



How to Bring Your **Merchandising**

Strategy

into the **Omnichannel** Age



By now, if you haven't heard about retailers urgently implementing an omnichannel strategy, it's probably safe to assume you've been living under a rock. While that conversation has been saturated with the *why*, it's time to shift focus to discuss the *how*.

One of the central components to achieving a satisfactory level of omnichannel success is addressing the issue of merchandising. According to Retail Systems Research's (RSR) 2015 annual merchandising benchmark report, 44% of the retailers surveyed identified managing the complexities of cross-channel merchandising as one of their top three challenges.

In this guide, we will focus on:

- Identifying the key challenges of omnichannel merchandising
- Case study examples of which retailers are getting it right
- Key solutions and strategies that can help retailers move forward



The Challenge

Consider something you wish to purchase at this very moment. There's a good chance you could pick up your smartphone and buy it. Today's connected world means your customers and potential customers are online 24/7, whether on a phone, tablet or computer. Heck, now it might even be via the watch on their wrist! Customers have multiple channels at their disposal through which they demand consistency and a seamless experience. With all these channels coming together, competition is heating up. Large retailers with low overhead and access to vast, global product ranges have made it difficult for other retailers to compete – and that's just the tip of the iceberg. Retailers of all sizes face a variety of challenges when it comes to serving the new omnichannel consumer.



1

Brand Inconsistency

A consistent challenge for retailers is struggling with an inconsistent brand experience for customers who are now interacting with that brand across various channels. Retailers can no longer view their in-store, online and mobile operations as separate silos. Everything from product availability, price and overall lifestyle branding is expected to be the same, no matter where or how the customer is accessing the retailer. On top of this challenge, consumers also

expect the brand to cater to local preferences. So not only are retailers expected to be consistent, they also have to perform a magical act and offer a personalized experience at the same time. Maintaining product information across multiple channels not only creates redundancy – with retailers needing to update information in several different places – it also increases the likelihood of errors, which result in a poor customer experience.

Specialty brands, like the men's underwear company SAXX, rely on third parties (boutique retailers, department stores, etc.) to display their products, have even less control over their brand story. Brands that do not have a physical store depend on their retail partners and distributors to abide by branding standards and consistently present the brand and important product information as intended. This requires a huge leap of faith for many companies!



2 Underperforming Inventory

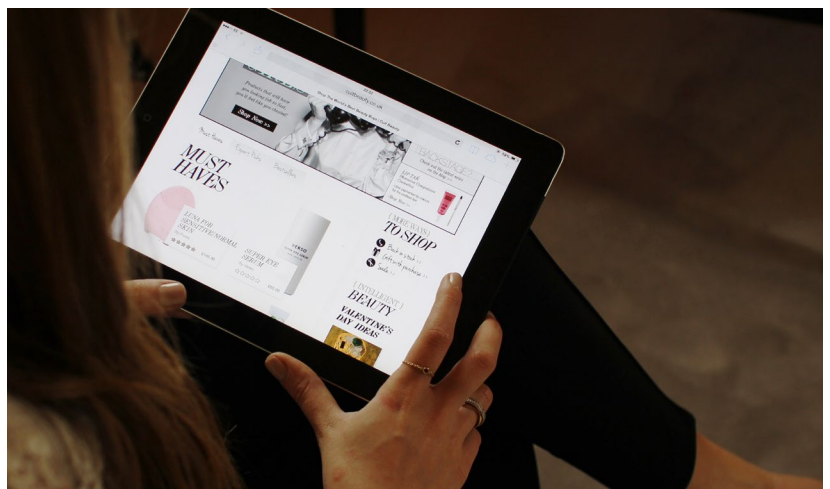
Getting the right product mix is an imperfect science and the formula is in constant flux. With the rise of online shopping and juggernauts like Amazon, consumers expect to find a large selection of products in-store as well. If you're not Amazon or Wal-Mart, this likely isn't a viable option. Most retailers are confined to limited physical space – space that is getting more and more costly. On top of this, the inventory itself is expensive and can be quite risky to stock. Getting the product mix wrong can mean you're stuck carrying stale merchandise or you have out-of-stocks leading to missed sales opportunities.

3

Changing shopper habits and preferences

This third challenge has really fueled the first two. Changes in shopper habits and customer expectations brought on by the rise of e-commerce is threatening what has traditionally worked for brick-and-mortar retailers. According to Deloitte Digital's report *The New Digital Divide*, 84% of in-store visitors report using digital technologies for shopping-related activities before or during their most recent store trip. Further to this point, digital marketing specialists *DigitasLBi* released research citing consumers are now using an average of five 'connected' devices

in the purchase process – up from 2.8 just a year ago. With the use of technology, consumers have come to expect a wide range of product options, 24/7 availability and above all, convenience. However, even with the rise of technology, 2015 Retail Future Trends found 80% of purchases are still made in-store with just over half (55%) of surveyed consumers reporting they want to interact with a sales rep.





The Lessons

So what can you do? With new solutions and technology coming onto the market almost daily, the advice that's out there can be quite overwhelming and somewhat confusing. So here's something that few solutions providers will tell you: No one has the perfect answer figured out yet. Perfecting omnichannel is still an experiment many retailers are attempting to solve. That said, some are getting closer than others.

When discussing omnichannel best practices, it's almost guaranteed Macy's will come up – and

for good reason. Macy's has been at the forefront of implementing new technologies and new strategies. Macy's is a company that acknowledges it's been a trial and error process to refine its strategy. In a 2013 *RetailWire* article, Macy's CEO Terry Lundgren shared what the company had learnt about optimizing their inventory strategy through technology. By pushing for Macy's entire inventory across 840 stores and distribution centers to be fully visible and accessible, the company was able to realize three important benefits:

1

Store associates have the ability to quickly locate an item anywhere in the company and ship it to the customer or make it available for next-day pickup.

2

Markdown costs and inventory write-offs have been reduced by permitting underperforming merchandise to be sold in alternative locations or online.

3

Even when fulfillment center inventory has been exhausted, Macy's has the ability to make store inventory available for online orders on Macys.com.

According to Mr. Lundgren, new inventory technology allows the company to determine if an item isn't selling as expected in one location, and if it might be better to move it to a store across town (where it may be showing higher demand) rather than marking the item down.

Another retailer that seems to be firing on all omnichannel cylinders is Sephora. Together with its unique, 1,780 open-sell stores, "award-winning" website and successful mobile app, Sephora is a retail triple threat. These three channels are specifically designed to work together. Customers can buy online, pick up in-store, plan their shopping trips via the website or the Sephora To Go app and carry this experience directly through to the store, where associates are ready to help them out. One strategic change Sephora credits for its successful omnichannel approach is the decision to integrate both its marketing and digital efforts. Sephora's chief marketing officer and chief digital officer is the same executive, Julie Bernstein. In a recent *Harvard Business Review* interview, Bernstein said, "By merging teams, we make the most of our investments across all channels and do things more efficiently, more powerfully. We also move faster — which, in this day and age, is what makes all the difference. I firmly believe that this will be the way of the future. Marketing and digital must be hand-in-hand."



SEPHORA



Designer Shoe Warehouse (DSW) also understands how to best adapt to today's consumer. Over the past several years, the retailer has been investing heavily in optimizing their merchandising strategy. According to *Retail Info Systems News*, DSW has been making strides towards breaking down the silos that have historically separated the company's physical and online channels.

DSW had been operating its stores and DSW.com separately. The company's CEO, Michael MacDonald, commented in 2013 on DSW's efforts to connect its channels: "It will require a significant commitment of resources by our organization, but we believe our omnichannel capability will make us an even more formidable competitor in the footwear space." DSW has made improvements to its inventory visibility by aiming to enable customers to purchase the shoes they want regardless of channel or the item's location in DSW's system. A drop-ship program was also implemented to allow the retailer to fulfill orders through DSW.com as well as out of a supplier's warehouse – saving the company the cost and risk of owning and carrying the product itself.

Most recently, DSW announced it was awarded the "Best Omnichannel Experience Award" of which MacDonald had this to say: "In the past three years, DSW has expanded the customer's access to additional styles, colors and sizes held anywhere within the network. The successful deployment of our ship-from-store capability transformed our stores into over 400 fulfillment centers with significant proximity to DSW's 23 million Rewards customers. Our omnichannel

capability has doubled sales demanded in one place but fulfilled elsewhere to almost \$100 million (volume equivalent to opening 20 DSW stores). Our goal is to expand the customer access from 2,500 choices within a local store to 15,000+ choices throughout the DSW network."

The company is currently working on plans to implement endless aisle technology via mobile devices and digital displays that will enable customers to shop a wide range of virtual merchandise that will include additional colors, styles and sizes.



A man with dark, wavy hair and a light beard is smiling while looking at a laptop. He is wearing large, silver and black over-ear headphones. His right hand is holding a yellow credit card. A yellow circle highlights a yellow dot on the credit card, with a dotted line leading from it down to the first section header.

The Opportunities

The brands leading the way in omnichannel have created a roadmap for other retailers to learn from and improve upon. Moving towards an integrated merchandising strategy can help retailers address the three challenges we identified previously.

1 Achieve Brand Consistency

A platform approach is designed to link together all of a retailer's channels and allow these channels to "talk" to each other. Implementing a centralized product library that feeds product information across in-store, mobile and e-commerce sources saves retailers not only the headache of having to update information

in multiple places, but also reduces error and creates unified product, pricing and inventory information. It also allows for the creation of any-channel marketing messages that provide customers with a consistent brand experience. This approach ensures you're sharing the same brand story with your customers at every touch point.

2 Maximize Inventory Performance

Endless aisle solutions are changing the way retailers handle merchandising and inventory strategies. By digitally extending shelf space and offering a drop-ship solution, retailers are able to improve product availability, increase conversions and save the sale when a previous customer would have left disappointed due limited product selection or an out-of-stock item. For example, a particular shoe may come in eight different colors with twelve different sizes. With endless aisle, a retailer could choose to stock the most popular

options while still catering to customers who want that size twelve shoe in neon orange. The customer can come into the store, touch and feel the physical product – all while browsing additional options that can be drop shipped to the store or customer's home. Virtual merchandising can overcome physical and costly space limitations while delighting customers with a personalized, in-store experience. This experience complements the expectations bred by the sheer amount of choice consumers can now find online.

3 Enhance Customer Insight



By implementing in-store technology, retailers can now track consumer behavior similar to how they've been able to track customers on their e-commerce sites. Through touchscreen interactions, in-store technology allows retailers to track not only what products and styles consumers are interested in but also what type of information they are seeking (product reviews, comparisons, complimentary accessories, product specifications and price). The data collected provides a wealth of information as to how consumers interact with a brand and its products and can give great insight into whether a product mix is correct or needs to be adjusted. Smart retailers can use this data to improve their operations from the corporate level, right down to the store level. Improving cross-channel metrics is necessary in order to truly understand your customer.

Despite the challenges facing today's retailers, it's also a very exciting time in the industry. "There are a lot of similarities between what we're seeing today when it comes to interactive in-store solutions (e.g. endless aisle) and what e-commerce was like 10-15 years ago," says Anne Forkutza, Creative Strategist at iQmetrix.

"Back then, in order to have a sexy e-commerce solution that accurately reflected your brand, you either had to be Nike or Nintendo and spend millions of dollars on your website. Now you have solutions like Shopify and WordPress that have disrupted that area of business, where you can have a website that looks custom but doesn't cost millions of dollars to create from scratch. Now we're seeing big brands like Adidas, Rebecca Minkoff, Burberry, and Kate Spade with these amazing interactive in-store experiences at their flagship stores, but they are custom and expensive to implement."

As the demand for omnichannel solutions has grown, the technology has evolved to become more adaptable and affordable for all retailers focused on revolutionizing the customer experience to meet heightened consumer expectations. "Today, when solutions are built using a platform approach, in-store technology can enable retailers and brands to provide a memorable in-store experience without it costing millions of dollars," says Forkutza.

About iQmetrix

At iQmetrix, our purpose is to create great retail experiences. Our products bridge the gap between physical and virtual retail channels. XQ Interactive Retail brings elements of online shopping into the physical store to facilitate the purchase process. RQ Retail Management is a complete system for managing all aspects of a store chain operation. Founded in 1999, iQmetrix is a privately-held software as a service (SaaS) company with offices in Canada, the U.S. and Australia.



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