



Customers don't have time for half-baked omnichannel

**Transform your business
before they move on**

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Your Former Customer @formercustomer

#customer #digital #innovation #formercustomer
#dearretailer #itsnotyouitsme

Dear Retailer,

It's not you, it's me.

We've had some good times over the years, but the truth is, **I've changed**. We don't want the same things any more. Sometimes I don't know what I want—but it's a **big world** out there, and I know I've got more **options** than when we first met.

You know I have been seeing other people. I'm sorry, but what could I do? You haven't really been there for me when I needed you. At this point in my life, **I want to be courted and appreciated**. I want to be surprised, and **asked for my opinion**, and I don't get that out of our relationship.

Don't get me wrong—I **know you're having a tough time**, and I know you've **tried**. But for me, all the little things have finally added up. Maybe if you'd made an effort to get to know me a little better. But I feel like you've taken my loyalty for granted. And I know now...**I don't have to settle**.

But, hey, let's stay in touch. Who knows?

Regard,

Your Former Customer



31M



45M



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Consumer & retail
comprise roughly
**20% of the US
economy**³

**Nearly 40% of US
households** have
Amazon Prime⁴

95%

Millennials who
want to build
meaningful
interactions with
brands on social
media⁶

64%

Millennials who feel
companies should
offer more ways to
share their opinions
online⁸

**\$1.75
trillion**

Amount retailers are
losing a year due to
out-of-stocks,
overstocks and
returns¹⁰

40% of males
and **33%** of females
aged 18 to 34 would buy
everything online if they
could¹

**VC funds invested
\$2.24BN** in consumer
products / services and
over \$785MM in
retail/distribution²

**Amazon is #1
in customer
satisfaction** among
both online and
store-based retailers⁵

37%

Millennials claiming to
distrust big business⁷

**There are now 24
\$1BN+ companies in
the collaborative
economy** (71%
increase from 2013)⁹

To create a seamless experience for customers, a retailer must first build a seamless organization.

Retailers, your customers probably have not bothered to write you a letter like the preceding tongue-in-cheek example, but they have been sending a clear message for a while now: Breaking up is not so hard to do.

The days of brand loyalty are in the distant past, now that just about any product is available on demand. Customers today have innumerable options to choose from, and if a Retailer disappoints them, the relationship is usually over. If you are not meeting their needs—sooner than anyone else and maybe even before they actually know what they need—they will not bother to let you try again.

So where does that leave retailers?

Knowing that promising an excellent customer experience is job number one is one thing, but actually getting the job done takes a lot of hard work. Unless you create the internal organization that makes customer-centricity possible, your customers will ultimately recognize a failed promise, and few will give you a second chance.

How to avoid overpromising and underdelivering? Leading retailers are taking these steps now to build customer-centric, omniscapable organizations:

1. Organize the business to meet evolving needs

Most omni retailers begin their digital business by incubating their e-commerce efforts in a separate business unit. While this approach may be effective in getting a new initiative off the ground, scaling a true omni business requires commitment and alignment across the organization. Focus on three areas to enhance the customer experience:

- ✓ **Eliminate silos:** Leading retailers have moved to organize by function (e.g., merchandising, marketing) while adding specialized resources where required (e.g., online search marketing, site merchandising, etc.). For example, after several years of operating separate entities, one major retailer restructured its merchandising and marketing teams in 2015 to better serve customers no matter how they shop.¹ Business owners should think along customer dimensions, not by legacy P&L or distribution capabilities.
- ✓ **Align incentives:** Retailers work hard enough to fight for customers and sales—they should not have to exert energy fighting internally for sales allocation credit. Effective retailers look at total sales to align the incentives of their front-line employees with those of headquarters staff, regardless of where customers order, pay, or fulfill. Practically, this alignment means integrating and attributing e-commerce sales with store sales so managers and store associates have visibility and accountability for all customer orders.
- ✓ **Augment capabilities:** While some functions will benefit from greater alignment and consolidation, traditional retailers also need to add new capabilities or functions to compete effectively on digital platforms. Specifically, retailers that want to develop critical e-commerce strengths in-house—e.g., site infrastructure, mobile apps, pricing systems, and supply chain—may need to establish operations in metro areas where required talent is concentrated. Wal-Mart, Macy's, Staples and CVS are few of the retailers that have set up separate e-commerce "labs" in San Francisco, Seattle, and Boston to attract and retain tech talent.²

¹ Forbes: "Macy's Restructuring Positions It For Future Growth," 1/13/2015.

² Forbes: "Driving e-commerce Innovation @WalmartLabs," 8/5/15; Internet Retailer: "CVS launches its digital innovation lab," 6/22/2015; WWD: "Retailers Turn to Innovation Labs for Evolution, David Moin," 5/27/2015.



Seamless from the Inside out



Configure the organization to complement how customers actually shop. Make the internal changes that will enable you to serve customers in a seamless manner, across channels and devices. Take a long-term view and build content and capabilities to accommodate different customers and how they access your brand.

Prioritize new capabilities over legacy systems support. Invest to create new experiences, build expertise and scale over time. Organizations may need to commit disproportionate resources to building future omni capabilities, sometimes well ahead of sales from these initiatives.

Develop a blue print for customer engagement, make the tough tradeoffs and execute against it. Leading retailers create a multiyear investment plan, stay committed to the course, and avoid marginalizing the vision based on short-term results.

2 Prioritize new capabilities over legacy support

The temptation to continuously, incrementally improve legacy systems is ongoing. Leading retailers break free of this cycle and reverse the trend of adding “technical debt” to already arcane infrastructure. Fix what truly is broken or needs updating for regulatory or legal reasons, and then stop. Aligning **inventory, pricing, and customer systems** is a must to deliver a seamless customer experience.

To effectively fulfill customer orders from both store and online, retailers need real-time inventory visibility across retail stores and online warehouses. Furthermore, integrating fulfillment between e-commerce and stores requires greater operational effectiveness in-store for inventory processes such as inventory receiving, cycle counts, and returns processing. Scaling omni orders without these functionalities and improved processes will lead to customer frustration and put front-line store employees in the difficult position of being unable to fulfill a customer expectation.

Shared inventory and distribution platforms have real profit and loss (P&L) implications. One retailer who failed to integrate the two found that returns of the 250,000 SKUs sold online but not in-store were absorbed by the store P&L—causing tens of millions of dollars of inventory write-downs annually. Nordstrom is on the other end of this spectrum. It has built the capabilities to provide outstanding inventory visibility, enabling customers to know where products are and how best to get them.³

Pricing an assortment in an omni environment requires upgrading capabilities to match those of leading pure-play e-commerce retailers. Such an upgrade requires real-time

monitoring of competitor price moves, dynamically changing prices to adjust to the market and measuring the contribution margin of products across fulfillment methods.

Beyond the required investment in human and technical capabilities, effective omni pricing requires a nuanced pricing strategy that defines the need for both consistent pricing across channels and differential pricing in other scenarios. Consumers have real-time access to pricing with their mobile phones, and leading retailers use this transparency to their advantage. For example, Best Buy⁴ helped improve its value perception by telling consumers it will match prices at major competitors, including Amazon.

Product coupons are another example of the need for alignment among systems. All too often retailers make coupons channel-specific, so they are only good in-store but not online or vice versa. Now imagine a consumer standing at the register with a coupon on their mobile phone, arguing with a cashier about the policy. Unsatisfied consumers will leave forever and tell 10 friends about an unfair experience. Corporate policies to manage channel P&Ls often have unintended negative consequences that end up costing retailers in the long run.













Finally, executing seamless on an omnipresent strategy also requires full visibility of customers’ activity across their entire journey, whether it be online, on the phone, or in-store. A single view of a customer’s orders and transactions empowers sales and customer service associates to improve the customer experience. Leading retailers take this even a step further. Ulta Beauty⁵ has implemented several cross-channel initiatives leveraging consumer data, including personalized product recommendations and the ability to book in-store salon appointments online, helping lift store traffic.

³ Harvard Business Review: “Why Nordstrom’s Digital Strategy Works (and Yours Probably Doesn’t),” Jeanne W. Ross, Cynthia M. Beath, and Ina Sebastian. 1/14/2015.

⁴ Forbes: “Three Factors That Could Significantly Increase Our Valuation Of Best Buy,” 5/11/2015.

⁵ FORTUNE: “The secret to Ulta Beauty’s (and CEO Mary Dillon’s) success,” Michal Lev-Ram 10/15/2015.

Heightened customer experience expectations raise a number of organizational challenges that can be addressed through eight critical omni enterprise capabilities

Customer Experience Four Key Pillars of Experience Expectation		Omni Enterprise Architecture Eight Critical Capabilities for Omni Execution
 Brand	 Product, Pricing and Customer Strategy	Deliver relevant, valuable, and consistent products, services, experiences, pricing, and offers that are targeted to most profitable customer segments and meet demand while balancing cost to serve. Includes customer strategy, product and merchandise, pricing, and promotions.
	 Experience Centricity	Design and Deliver a seamless and personal customer experience that continually meets evolving expectations across all physical and digital brand touch points to drive engagement, satisfaction, and loyalty. Includes digitization, multichannel engagement, brick and mortar relevancy, personalization.
 Products/Services	 Responsive Supply Chain	Allow the ability for a customer to select, receive, and return products/services when, where, and how it is convenient for them and in a way that is transparent, enabled through advanced analytics-driven demand planning, inventory management, and distribution. Includes inventory transparency, demand planning, fulfillment, and returns.
	 Partnerships, Alliances and Vendor Management	Effectively leverage third-party entities to increase speed to market, reduce costs, or supplement capability gaps in delivering the brand promise and strategy while ensuring consistency and managing risk across the customer experience. Includes operating model, enterprise and vendor risk management, and supply chain logistics.
 Interactions	 Advanced Data and Analytics	Enable and activate a data, analytics and insights-driven culture that leverages integrated, single view of customer and product to deliver an optimized experience across all touch points while addressing customer data integrity, privacy, and security. Includes integrated customer and product data, advanced analytics, data privacy, and security.
	 Technology Architecture and Enablement	Leverage technology systems and expertise to effectively and efficiently deliver cross-channel experiences, provide employees with enabling tools, and maintain information privacy and security. Includes system integration, employee enablement and technology risk and security.
	 Seamless Commerce	Deliver a convenient, secure transaction experience that meets customer preferences while ensuring payment technologies are integrated and provide a consistent experience across channels. Includes payment technologies, secure transactions, and social and mobile commerce.
 People	 Organization Alignment and People Capability	Enable an organization to marry outside-in customer perspectives with inside-out experience management processes and capabilities, including top-down executive vision; matrixed and agile organizational structures; and integrated, aligned performance management. Includes leadership, process, structure, people, and performance.



Defining customer journeys

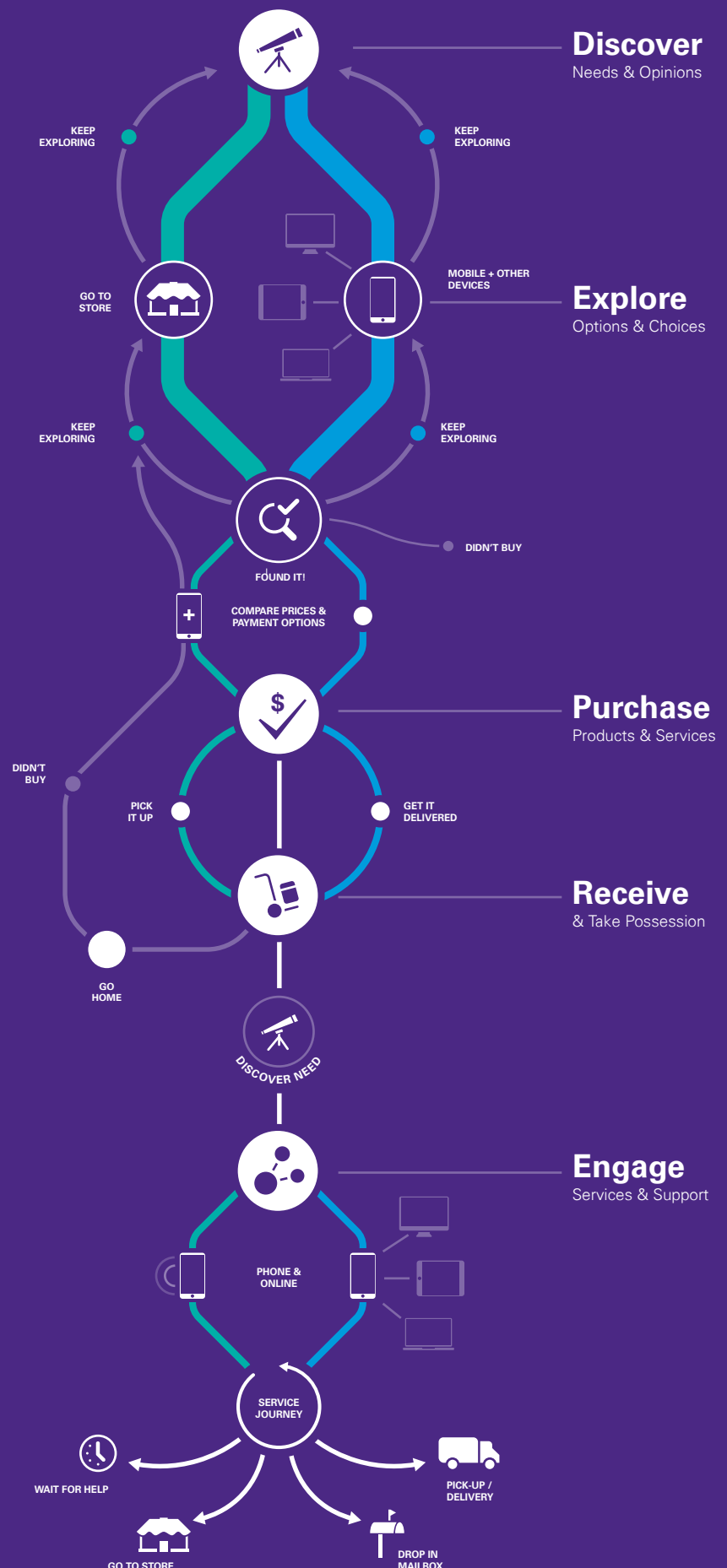
How well do understand your customers?

Do they shop online, in stores or both at the same time? Do they make decisions based on ad campaigns and marketing, or is their social feedback the primary way of answering the questions they have for their needs?

Whether digital, physical or both at the same time, there are 5 key areas to be attentive to when crafting experiences for your customers. And, every aspect is being disrupted by start-ups, technology innovation, investments made by the tech giants and changing customer behaviors and expectations.

Emotional journey of customers

The new customer journey is circular, and they enter and exist process at multiple points vs traditional linear funnel.



3. Develop a blueprint for customer engagement and stick with it

Many organizations fail to transition from legacy customer engagement to new ways of interaction. Budgets, bureaucracy, concern about tomorrow's sales, and return on investment (ROI) metrics often end up winning mindshare. Strong leadership and elimination of a "channel-first" mindset require an unwavering commitment to overall company goals—and, ultimately, very difficult trade-offs. Two areas that are necessary pillars of new forms of engagement, yet often regress to the mean, are marketing and capital spend.

Marketing

Most retailers measure marketing effectiveness with models that attribute sales within a single channel in a defined time period. However, given how customers move among channels along their shopping journey, retailers should ensure that they properly account for the total impact of marketing spend across channels. Based on the changing shape of the customer journey, leading omni retailers are dramatically shifting their marketing strategies to better address changing realities, sometimes ahead of their digital sales performance.

Although digital sales accounted for less than 5 percent of sales at Target in 2015, 80 percent of trips to Target stores started online. Given the changing journey of their core customer, Target has shifted its media spend from traditional print and broadcast to allocate over 40 percent of its media spend to digital.



Capital spend

Similar to the dynamics of marketing spend, leading retailers are investing a disproportionate amount of capital on omni technology and supply chain that enables a seamless customer experience. For example, in 2015, Target invested \$1 billion on e-commerce, which represented 50 percent of its total capital budget.⁶ While e-commerce represents less than 5 percent of Target's 2015 sales, the company concluded that it had to invest far ahead of sales to build credible scale and to compete effectively with Amazon and Wal-Mart.⁷

Most retailers lack the resources to invest at this scale, but they will face similar trade-offs in capital and expense budgets. Retailers with more limited resources will need to prioritize core omni capabilities, both to build in-house and partner.

Many retailers start the fiscal year with bold ambitions to build for the emerging customer needs future. In reality, future focused projects are usually the first to get cut. Long ROI paybacks with debatable assumptions lose out to maintaining legacy applications and break-fix emergencies. Such short-sighted tactics create an exceptional amount of "technical debt" that quickly becomes insurmountable.



⁶ FORTUNE: "Target's plan to beef up its e-commerce," Phill Wahba, 9/16/2015.

⁷ FORTUNE: "Target raises ante in e-commerce fight with Amazon, Walmart," Phill Wahba, 2/23/2015.

Summary: Bring it all together

The retail marketplace has evolved into a hypercompetitive ecosystem with small start-ups and large incumbents fighting for survival. The unrelenting pace of change will afford nimble competitors the opportunity to win share and profits while simultaneously forcing once venerable brands into oblivion. Look no further than the disruption caused by new platforms and direct-to-consumer models such as Warby Parker, Jet, and Dollar Shave Club.⁸ Emerging companies' ultimate success will vary, but along the way they will upend old models and change the game.

Leading retailers recognize this paradigm shift and are investing smarter and faster than ever before. And while laggards plod along at their peril, it is not too late. The table below summarizes critical areas of focus. Measure your organization against these practices to determine how much work is ahead.

	Basic	Better	Best
Mobile Experience	<ul style="list-style-type: none"> – Stand-alone mobile app with static loyalty bar code 	<ul style="list-style-type: none"> – Cloud based offers platform – Integration with Apple Pay and Android Pay 	<ul style="list-style-type: none"> – Integration of store card, loyalty program, and tailored offers on mobile app
Supply Chain	<ul style="list-style-type: none"> – Buy in-store, ship to home 	<ul style="list-style-type: none"> – Buy online, pick-up and return in store – Buy online, ship from store to consumer 	<ul style="list-style-type: none"> – Self-checkout in store – “Endless aisle” of additional inventory online and virtually in-store
Pricing	<ul style="list-style-type: none"> – Managing price vs competitors: e.g., price matching policies 	<ul style="list-style-type: none"> – Active monitoring of competitor prices – Adjusting prices to stay market relevant 	<ul style="list-style-type: none"> – Rules-driven, dynamic pricing – Customer-based pricing across channels
Marketing	<ul style="list-style-type: none"> – Adwords, product listing ads, banner, affiliates, SEO – Standard e-mail 	<ul style="list-style-type: none"> – Product recommendation engine using browsing and purchase behavior – Personalized e-mail offers 	<ul style="list-style-type: none"> – Personalization using customer behavior across channels – Location-based offers in store

⁸ Daily Beast: “After 100 Years, the Shaving Industry Is Finally being Disrupted,” Daniel Gross, 1/24/2014; R/GA: “Jet.com: Disrupting the e-commerce Landscape” (interview with Liza Landsman – Chief Customer Officer at Jet.com and Sumaiya Balbale – VP of Marketing at Jet.com); Fast Company: “Fast Talk: How Warby Parker’s Cofounders Disrupted The Eyewear Industry And Stayed Friends,” David Sax, 2/22/2012.

Conclusion

1. **Organize to meet the challenge:** make sure your infrastructure, supply chain, systems, inventory and pricing are aligned and fully customer-centric—that's how you'll know the customer journey.
2. **Prioritize capabilities** required to compete in an Omni world. Invest resources and capital in building a seamless experience.
3. **Develop and execute** a blue print for customer engagement and stick with long term investments. Resist the urge to maximize tomorrow's sales and maintain the fortitude to build a lasting company that consumers love.

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