
The multichannel consumer

There's no denying anymore that an increasing number of shoppers are richer retail environments than ever before, anchored by multiple digital browsing, evaluating, comparing, and purchasing products. The prevalence of tablets, and "always-on" broadband connections is transforming consumer with the impact of this digitization, virtually every retailer — no matter how stores are or, indeed, whether it has any physical stores at all — must now sizable and restless digital consumer base. It must offer a seamless mobile and integrates the shopping experience across portals, apps, and retail channels.

All of this means that retailers that fail to put in place effective multichannel operations will lose out on 15 to 30 percent of their category sales by 2015, and much more in the following years.

Retailers that offer a more robust and integrated shopping experience will primarily capture these double-digit online gains. According to a 2010 Strategy& survey, 68 percent of Web users like to do side-by-side (and site-by-site) product comparisons on the Internet before making purchases, and 49 percent feel that it is important to be able to order online and pick up the items in a store. These features just hint at what consumers increasingly expect from retailers through multiple channels, a wish list that includes access to a wide swath of products online and the option to review in-store inventory via the Web.

demanding far
channels for
smartphones,
behavior. Faced
strong its physical
respond to this
online strategy that

Strategic choices

There are six different supply chain models that retailers can deploy to from their multichannel operations. Each of them requires its own capabilities. company's existing strengths, some of them are more difficult to implement each of these models focuses on different core aspects of supply chain on

Model 1: Online-only/in-house supply chain

Amazon.com is the best-known proponent of this approach, which relies on sales forecasting and inventory management systems to fulfill orders quickly accuracy while optimizing shipping times to customers. Indeed, because of its innovative, internally developed e-commerce supply chain, Amazon can offer attractive customer experience that includes recommendation tools, a variety options, and excellent post-sale communications through its website. chain and logistics in-house makes sense for Amazon, which uses these leverage, and differentiate itself through scale and customer service. maintaining internal control of the supply chain also allows Amazon to collect data, which can in turn be mined to improve all aspects of the supply chain

Other prominent pure e-tailers have also chosen an in-house supply chain model that facilitates high-touch customer service. Shoe seller Zappos proprietary supply chain that could provide a best-in-class returns policy and returned items back into inventory. Zappos based this approach on the notion anything but an impulse buy; customers want to try them on and see how they before buying them. By offering free, fast, and convenient returns — back as many as 35 percent of the shoes — Zappos made the at-home trial uncomplicated and overcame consumer resistance to making shoe purchases result, rather than competing on price, Zappos provides great service, enabled chain — its differentiating advantage. And because Zappos has such high concentrated in a single product category, by managing distribution in-house develop and control specialized infrastructure for this product line and transportation rates.

maximize returns
Depending on a
than others, but
management and

extensive product
at a high rate of
aggressively
a vibrant and
of shipping
Managing supply
operations to build,
Moreover,
vast quantities of
and the website.

management
designed a
quickly place
that shoes are
feel and look
customers send
period
online. As a
through its supply
volume
the e-tailer can
command good

Quidsi, which owns Diapers.com, Soap.com, and other personal goods sites, most sophisticated in-house supply chains of all e-tailers. For Quidsi, as for supply chain management is economical because large volumes of very warrant and support investments in highly specialized infrastructure and reduce warehousing costs, an inventory management system determines the of product that needs to be on hand in the company's three regional by assessing customer life cycle and order frequency trends, which are highly Quidsi's products. To minimize shipping expenses and waste, proprietary algorithms select the optimal box size for each order. While shopping, offered additional items that, if purchased, could help optimize logistics costs. improved by intelligent pod-enabled picking systems that find shelved items efficiently.

The combination of these supply chain innovations enables Quidsi to offer fulfillment, free two-day shipping at a modest threshold, and a 365-day return maintaining competitive pricing — critical requirements for success in the category. Not surprisingly, Amazon acquired Zappos in 2009 and Quidsi a for their efficient, innovative, and scalable in-house operating systems. In Amazon announced the acquisition of distribution center pioneer Kiva specializes in building warehousing systems for online and multichannel acquisition will help Amazon substantially improve its own fulfillment process, Amazon will be able to better control its fulfillment costs as a revenue and also quickly build highly effective distribution centers in many locations. (To avoid having to charge sales tax, Amazon has not established a in many states, a situation that will likely change soon as state legislatures retailers from this requirement.)

Model 2: Online-only/outsourced supply chain

By turning over supply chain management to a third-party logistics firm, companies with rapidly growing but still subscale operations can focus their management bandwidth and capital on their most distinctive and important model has been adopted prominently by Gilt Groupe.

An online retailer of luxury clothing and other high-end items, Gilt's greatest are in merchandising, an activity that depends on strong marketing and site as well as providing a compelling product line. In addition, procurement is differentiating capability at the e-tailer, which scours suppliers for high-end offer at low prices in online "warehouse" sales. With this approach, Gilt has luxury areas such as gourmet food and travel.

Given these priorities, Gilt views its less distinctive fulfillment capabilities as function that is better outsourced, while the company works on building better

has among the Zappos, in-house similar products processes. To minimum amount distribution centers predictable for packaging consumers are Productivity is quickly and

same-day policy, while consumer goods year later in part March 2012, Systems, which retailers. This capabilities; in the percentage of additional physical presence exempt online

young online limited capabilities. This

value and skill sets promotion of Gilt's considered a products that it can expanded into other

a pure support relationships with

suppliers and on fostering a sense of exclusivity among its customers through website with a wide assortment of products. Moreover, viewed purely from an standpoint, the investments required for in-house distribution operations are when, as is the case with Gilt, products sold vary widely in geographic origin, size, and weight. As Gilt's sales profile shifts with changing market outsourcing provides the flexibility to scale distribution operations up (or response to requirements.

For bulky or perishable products, such as furniture and food, Gilt goes beyond chain operations while owning the inventory. Instead, the e-tailer utilizes drop the products are sent out by the manufacturers from their own warehouses. In physically touches or owns unsold inventory in these product categories and of stops that items make between manufacturer and consumer.

Model 3: Multichannel/shared in-house supply chain

Because traditional and online retail make different demands on their supply fulfillment and distribution operations serving both channels are generally not But there are cases when a shared, in-house supply chain is, in fact, the best for example, when online orders account for a very small share of sales.

That was the situation at one large supermarket chain, which set up a system orders are routed to one of a select set of stores based on customers' locations. inventory for online and retail purchases is shared. Employees filling online the same shelves as retail customers, and the supermarket's trucks deliver homes. Across the small number of online orders from each geographic for specific SKUs is highly variable. So the supermarket includes online sales reports that are used for determining in-store inventory to make sure that stocked with sufficient items for both online and physical store orders.

Building a dedicated distribution network for its minimal online business an expensive undertaking for the supermarket with very little return. Because products are perishable and are expected to be delivered relatively quickly, would have had to set up a large network of fulfillment points as close as customers just for online sales, and it would have had to maintain separate channel; both are costly ventures.

The adaptations required to pick online orders from stores designed for minimal. Customers' baskets — the number and value of items they buy — the same online and instore. Despite charging a fee for delivering orders under the supermarket still is willing to swallow a net loss on online fulfillment. rule, not the exception, for physical supermarkets with online businesses.) business to grow larger, the company might attempt greater scale economies

an attractive economic difficult to justify available quantity, opportunities, down) rapidly in

outsourcing supply shipping, in which so doing, Gilt never reduces the number

chains, combined optimal for either. and only option —

in which online At these sites, orders pick from orders to consumer location, demand purchases in the the shelves are

would have been many grocery the supermarket possible to inventory for this

customers' use are are substantially a minimum value, (This loss is the Were its online in picking. Were it

to grow much larger, these economies would require dedicated facilities. For business's current stage of development — where the density of online orders geography is low — a shared model is cost-effective and not disruptive to the business.

Model 4: Multichannel/dedicated in-house supply chain

With this approach, the supply chains that serve the online and physical parts maintained separately to meet the distinct operational requirements of each networks and inventories involve incremental costs, so the results must be to determine whether the benefits are worth these costs. One luxury apparel strategy by establishing two distinct distribution centers in the same region of The results were not quite what a discount e-tailer would like, but they were comparison to those of competitors in the high-end/luxury category: Order about 48 hours, and the free shipping threshold was upward of \$200. Although not best in class when it comes to fulfillment efficiency and pricing, they were the benefits gained by customizing the supply chain to each channel's unique The two dedicated supply chains ensured that luxury service-level met in the stores, where stockouts of such high-margin products are very commerce sites had the wide and varied assortment of products that customers expect from e-tailers for goods at any price.

Separate, dedicated supply chains are preferable when a capability like more important for some channels than others. However, this approach makes only if both the physical and online sides of the business are sizable enough to efficient scale and if the savings from combining the channels would not be

Model 5: Multichannel/shared outsourced supply chain

Dell tried this model and learned that it should be adopted only if the retail and business share many of the same characteristics relating to meeting customer requirements. In Dell's case, the demands of its online and store-based sales couldn't have been much more different.

Dell made its name and fortune on selling custom-built computers directly to Internet. At first with an in-house supply chain and later relying on third-party operations, Dell had become extremely adept at customizing individual consumers and shipping them efficiently and rapidly to people's homes and model, the computer maker was very profitable and earned a well-deserved one of the most innovative e-commerce companies in the world. Its online especially admired for its demand shaping capabilities, its ability to manage excellent working capital metrics. But by 2007, competition and price wars in

the online
from any one
store's primary

of the business are
channel. Separate
weighed carefully
retailer tried this
the United States.
satisfactory in
processing took
these numbers are
more than offset by
operational needs.
requirements were
costly, while the e-
have come to

customer service is
economic sense
operate at an
significant.

online sides of the
needs and logistics
components

consumers over the
manufacturing and
products for
offices. Using this
reputation for being
supply chain was
complexity, and its
the PC industry had

intensified and margins had tightened. Dell was compelled to widen its by selling its computers through retail channels. In making that decision, Dell difficult choice: to use the existing direct-to-consumer supply chain to produce for retailers.

That turned out to be problematic. For one thing, Dell made most of its delivering them directly to consumers around the world by plane and burying in the price of the machine. Dell's supply chain was optimized for flexibility inventory, and transportation, as the custom model required, but did not have forecasting capabilities that would allow the company to build in the extra more economical ocean shipping required by retail's razor-thin profit margins when Dell tried to rejigger its supply chain to satisfy high-volume retail in the direct-to-consumer side of the business slowed considerably and forced to endure delays before their computers arrived. More recently, the significant efforts to increase the efficiency of its retail-facing supply chain expanding ocean shipping and improving product planning and forecasting. toward dedicated supply chains for each channel illustrate that a shared supply chain capability is suitable when business requirements are similar not when they differ dramatically, as they do in Dell's case.

Model 6: Multichannel/dedicated outsourced supply chain

Companies that are adept at traditional retail supply chains may not have the already in place to put together a successful e-commerce supply chain. The between the two channels are quite stark; in particular, the online component order processing, picking, and parcel shipping accuracy aligned with first-service, while physical stores require strong inventory management, consumer forecasting, and order planning capabilities to keep costs low while ensuring available on shelves when customers want to buy them. For these reasons, supply chains for each channel — in-house for the stores and outsourced for commerce function — can make sense, particularly if the company is nuances of online retailing and dares not risk compromising a well-supply chain with the additional complexity of fulfilling the online channel

Walmart, the undisputed supply chain king in the retail sector, came to this benefited greatly from it. While still using its massive clout as a purchaser to procurement programs throughout the organization — both in the retail — Walmart chose to outsource much of the inventory management and its e-commerce business. When implementing this choice, the company wanted a fulfillment and distribution partner that could keep costs low while requirements — prompt fulfillment, expedited shipping options, and package customers have come to expect of online retail. Ultimately, Walmart found a that has a wide warehousing and distribution footprint. The provider has been

distribution model also made another and ship products

computers in Asia, the shipping costs in manufacturing, the demand time needed for the for PCs. Moreover, orders, production customers were company has made operations by These moves multichannel across channels but

innate capabilities differences requires the rigid class customer demand that products are having separate the new e-unfamiliar with the functioning retail through it.

conclusion, and has drive advantageous channel and online logistics aspect of emphasized that it meeting the service tracking — that third-party provider able to work with

the retailer to set up programs that offer customers convenient options such as being able to pick up or return items ordered online at Walmart stores. Walmart's case illustrates that third-party fulfillment firms can offer both the advantages of outsourcing — such as flexible capacity for use during the busy holiday season — and many of the services associated with managing distribution in-house. Although Walmart's distribution capabilities are world-renowned and Walmart.com attained the scale to justify in-house distribution quite quickly, it has little reason to rush to bring distribution in-house.

Frequently, companies choose one of these six models by default or without careful consideration of whether the approach they pick will fit well with their current supply chain setup or the particular types of customers they are serving — often without knowing whether it will benefit their companies or not. That's a shortsighted approach that can cost a retailer market share and, for the largest companies, billions of dollars in lost profits. Although there isn't a single right multichannel approach for all retailers, there is a correct one for each retailer depending on its business model, value proposition with consumers, and existing set of operational capabilities.