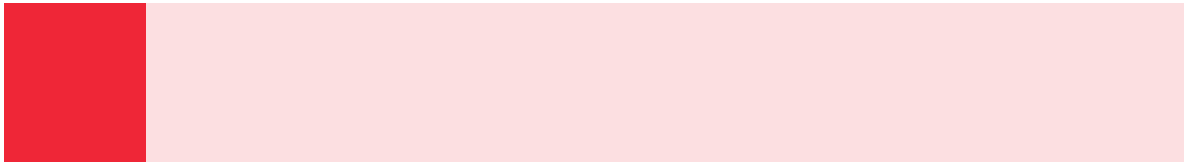
\$500 million to \$1 billion: **12%**



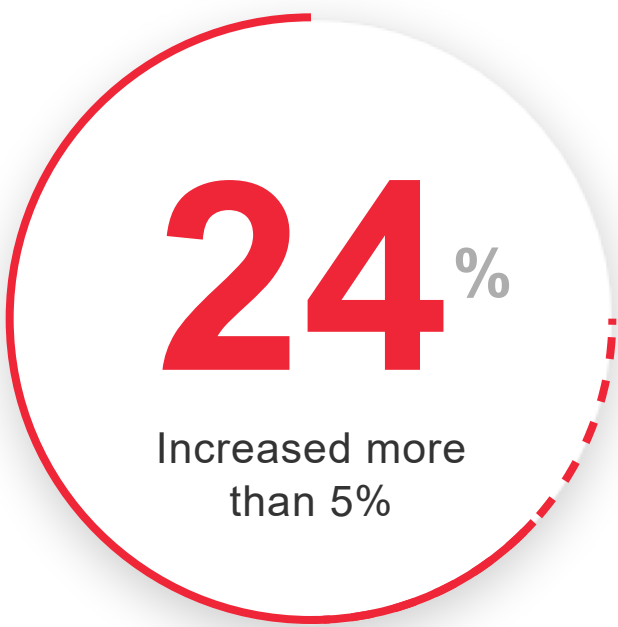
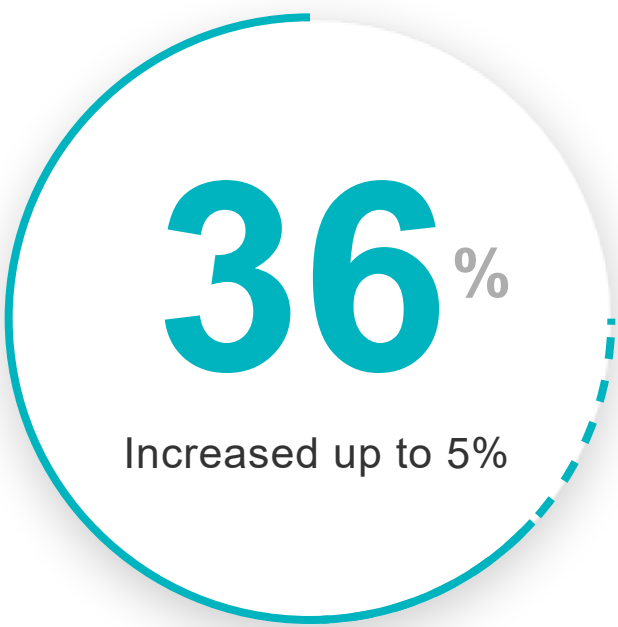
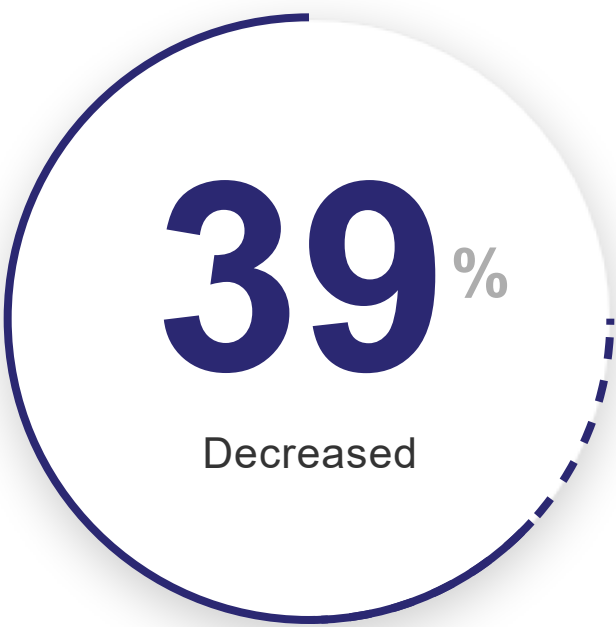
\$1 billion: **27%**



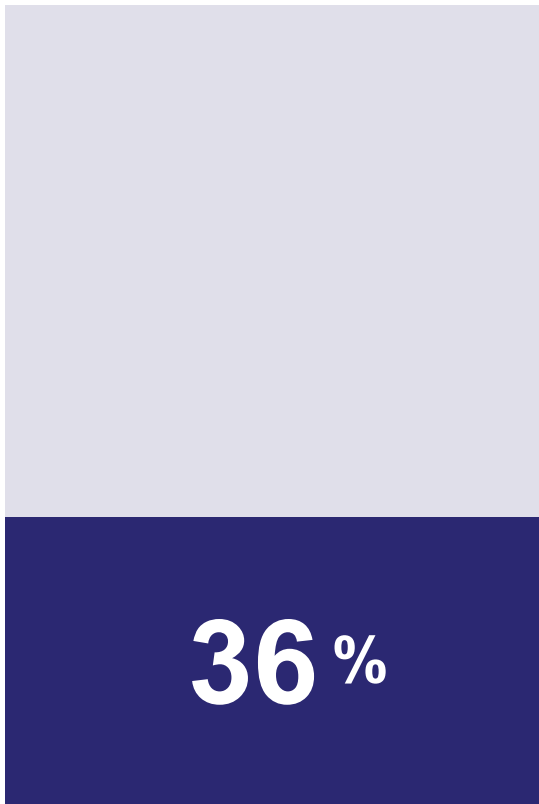
\$500 million to \$1 billion: **12%**



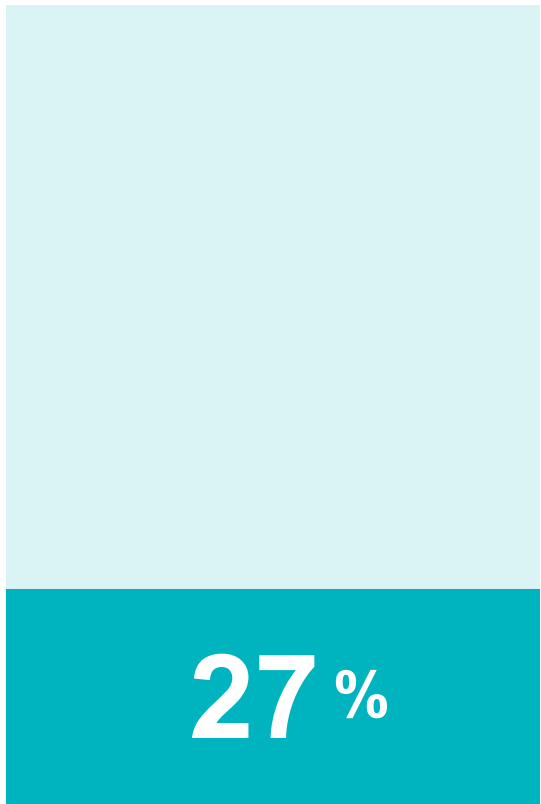
Sales Performance Last 12 Months



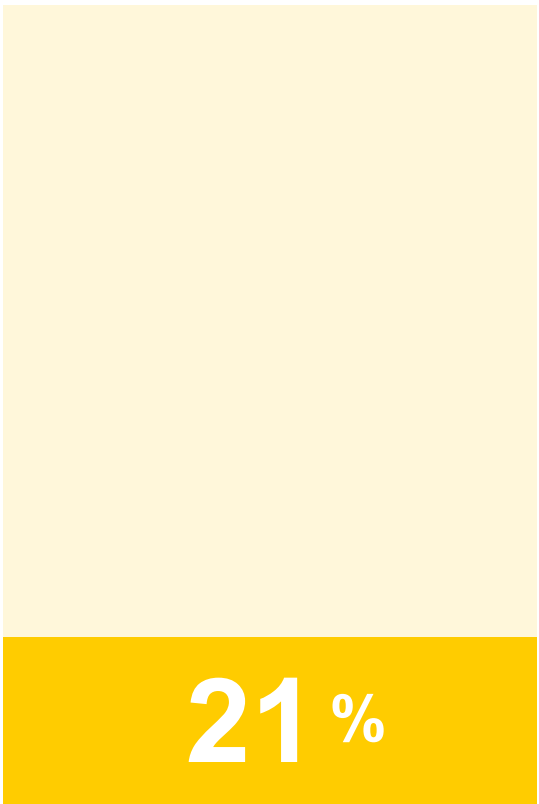
Retail Segment



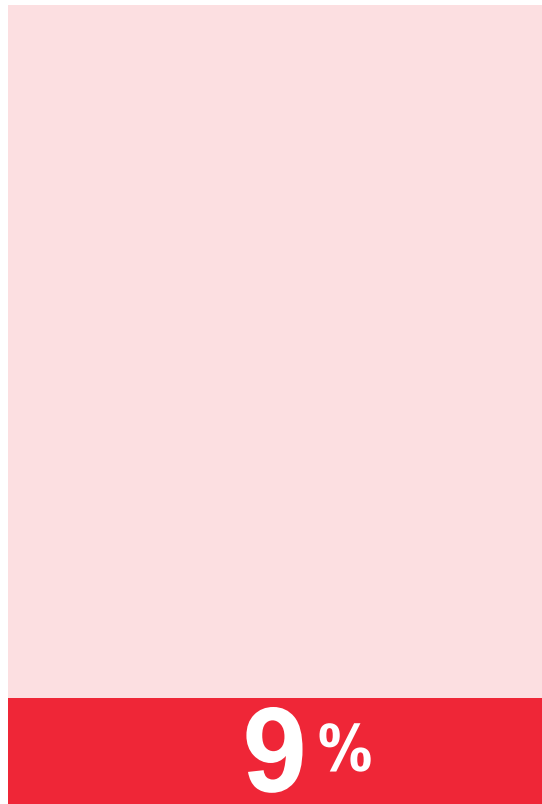
Specialty



Apparel



Grocery/Convenience/Drug



Mass Market/General Merchandise/Discount

RECOMMENDATIONS

A successful omnichannel supply chain strategy has to optimize internal lead-time and maximize it for the customer in terms of low-cost shipping or fast shipping or both. Accomplishing this requires a sophisticated supply network, a strong focus on customer demands, and aggressive adoption of analytic technologies.

Key recommendations include focusing on improving or upgrading five critical applications to achieve internal performance goals: merchandise management, price management, warehouse/DC management, out-of-stock alerts, and replenishment.

However, retailers must also meet customer expectations and to do this they must **improve or upgrade five technologies: demand forecasting, sales data aggregation, real-time (or near-real time) item-level inventory monitoring, order management, and order (sales) data aggregation from digital channels.**

Finally, retailers should begin testing or rolling out **three emerging technologies: machine learning (algorithms to deliver predictive and prescriptive analytic capabilities that improve over time), artificial intelligence (advanced algorithms combined with big data), and automated DCs/warehouses.**

Best-in-class omnichannel inventory strategies can improve overall sales and are especially important for boosting under-performing brick-and-mortar locations. They do this by increasing the halo effect of multi-channel sales and optimizing stores for omnichannel shopping.